



# **NEW TOOLS FOR A NEW ECONOMY**

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

# **NEW CALIFORNIA INCENTIVES:**

AB93 proposes to reshape and strengthen the state's economic development tax programs to bolster California's business environment and put Californians back to work. Building upon the framework of existing targeted programs, AB93 would redirect roughly \$750 million annually from the current geographically limited Enterprise Zone program to three new business incentive programs.

**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 companies 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 July 2014. The sales tax exemption will be available statewide until 1/1/19 and until 7/1/21 for businesses located in Enterprise Zones or high poverty and high unemployment census tracts.

## **HIRING CREDIT**

The hiring credit is for businesses located in census tracts with the 25 percent highest share of both unemployment and poverty in the state. The hiring credit also applies to current enterprise zone boundaries excluding wealthy areas. The hiring credit also reinstates the boundaries for two recently expired Enterprise Zones in Palmdale and Watsonville. The hiring credit will be available for the hiring of long-term unemployed workers, unemployed veterans at discharge, people receiving the Federal earned income tax credit and ex-offenders. The hiring credit will only be allowed to taxpayers who have a net increase in jobs. The hiring credit will be 35 percent of wages between 1.5 and 3.5 times the minimum wage for a period of five years. The hiring credit is available for employees hired between 1/1/14 and 1/1/21.

## **INVESTMENT INCENTIVE**

The California Competes Credit will be created and administered by GO-Biz. Businesses will have the opportunity to compete for available tax credits. Criteria for competition includes the number of jobs to be created or retained, the extent of poverty in business development area, a minimum compensation limitation and a set job retention period. Approval of any proposed incentive will be made by a five member committee composed of a representative from the Treasurer's office, Department of Finance, GO-Biz, the CA Senate and CA Assembly. Approved credits may be recaptured if a business fails to fulfill the terms and conditions of the contract. 25% of these credits will be designated for small businesses.

## **CURRENT ENTERPRISE ZONE PROGRAM**

Taxpayers will be allowed to continue using Enterprise Zone carryover credits for 10 years and will be able to continue to earn hiring credits for employees hired prior to January 1, 2014.



# AB 93 vs. CURRENT ENTERPRISE ZONE LAW



Enterprise Zones  
Current Program



Governor Brown's  
Proposal - AB93

# Manufacturing Equipment Sales Tax Exemption



## Enterprise Zones Current Program



## Governor Brown's Proposal - AB93

### Incentive Type

- Income Tax Credit

- Sales Tax Exemption

### Value of Incentive

- Limited by income earned in the 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

### Equipment Qualified for Tax Incentive

- Basic manufacturing equipment - no research and development

- 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 Proposal - AB93

Middle Class Wages	<ul style="list-style-type: none"> <li>• NO - credit based on wages paid <u>UPTO</u> \$12 an hour</li> </ul>	<ul style="list-style-type: none"> <li>• YES - credit based on wages <u>above</u> \$12 an hour (up to \$28 an hour)</li> </ul>
Max Credit Amount	<ul style="list-style-type: none"> <li>• \$36,000 per employee (five year total, 2,000 hours)</li> </ul>	<ul style="list-style-type: none"> <li>• \$56,000 per employee (five year total, 2,000 hours)</li> </ul>
Credit Calculation	<ul style="list-style-type: none"> <li>• 50% of wages in first year. Declines 10% each year to zero for a total of 150%</li> </ul>	<ul style="list-style-type: none"> <li>• 35% of wages each year for a total of 175%</li> </ul>
Employee Qualifications	<ul style="list-style-type: none"> <li>• Extensive. Consultants hired to claim business' credits for them</li> </ul>	<ul style="list-style-type: none"> <li>• 4 groups: person unemployed 6 months, veteran unemployed at discharge, Earned Income Tax Credit recipient and ex-offenders.</li> </ul>
Poverty Area Targeting	<ul style="list-style-type: none"> <li>• Zone boundaries are gerrymandered for interests other than reducing poverty</li> </ul>	<ul style="list-style-type: none"> <li>• Areas based on census tracts with highest quarter of both unemployment and poverty rates as well as current enterprise zone boundaries (excluding wealthy areas)</li> </ul>
Retroactive Availability	<ul style="list-style-type: none"> <li>• Yes</li> </ul>	<ul style="list-style-type: none"> <li>• No</li> </ul>
Credit to Replace Current Employees	<ul style="list-style-type: none"> <li>• Yes - common use of program</li> </ul>	<ul style="list-style-type: none"> <li>• No - employer gets credit only for increasing jobs</li> </ul>
Incentive Transparency	<ul style="list-style-type: none"> <li>• No - tax information is confidential</li> </ul>	<ul style="list-style-type: none"> <li>• Yes - Tax credit info will be publicly posted on FTB webpage</li> </ul>



### Incentive Transparency

- No - Tax information is confidential

- Yes - 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