Investment Assistance

California Business Investment Services (CalBIS) (www.labor.ca.gov/calBIS/) assists companies and investors interested in employing Californians. Major state-level incentives are described in this section. Note that many incentives are site driven and/or negotiated with local government on a case-by-case basis or under an existing local economic development policy. As needed, "A–Teams" comprised of state and local officials are assembled to bring public and private resources together to assist investors or companies interested in the Golden State.

Targeted Tax Credits

Economic Development Areas

The state offers four types of Economic Development Areas (EDAs): Enterprise Zones (EZ); Local Agency Military Base Recovery Areas (LAMBRA); Manufacturing Enhancement Areas (MEA); and, Targeted Tax Areas (TTA) in urban and rural areas.

Enterprise Zones. Businesses located within the boundaries of an Enterprise Zone are eligible for tax credits.

The first major Enterprise Zone tax credit is equivalent to the sales and use tax paid on the first \$1,000,000 Personal Income Tax or \$20,000,000 (Corporate Tax Payers of qualified new or used manufacturing equipment purchased each year. Qualified machinery is machinery or parts used to:

- Manufacture, process, fabricate, or otherwise assemble a product.
- Produce renewable energy resources.
- Control air or water pollution.

The definition of "qualified property" has been expanded to include data processing and communications equipment including, but not limited to, computers, CAD systems, copy machines, telephones systems and faxes. Equipment must be purchased in California unless equipment of comparable price and quality cannot be found in California.

The second major Enterprise Zone benefit takes the form of a credit equal to a percentage of the wages paid to a qualified employee. The credit is based on the lesser of the actual hourly wage or 150 percent of the state-established minimum wage.

The credit is provided over a five-year period with 50 percent of the wages creditable in the first year of employment, 40 percent the second year, 30 percent the third year, 20 percent the fourth year, and 10 percent the fifth year. If the employee stays with the company for the entire 5-year period, the company receives credits totaling nearly \$37,440 per qualified employee. If the employee is terminated prior to 270 days of employment, the credit is recaptured.

Other Enterprise Zone benefits that may apply in certain cases include:

- A 15-year carryover of up to 100 percent of net operating losses.
- Expensing of certain depreciable property.
- Lender interest income from loan to zone businesses is deductible.

http://www.hcd.ca.gov/fa/cdbg/ez

LAMBRAs, MEAs, and TTAs are detailed in the above link. LAMBRA zones are a companion to Enterprise Zones. The most notable differences in incentives include enhanced equipment purchase eligibility under the sales and use tax credit; an annual wage limitation of \$2 million per year under the hiring tax credit; and redefinition of qualified employees to include displaced military or civilian employees of the former base.

http://www.hcd.ca.gov/fa/cdbg/ez/lambra/

Research and Development Tax Credit

Designed to encourage businesses to increase their basic research and development activities in California, the research and development tax credit allows companies to receive a 15 percent credit against their bank and corporation tax liability for qualified in-house research expenses, and a 24 percent credit for basic research payments to outside organizations.

Qualified research expenses generally include wages, supplies and contract research costs. To qualify, a taxpayer's research must be conducted within California and include basic or applied research of scientific inquiry, original investigation for the advancement of scientific or engineering knowledge or improved function of a business component.

http://www.ftb.ca.gov/forms/misc/1082.pdf

Net Operating Loss Carryover

California tax law allows businesses that experience a loss for the year to carry this loss forward to the next year in order to offset income in the following years. New businesses can carry over 100 percent of their losses for 20 years if the loss is in their first year of operation.

http://www.ftb.ca.gov/forms/05_forms/05_3805q ins.pdf

Empowerment Zones

The federal government has designated sections of several California communities as Renewal Communities, Empowerment Zones and Enterprise Communities (RC, EZs and ECs). The cities of Fresno, Los Angeles, Santa Ana, San Diego, San Francisco, Orange Cove, Parlier, and the counties of Imperial and Riverside have designated RCs, EZs or ECs. Benefits to businesses locating or expanding in these areas include:

- Employer wage credits of 20 percent for the first \$15,000 in wages paid to an individual who resides in the EZ up to \$3,000.
- Section 179 deduction allowing businesses to deduct all or part of the cost of eligible property (machinery, furniture, equipment, computers) up to an additional \$20,000.

- Availability of low interest rate tax-exempt private activity bonds to finance industrial projects typically between \$1-3 million (some zones have substantially larger limits), often with fewer restrictions than those normally associated with tax-exempt bond financing.
- Possible city business tax exemption.
- Postponement of capital gains on the sale of EZ/EC assets.

http://www.hud.gov/offices/cpd/economicdevel opment/programs/rc/index.cfm

Foreign Trade Zones

California's Foreign Trade Zones (FTZ) are located in San Francisco, San Jose, Long Beach, Oakland, West Sacramento, San Diego, Palmdale, Los Angeles, Port Hueneme, Merced/Madera/Fresno counties, Stockton, Palm Springs, Santa Maria, Victorville, Eureka and Imperial, Butte and Riverside Counties.

FTZs are secured areas legally outside of U.S. customs territory usually located in or near customs points of entry. Foreign trade zones allow entry of foreign or domestic merchandise without formal customs entry or government excise taxes.

Merchandise entering a zone may be stored, tested, sampled, relabeled, repackaged, displayed, repaired, manipulated, mixed, cleaned, assembled, manufactured, salvaged, destroyed or processed. Products exported from or imported into foreign trade zones are excluded from customs duty and excise taxes until the time of transfer from the foreign trade zone.

http://www.ia.ita.doc.gov/ftzpage.

New Markets Tax Credits

The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against federal income taxes for qualified equity investments in designated Community

Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year period. In each of the first three years, the investor receives a credit equal to 5 percent of the total amount paid for the stock or capital interest at the time of purchase.

For the final four years, the value of the credit is 6 percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period. NMTCs will be allocated annually by the Fund to CDEs under a competitive application process. As of 2007, allocates in California include Border Communities Capital Company, LLC of Solana Beach; Clearinghouse CDFI of Lake Forest; Impact Community Capital CDE, LLC of San Francisco; KHC New Markets CDE, LLC Series A of Carlsbad; Lenders for Community Development of San Jose; and WNC National Community Development Advisors, LLC of Costa Mesa.

http://www.cdfifund.gov/index.asp

New Hire Tax Credit

A temporary tax incentive will target small businesses that create new California jobs in the coming two years. This credit is intended to complement existing job creation tax credits the state offers to employers in geographically targeted Enterprise and other zones:

- In 2009 and 2010, California employers that began the year with 20 or fewer employees will be able to claim a \$3,000 income tax credit for each new, full-time employee they hire.
- Estimated to save small businesses \$330 million in 2009-10 and help create thousands of jobs.
- Ends the quarter after \$400 million in credits have been allocated.

Film and TV Production Tax Credit

Tax incentives will lure television and movie production back to California where it belongs:

- For the next five fiscal years, the California Film Commission will certify and administer a tax credit for new production in the state or production that returns to California from another state. The credit will be equal to 20 percent of expenditures in the state related to the film production, and 25 percent for production returning to the state and independent films. It will be capped at \$100 million per year.
- This is about much more than actors and directors it's a benefit to the small businesses such as make-up artists and caterers who rely on film production for their business.

Home-Buyer Tax Credit

Helps protect jobs by encouraging homebuyers back into the market through a new incentive: a tax credit on the purchase of a new (never been occupied) home. 1.6 million jobs in California rely on building, buying, remodeling, and furnishing homes:

- The credit will be equal to 5 percent of the home's value, up to \$10,000, and distributed over three years. The amount of credits offered by the state will be capped at \$100 million.
- The purchase must be made between March 1, 2009 and March 1, 2010, and the purchaser must live in the home as a principle residence.