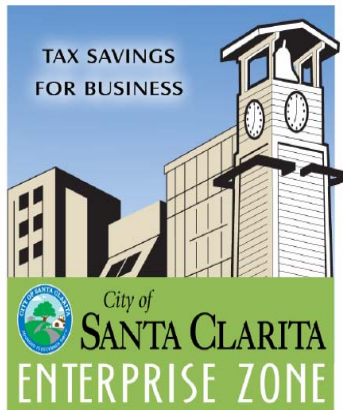


Santa Clarita Enterprise Zone Workshop January 22, 2009



Presented by:

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Santa Clarita EZ Workshop

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What is an Enterprise Zone?

- A geographic area designated by the State of California to stimulate business and industrial growth
- Businesses located in the Santa Clarita Enterprise Zone can receive significant tax savings on their State Income Tax

What's in it for me and my business?

- Reduce your State Income Tax by up to 50% or more
- Allow you to keep more of what you earn

What's in it for me and my business?

Example...

- A small business with 10 employees owes \$5,000 in 2008 California corporate income taxes
- They hired 2 new employees that year and 1 of them qualifies for the EZ program making \$10/hr
- For the 1st year, this one qualified individual will generate **\$10,400** in “dollar for dollar” tax credits
- The result...**all \$5,000 in 2008 State taxes are eliminated** and the remaining \$5,400 in tax credits carries over to future years

How do I know if my business can benefit from the Santa Clarita Enterprise Zone?

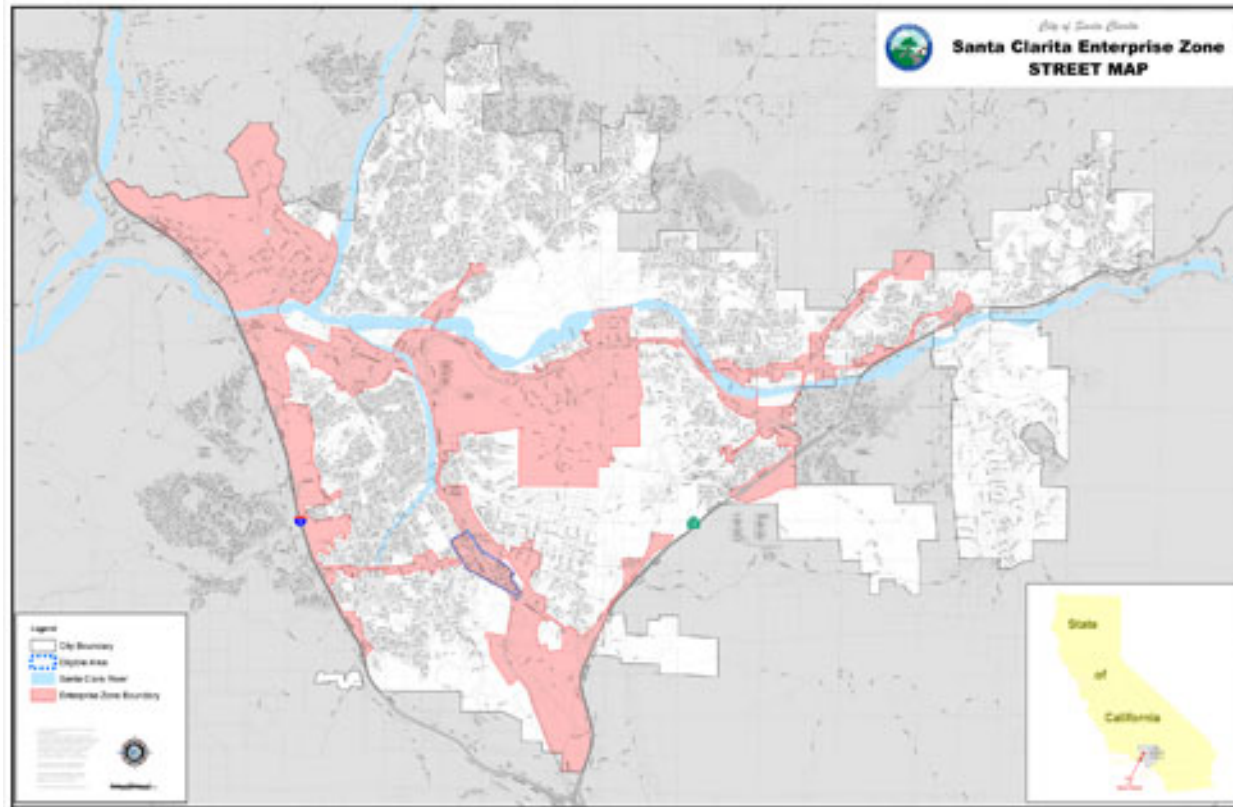
- Any business of any size or industry can benefit from the Santa Clarita Enterprise Zone
- S-Corporations, C-Corporations, Partnerships, Limited Liability Companies and Sole Proprietorships all qualify

How do I know if I'm located in the Enterprise Zone?

- Check the website www.SCEnterpriseZone.com for a listing of addresses within the Zone, or
- Call the City of Santa Clarita at (661) 255-4347, or
- Contact an Enterprise Zone Consultant or Accountant

Santa Clarita Enterprise Zone Map

- 97% of the industrial, commercial and retail zoned land in Santa Clarita is in the Enterprise Zone



So my business is in the Zone, how can I start saving on my taxes today?

- By hiring qualified employees (Hiring Tax Credit)
- By making qualified purchases (Sales and Use Tax or Business Expense Deduction)
- By providing loans to businesses in the Enterprise Zone
- By doing all of these things during the time period July 1, 2007 through June 30, 2022

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What is a qualified employee and how much can they really save me?

- Employees can be full-time, part-time, white/blue collar, seasonal, entry level or management
- There are 11 targeted groups of eligibility for your new hires

What is a qualified employee and how much can they really save me?

- The top 6 groups are the following:
 - Economically disadvantaged
 - A qualified military veteran
 - Resident of a Targeted Employment Area (TEA)

What is a qualified employee and how much can they really save me?

- An ex-offender (misdemeanor or felony)
- A qualified displaced worker (laid off)
- An individual receiving public assistance (food stamps, welfare, etc.)

What is a qualified employee and how much can they really save me?

- The amount of the tax savings is up to **\$37,500** over 5 years, per qualified employee
- The credit is retroactive beginning July 1, 2007
- Unused credits can be rolled over to future years

Enterprise Zone Misconceptions

- “We don’t hire entry-level employees”
- “We’re not a manufacturer”
- “Our employees don’t live in the Enterprise Zone”
- “I only had that employee for 2 weeks, do I have to give back my credits?”

Enterprise Zone Incentive Benefits

Hiring Credit

The hiring of a full-time “qualified” employee at 150% of minimum wage (\$12.00/hr and assuming 2,080 hours in a year) would generate the following hiring credit amounts:

<u>Year</u>	<u>Wage</u>	<u>Credit</u>	<u>Credit Amt</u>
2008	\$24,960	50%	\$12,480
2009	\$24,960	40%	\$ 9,984
2010	\$24,960	30%	\$ 7,488
2011	\$24,960	20%	\$ 4,992
2012	\$24,960	10%	<u>\$ 2,496</u>
Total			\$37,440

Example of Hiring Tax Credit

Hiring Credit Example

C-Corporation with 100 employees

- Company net income is \$565,000
- California corporate taxes on income at 8.84% = \$50,000
- Hires 10 employees and 4 qualify for the EZ program
- Estimated Hiring Tax Credits = $\$12.00 \times 12 \text{ months} = \$25,000 \times 4 \text{ employees} = \$100,000 \times 50\% = \$50,000$
- **100% of 2008 taxes eliminated!**

Enterprise Zone Incentive Benefits

Hiring Credit Example

S-Corp with 1 Shareholder and 30 employees

- Shareholder salary \$100,000
- Shareholder taxes on salary at 9.3% = \$9,300
- Hires 4 employees and 1 qualifies for the Enterprise Zone program
- Estimated Hiring Tax Credits = $\$12.00 \times 12 \text{ months} = \$25,000 \times 50\% = \$12,500$
- **100% of personal taxes eliminated and \$3,200 in credits carried forward!**

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What is the Enterprise Zone Sales and Use Tax Credit?

- Taxpayers that purchased equipment placed in service exclusively in the EZ after July 1, 2007 may qualify for a CA sales tax credit
- Examples of qualifying property include machinery used to:
 - Manufacture, process, combine or otherwise fabricate a product
 - Produce renewable energy resources
 - Control air or water pollution

What is the Enterprise Zone Sales and Use Tax Credit?

- Additional examples of qualifying machinery include data handling or communications equipment:
 - Computers
 - Telephones
 - Fax machines
 - Software

Sales and Use Tax Credit/Business Tax Deduction case study example

- Company A (S Corp) purchases and places in service \$54,125 of equipment during 2008. The property includes manufacturing machinery, computers and software.
- Company A's only location is in the Enterprise Zone.
- Sales tax of \$4,125 is included in the cost of the purchased property.

Sales and Use Tax Credit/Business Tax Deduction case study example

- Company A will claim a sales tax credit of \$4,125
- Company A may use 1/3 of this credit or \$1,375 to offset the S corporation level CA 1.5% tax.
- In addition, 100% of the credit will flow through and be reported on the shareholders' K-1s to be used to offset CA tax related to their EZ income.

Sales and Use Tax Credit/Business Tax Deduction case study example

- Note: The depreciable basis of the property must be reduced by the amount of the credit (\$4,125)

What is the Enterprise Zone Business Expense Deduction?

- 40% up front write-off of IRC Section 1245 property placed in service after July 1, 2007
 - Property must be used exclusively in the Enterprise Zone for two years following the year of deduction.
 - Regular depreciation begins in the following year
 - The maximum aggregate cost of qualified property against which the deduction may be taken is limited to \$100,000 for 2007 and 2008, \$75,000 for 2009 and 2010 and \$50,000 for each year thereafter

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How can I benefit as a lender?

- A deduction from your income is allowed for the amount of net interest received from loans made to businesses located in the Enterprise Zone
- Net interest is defined as the full amount of interest minus direct expenses incurred in making the loan

How can I benefit as a business owner seeking a loan?

- Businesses located in the Enterprise Zone, or who plan to use the loan funds to open a business in the Zone, can discuss the possibility of a reduced interest rate with their lender

How can I benefit as a business owner seeking a loan? Example...

- A lender loans \$1 million to a borrower to finance his owner-user building
- The lender, via the pricing of the loan, has the ability to pass on a reduction in rate to the borrower of approximately .125% - .25%
- The lender is able to pass on this benefit to the borrower because the lender pays no state taxes on the interest earned on EZ loans

How can I benefit as a business owner seeking a loan?

- Other commercial loans such as working capital loans, equipment loans, revolving lines of credit, etc., that are extended to companies located in the EZ may also qualify for this interest rate benefit

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How long can my business benefit from the program?

- For 15 years!
- Beginning July 1, 2007 – June 30, 2022
- Anyone hired during that time, or any purchases made during that period, could qualify your business for instant tax savings

How do I start claiming Enterprise Zone benefits?

- Contact the City to prescreen employees hired after July 1, 2007, or
- Contact an Enterprise Zone Consultant who can screen and qualify your employees then calculate the Hiring Tax Credits for your company, or

How do I start claiming Enterprise Zone benefits?

- Contact an accountant knowledgeable of the Enterprise Zone program who can calculate the various credits and deductions and prepare the CA tax forms, or
- Contact your local lending institution to find out if you can qualify for a reduced interest rate on your next business loan

Enterprise Zone Resources

- Useful California EZ Franchise Tax Board publications:
 - FTB 3805Z – Enterprise Zone deduction & Credits Summary
 - FTB 1126 - Frequently asked questions about Enterprise Zones
- For more information:
 - Franchise Tax Board @ www.ftb.ca.gov
 - Franchise Tax Board hot line @ 916-845-3464
 - California Association of Enterprise Zones @ www.caez.org

Santa Clarita Enterprise Zone

Questions and Answers?