



## Enterprise Zone Benefits in detail

### 1. Hiring Tax Credits

State hiring tax credits can amount to over \$30,000 per qualified employee over a five-year period. These credits are designed to provide businesses with incentives to hire qualified employees to work in the EZ. Enterprise Zone qualifying categories include:

1. <u>Economically Disadvantaged</u>	2. A person enrolled in <u>WIA Core B Services</u>
3. A <u>Vietnam era veteran or veteran recently separated from military service</u>	4. Was a member of <u>Work Opportunity Tax Credit (WOTC)</u>
5. An <u>ex-offender</u>	6. Participant in welfare-to-work activities under <u>CALWORKS</u>
7. A <u>Native American</u>	8. Recipient of or eligible to receive <u>public assistance</u>
9. <u>Disabled</u>	10. A <u>qualified dislocated worker</u>
11. <u>Resident of Targeted Employment Area (i.e. resident of Brawley or Calexico)</u>	

To get qualified: an employer/employee fills out an application and submits this along with the supporting documents to the Imperial Valley Enterprise Zone. The zone then reviews the application and remits a VOUCHER to the employer certifying that this employee's wages can be used as credits when filing state tax returns.

#### Calculation of Credits

The amount of which a business can claim a credit is capped at 150% of minimum wage. The employer may pay a higher wage, with the amount above the cap not counting toward the credit. The percentage of wages used to compute the credit depends on the number of years the employee works for the employer in the enterprise zone. It is 50% for the 1<sup>st</sup> year and declines 10% for each year of employment.

**EXAMPLE:** ON JAN 1, 2007, A BUSINESS HIRES A QUALIFIED EMPLOYEE WHO HAS BEEN VOUCHERED. THIS FULL TIME EMPLOYEE WORKS 2,080 HOURS IN AN ENTERPRISE ZONE BUSINESS AT \$12.00/HR

**For 2006 credits, the min wage calculation is based on \$6.75/hr thus \$10,542 is the max credit for 2080 hours work**

**MAXIMUM 1<sup>ST</sup> YEAR CREDIT**  
 $[\$7.50 \times 150\%] = \$11.25$   
 $[\$11.25 \times 2,080] = \$23,400$   
 $[\$23,400 \times 50\%] = \mathbf{\$11,700}$

## 2. Sales or Use Tax Credits

A credit for sales or use tax can be applied to tax paid on equipment and machinery related to:

- ❑ Manufacturing, processing, assembly or fabrication of a product
- ❑ Communications and data processing ( ex. Copy, telephone, fax machines)
- ❑ Motion picture production
- ❑ Renewable energy resources
- ❑ Control of air or water pollution

- Individuals can claim a credit on the sales or use tax paid on the first \$1million of qualifying purchases, and corporations on the first \$20 million. At the 7.75 % sales tax rate, that's a credit of up to \$17,750 for an individual and \$1.55 million for a corporation.
- The qualified property must be purchased and placed in service after March 1, 2006 (the date of the IVEZ's designation).
- Tax paid on leased property also can also qualify in some cases

**EXAMPLE:** A BUSINESS IS OPERATING IN AN ENTERPRISE ZONE AND SPENDS \$80,000 TO PURCHASE MACHINERY THAT IS USED TO MANUFACTURE TOYS. THE SALES TAX PAID WAS \$6,200. A BUSINESS MAY REDUCE THE AMOUNT OF STATE TAX INCOME OWED BY \$6,200.

## 3. Net Operating Loss Carryover

A business can carry over up to 100% of its net operating losses from Enterprise Zone activity up to 15 years or until exhausted.

**EXAMPLE:** IN 2006, A BUSINESS'S NET OPERATING LOSS WAS \$4,000. BECAUSE OF THE LOSS, THE BUSINESS DID NOT OWE ANY TAX ON YEAR 2006 INCOME. HOWEVER, IN 2007 THE BUSINESS SHOWED A PROFIT OF \$10,000. THE BUSINESS MAY CARRY OVER THE 2006 \$4,000 NET OPERATING LOSS TO REDUCE ITS 2007 TAXABLE INCOME. THIS RESULTS IN A BUSINESS TAXABLE INCOME OF \$6,000 (\$10,000 MINUS \$4,000) FOR 2007.

## 4. Business Expense Deductions

A business can elect to expense out the cost of depreciable items in the first year of use. Qualifying items include business equipment, furniture and fixtures, but not office supplies purchased after March 1, 2006. The maximum deduction for all qualified property is either 40% of the cost of the qualified property, or \$20,000, whichever is smaller.

**EXAMPLE:** AN ENTERPRISE ZONE BUSINESS SPENDS \$40,000 PURCHASING AN OVEN. THE BUSINESS CAN CLAIM \$16,000 (\$40,000 X 40%) AS A BUSINESS EXPENSE DEDUCTION.

## 5. Lenders' Deduction

- For lenders investing in the EZ, the net interest deduction is allowed for interest payments received from a business or trade located within an EZ before the expiration date of the enterprise zone (for IVEZ this will be Feb 28, 2021).
- Net interest is calculated as being the full amount of interest received less any direct expenses incurred to make the loan (ex. commission paid to a loan representative and costs of funding the loan).

**EXAMPLE:** A LENDER LOANS \$5,000 TO AN ENTERPRISE ZONE BUSINESS. THE LENDER EARNS \$550 INTEREST AND INCURS \$300 OF EXPENSES DIRECTLY RELATED TO THE LOAN. THE LENDER MAY DEDUCT ITS NET INTEREST OF \$250 (\$550 -\$300) FROM ITS TAXABLE INCOME.

Loans include business loans, mortgages and loans from noncommercial sources and were made after March 1, 2006