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California Incentive Credits

Although California discontinued its Enterprise Zone incentives as of January 1, 2014, the New Employment Credit, an R&D sales tax exemption and the California Competes Credit have been created to replace them. It's very important for you to understand how these new incentives will affect your business's ability to take advantage of the expired credits and properly plan for current tax saving opportunities.

Old Credits with Carryover Provisions

Expired Enterprise Zone Hiring Credit:

Hiring credits generated for qualified employees <u>hired on or before December 31, 2013</u>, are allowed for the full 60 month credit period, but cannot be generated for the employment of any person hired on or after January 1, 2014. <u>Businesses must already have vouchers for all qualifying employees in order to continue taking a hiring credit for the full 60 months even though generated after January 1, 2014.</u> Hiring credit carryovers may still be claimed to the extent of business income apportioned to the expired or repealed Enterprise Zone through December 31, 2018. The portion of any credit remaining for carryover to taxable years beginning on or after January 1, 2014 may be carried over only to the succeeding ten taxable years if necessary.

Expired Sales or use tax credits:

Sales or use tax credit may only be taken on qualified property purchased and <u>placed in service on or before December 31, 2013</u>. Sales or use tax credit carryovers may still be claimed to the extent of business income apportioned to the repealed or expired Enterprise Zone. The portion of any credit remaining for carryover to taxable years beginning on or after January 1, 2014, may be carried over only to the succeeding ten taxable years if necessary.

NEW EMPLOYMENT CREDIT (NEC)

The New Employment Credit (NEC) is available for each taxable year beginning on or after January 1, 2014, and before January 1, 2021 to a qualified taxpayer that hires a qualified full-time employee on or after January 1, 2014. The employer must pay or incur qualified wages for work performed by those qualified employees in a designated geographic area (DGA). In addition, a tentative credit reservation for qualified full-time employees must be timely requested and received. <u>In order to be allowed a credit, the taxpayer must have a net increase in the total number of full-time employees in California</u>.

A qualified taxpayer is an employer engaged in a trade or business within a designated geographic area (DGA) who pays qualified wages to a qualified full-time employee. All prior Enterprise Zones are part of the DGA. The Department of Finance (DOF) has information posted about DGAs at **http://maps.gis.ca.gov/gobiz/dga**. Excluded businesses are those in temporary help services or retail trades, and those primarily in food services, alcoholic beverage services, or casinos and casino hotels. These otherwise disqualified businesses may be qualified if they are considered a small business (less than $2 million in gross receipts, less returns and allowances, in the previous taxable year).

A qualified full-time employee must meet **all of the following**:

- Performs at least 50% of their services for the employer in the DGA
- Receives starting wages between 150% and 350% of State minimum wage ($15 - $35/hr in 2016)
- Is hired on or after January 1, 2014
- Is hired after the DOF determines the DGA
- Is paid hourly wages for an average of at least 35 hours per week, or is salaried and is paid for full-time employment
- Meets **one of the five** following conditions:
    - Unemployed for the six months immediately preceding hire. If the individual completed a college or similar programs, the completion date must be at least 12 months prior to hire. The definition of unemployed means **all of the following**:
        - Not receiving wages
        - Not self-employed
        - Not a full-time student
    - Veteran, separated from the armed forces in the preceding 12 months
    - Recipient of the Earned Income Credit in the previous tax year
    - Ex-offender convicted of a felony
    - Current recipient of CalWORKS or general assistance in accordance with the applicable sections of the Welfare and Institutions Code.

If an employee meets these requirements you must request a Tentative Credit Reservation (TCR) for each qualified employee within 30 days of completing the EDD New Hire Reporting Requirements. You must annually re-certify continued employment and wages for any employee for which you received a TCR. This must be done within 2 ½ months after the close of your taxable year.

You can only claim the credit on a timely filed (including extensions) original tax return. If a qualified employee is terminated within the first 36 months after beginning employment, you may be required to recapture previously taken credits. There are various exceptions which include an employee voluntarily leaving or terminated for misconduct.

Qualified wages are that portion of wages paid or incurred that exceeds 150% of minimum wage ($10) but does not exceed 350% of minimum wage ($35). There is a maximum credit amount of $70,000 per employee paid over five years calculated as follows:

	$ 35	Maximum wage rate
	$ (15)	Minimum base wage for credit
	$ 20	amount in excess of base wage
x	2,000	hours
	$ 40,000	
x	35%	Applicable credit %
	$ 14,000	Maximum credit per year
x	5	Multiplied by years
	$ 70,000	Maximum credit per employee

The credit is non-refundable, but where the credit allowed exceeds the tax, the excess may be carried over to reduce the tax in the following year, and for the succeeding four years if necessary, until exhausted.

If you claim the new employment credit, the Franchise Tax Board (FTB) is required to disclose the employer name, the amount of tax credit claimed, and the number of new jobs created for each taxable year on a searchable database on their website for each taxable year.

The FTB has released a New Employment Credit DGA Mapping Tool to assist taxpayers in determining if qualified employees are performing work in a designated geographic area (DGA). Use the link below.

http://maps.gis.ca.gov/gobiz/dga

SALES TAX EXEMPTION

California law beginning on July 1, 2014 allows qualified taxpayers a partial exemption of sales and use tax on certain manufacturing and research and development equipment purchases. The partial exemption only applies to the state sales and use tax rate portion, currently at 4.1875% and does not apply to any local, city, county or district tax. The law provides that a single taxpayer can obtain up to $200 million in exempt purchases per calendar year and applies to qualifying purchases throughout California, without regard to geographic boundaries. The partial exemption applies to qualifying purchases made on or after July 1, 2014 but before July 1, 2022. Unlike the Enterprise Zone Credit, the exemption is taken at the time of purchase by furnishing the retailer with a valid exemption certificate.

Generally, a "qualified taxpayer" means a person who is primarily engaged (50% or more of the time) in manufacturing, research and development in biotechnology, and research and development in the physical, engineering, and life sciences.

Qualified property for the purposes of this partial exemption includes the following:

- Machinery and equipment, including component parts and contrivances
- Equipment or devices used to control, regulate, maintain or operate the machinery,
- Tangible personal property used in pollution control
- Special purpose buildings and foundations used as an integral part of the manufacturing process, or that constitute a research or storage facility. Buildings used solely for warehousing do not qualify.

CALIFORNIA COMPETES CREDIT

The Governor's Office of Business and Economic Development (GO-Biz) has launched the California Competes Credit (CCC), an income tax credit available to businesses that want to come to California or stay and grow in California.

The CCC is available for each taxable year beginning on or after January 1, 2014, and before January 1, 2025. The CCC is a nonrefundable credit, but where the credit exceeds the tax, the excess may be carried over to reduce the tax in the following year, and to the succeeding five years, if necessary, until exhausted. The CCC may be combined with the New Employment Credit.

The credit amount depends on several factors including:

- The number of jobs the business will create or retain and the compensation paid to its employees
- The amount of investment in California by the business as well as the businesses economic impact in the state
- No single business will receive more than 20% of the total amount available

The credit is available to businesses in any location throughout the state and is available to both large and small businesses. 25% of the available credit each year is specifically reserved for small businesses with gross receipts of less than $2 million.

More information about the CA Competes Credit, New Employment Credit, and the partial sales tax exemption is at http://business.ca.gov.

We are here to advise and service you with these tax matters. Please do not hesitate to contact us if you need further assistance.