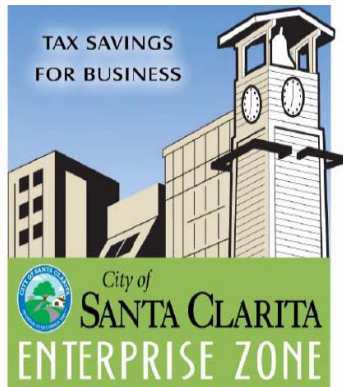




# Santa Clarita Enterprise Zone Breakfast March 25, 2009



## 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...

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- 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 1<sup>st</sup> year, this one qualified individual will generate **\$10,400** in “dollar for dollar” tax credits
- The result... **\$4,200 in 2008 State taxes are eliminated** and the remaining \$6,200 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-Corps, C-Corporations, Partnerships, Limited Liability Companies and Sole Proprietorships all qualify

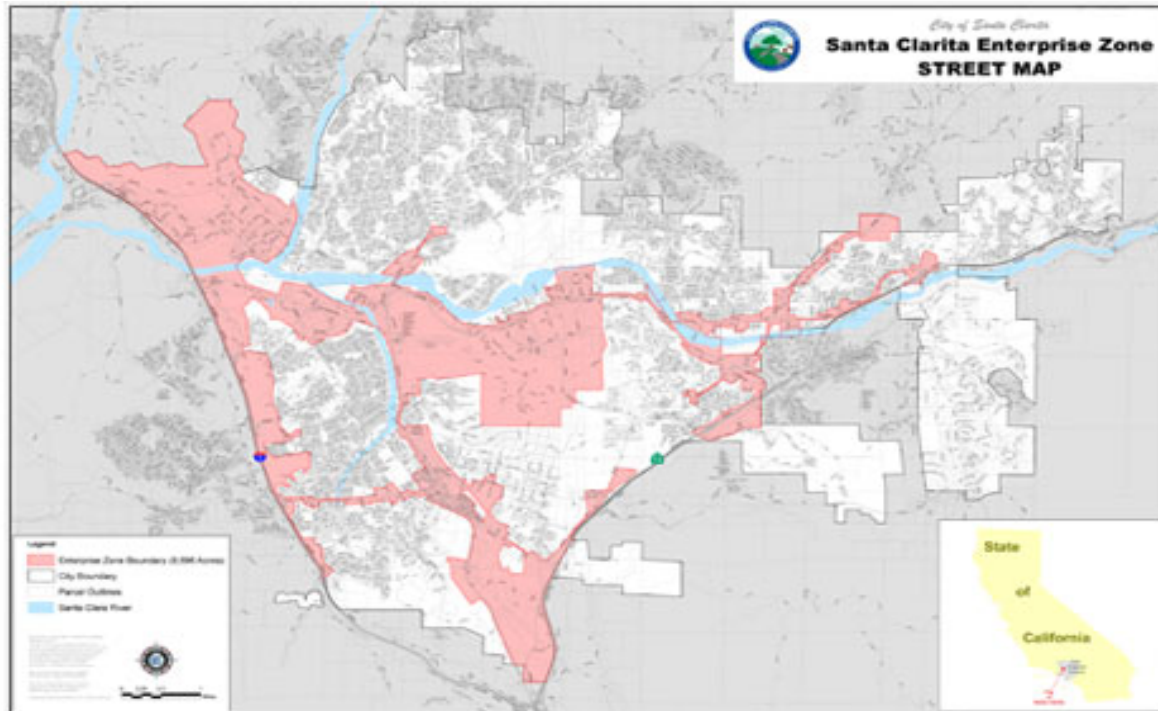
# How do I know if I'm located in the Enterprise Zone?

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- Check the website [www.SCEnterpriseZone.com](http://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?

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- 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

# Santa Clarita Enterprise Zone

Questions and Answers?

# Santa Clarita EZ Workshop

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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 13 targeted groups of eligibility for your new hires

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

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To generate credits, an employee must meet one of the qualifying criteria. These include:

- TEA- Targeted Employment Area
- Ex-Offender
- Dislocated Worker
- Economically Disadvantaged
- Native American

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

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Continued

- Recipient of Public Assistance
- Military Veteran
- Disabled Individual
- WOTC/WTW qualified
- WIA enrolled (Workforce Investment Act)

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

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- The amount of the tax savings is up to \$37,440 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 Incentive Benefits

## Hiring Credits

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The hiring of a full-time “qualified” employee at 150% of minimum wage (\$12.00/hr and assuming 2080 hours in a year) would generate the following hiring credit amounts:

<u>Year</u>	<u>Wage</u>	<u>Credit</u>	<u>Credit Amount</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>
<b>Total</b>			<b>\$37,440</b>

# Santa Clarita Enterprise Zone

Questions and Answers?

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# Sales & Use Tax Credit

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- Taxpayers in the Zone who purchased equipment after July 1, 2007 may qualify for EZ sales tax credit.
- Sales tax credit is a “dollar for dollar” credit for the sales tax you paid.

# Sales & Use Tax Credit

continued

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- Examples of qualifying property include machinery used for:
  - Fabricating, processing, assembling, and manufacturing;
  - Producing renewable energy;
  - Controlling air or water pollution
  - Motion Picture Equipment

Also, data handling or communication equipment such as:

- Computers, telephone, fax machines, software

# Sales & Use Tax Credit

continued

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- Can we see a show of hands for the type of business entity you own?
  - C-Corporation
  - S-Corporation
  - LLC (Limited Liability Company)
  - Partnership
  - Sole Proprietorships

# Sales & Use Tax Credit

continued

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## The Widget Maker – S Corporation Example

Date Placed In Service	Property	Cost	Sales Tax Paid	Total Cost
6/15/2008	Mold & Tooling	\$ 100,000	\$ 8,000	\$ 108,000
<b>2008 Sales Tax Credit - Shareholder</b>			<b>\$ 8,000</b>	
<b>2008 Sales Tax Credit - S Corporation</b>			<b>\$ 2,667</b>	
<b>Amount to be depreciated for Calif</b>			<b>\$ 100,000</b>	

# Sales & Use Tax Credit

continued

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- \$8,000 sales tax credit is available to offset the Shareholder's California personal income tax.
- The Widget Maker (S-Corp) can also use 1/3 of \$8,000 (= \$2,667) to offset the 1.5% California S-Corp tax.
- Depreciable basis of this property is now reduced to \$100,000 for California (while \$108,000 for federal)

# Business Expense Deduction

- 40% up front write-off of personal property placed in service.
- Property must be used in the Zone.
- For Santa Clarita, the maximum write-off for 2008 is as follows:  
 $\$100,000 \text{ maximum purchase} \times 40\% =$   
**\$40,000 Business Expense Deduction**
- If this \$100,000 purchase was a 5-year asset, 2008 depreciation would have been only \$20,000. **By claiming Business Expense Deduction, the taxpayer deducted extra \$20,000 [ = \$40K - \$20K depreciation].**

# Net Interest Deduction

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- Banks, regardless of where they are located, receive a tax deduction for lending to businesses in the Zone.
- Your lender does not need to be located in Santa Clarita or in any of the 42 California zones to get this deduction.
- Lender does not pay California income tax on the net interest income it earns from a Zone business.

# Net Interest Deduction

Continued

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- Lender's deduction provides an opportunity to negotiate a lower interest rate when the Zone business is obtaining a loan.
- Most commercial loans will qualify, such as a line of credit, working capital loans, equipment loans, mortgage loans, etc, if the fund will be used in the Zone.

# Santa Clarita Enterprise Zone

Questions and Answers?

# Santa Clarita EZ Workshop

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[ftb.ca.gov](http://ftb.ca.gov)

# “What’s New” in Legislation

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## **AB 1452 and SB X1 28**

If net business income is over five hundred thousand dollars (\$500,000) for the taxable year in 2008, or 2009 :

- No Net Operating Loss allowed (If NOL is denied, carryover periods extended)
- Business tax credits limited to 50% of net tax (before credits)

# Enterprise Zone Incentives

## Carryovers

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- Any unused credits may be carried over to succeeding years until exhausted.
- Even beyond the expiration date of the Santa Clarita Enterprise Zone (June 30, 2022)

# Enterprise Zone Incentives

## Seasonal Employees

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- There is a five year credit starting at original hire date
- Original hire date must be July 1, 2007 or later

# Enterprise Zone Incentives

## Record Keeping for Hiring Tax Credit

- Payroll Records (EDD form DE-3 and/or Federal form 941)
- Date of Hire (July 1, 2007 or later)
- Hourly Wage
- Hours Worked
- Location of Employment
- Reason for Termination
- Copy of W-2's
- Copy of Hiring Credit Worksheet used for Credit Calculations
- Voucher and Backup documentation

# Enterprise Zone Incentives

## Record Keeping for Sales & Use Tax Credit

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- Invoice verifying date of acquisition, shipping location, Sales or Use Tax Paid, description of property
- Sales or Use Tax report filed with the California Board of Equalization
- Records supporting location of property
- Date property was placed in service (July 1, 2007 or later)
- Depreciation records

## Enterprise Zone Incentives

### Record Keeping for Business Expense Deduction

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- Invoice showing cost of asset, date of purchase, shipping location, etc.
- Records supporting location of property
- Depreciation records

# Enterprise Zone Incentives Tax Questions

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Franchise Tax Board  
Enterprise Zone Hotline  
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# Santa Clarita Enterprise Zone

Questions and Answers?