



NEW TOOLS FOR A NEW ECONOMY

An informational briefing from
The Governor's Office of Business and Economic Development

NEW CALIFORNIA INCENTIVES

The May Revision proposes to reshape and strengthen the state's economic development tax programs to both bolster California's business environment and reintegrate people into the workforce. This will be done by building upon the framework of existing targeted programs. The proposal would redirect roughly \$700 million annually from the existing geographically limiting Enterprise Zone program to three new business incentive programs. Two of the three proposed incentive programs will be available statewide.

A LOOK AT THE NEW PROGRAM COMPONENTS...

SALES TAX EXEMPTION

The existing sales tax credit for businesses located in Enterprise Zones will be expanded to a statewide sales tax exemption on manufacturing equipment or research and development equipment purchases by firms engaged in manufacturing or biotechnology research and development. A business will be allowed to exclude the first \$200 million equipment purchases from the state share of sales tax (4.19%) beginning in January 2014. This component of the proposal is estimated to provide sales tax exemptions worth over \$400 million annually.

HIRING CREDIT

A hiring credit for businesses located in census tracts with the 25 percent highest share of both unemployment and poverty in the state. This will include some areas both inside and outside existing enterprise zones. This credit will be available for the hiring of long-term unemployed workers, unemployed veterans, and people receiving the federal earned income tax credit. The credit will only be allowed to taxpayers who have a net increase in jobs. Twenty-five percent of these funds will be designated for small businesses. The credit will be 35 percent of wages between 1.5 and 3.5 times the minimum wage for a period of five years. This component of the proposal is expected to provide approximately \$100 million annually in hiring credits.

INVESTMENT INCENTIVE

The California Competes Credit will be created and will be administered by GO-Biz. Businesses will have the opportunity to compete for available tax credits based on specified criteria including the number of jobs to be created or retained, a minimum compensation limitation, and a set job retention period. Approval of any proposed incentive will be made by an impartial committee that may recapture the incentive if the business fails to fulfill the terms and conditions of the contract. 25% of these credits will be designated for small businesses. This component of the proposal is expected to provide between \$100 million and \$200 million per year in tax credits.

CURRENT ENTERPRISE ZONE PROGRAM

Taxpayers will be allowed to continue using Enterprise Zone carryover credits for 5 years and will be able to continue to earn hiring credits for employees hired prior to January 1, 2014.

SIDE BY SIDE INCENTIVE ATTRIBUTE COMPARISON



**Enterprise Zones
Current Program**



**Governor Brown's
Proposed Incentives**

Manufacturing Equipment Sales Tax Exemption



Enterprise Zones Current Program



Governor Brown's Proposed Incentives

Incentive Type

- Income Tax Credit

- Sales Tax Exemption

Value of Incentive

- Amount of sales tax paid for income earned in zone

- Eliminates California portion of sales tax (4.19%)

Maximum Annual Amount

- \$1 million of equipment for non-corporations; \$20 million for corporations

- \$200 million of equipment regardless of entity type

Getting The Incentive

- Claim made when annual income tax return is filed

- Benefit immediate - no state tax paid at time of purchase

Business Location

- Must locate in enterprise zone

- Anywhere in California

Excluded Industries

- Research & Development

- Extractive Industries

Equipment Qualified for Tax Incentive

- Basic manufacturing equipment

- Basic manufacturing equipment AND
 - R&D for manufacturing & biotech
 - Addition of necessary tenant improvements (ex: clean rooms)

Hiring Credit



Enterprise Zones Current Program



Governor Brown's Proposed Incentives

Middle Class Wages

- NO - credit based on wages paid UP TO \$12 an hour
- YES - credit based on wages ABOVE \$12 an hour

Max Credit Amount

- \$36,000 per employee (five year total, 2,000 hours)
- \$56,000 per employee (five year total, 2,000 hours)

Credit Calculation

- 50% of wages in first year. Declines 10% each year to zero for a total of 150%
- 35% of wages each year for a total of 175%

Employee Qualifications

- Extensive. Consultants hired to claim business' credits for them
- 3 groups: person unemployed 6 months, veteran unemployed at discharge or Earned Income Tax Credit recipient

Poverty Area Targeting

- Zone boundaries are gerrymandered for interests other than reducing poverty
- Areas based on census tracts with highest quarter of both unemployment and poverty rates

Retroactive Availability

- Yes
- No

Credit to Replace Current Employees

- Yes - common use of program
- No - employer gets credit only for increasing jobs

California Competes Incentive Credit



Enterprise Zones Current Program



Governor Brown's Proposed Incentives

Incentive Transparency

- The option of a similar flexible credit is not offered as part of the current Enterprise Zone program

- All California Competes incentive awards will be made public and award information must be posted on the GO Biz webpage

Expansion Applications

- Businesses can choose to expand from current location into an enterprise zone

- Tax credit that GO-Biz negotiates terms for with applicant. Terms may include jobs, location and new capital investment. Ultimate location can be ANYWHERE in California

Attraction Applications

- Businesses wishing to move to California can choose to move from current location to an enterprise zone

- Tax credit that GO-Biz negotiates terms for with applicant. Terms may include jobs, location and new capital investment. Ultimate location can be ANYWHERE in California