



**CITY OF SOUTH GATE
COMMUNITY DEVELOPMENT DEPARTMENT**

**ENTERPRISE ZONE HIRING TAX CREDIT
HANDBOOK FOR EMPLOYERS
2007**

8650 California Avenue – South Gate, CA 90280 – (323) 563-9529

PURPOSE OF HANDBOOK

This handbook serves as a reference source for the South Gate Enterprise Zone Hiring Tax Credit Program. It is intended to guide the reader through the various steps required before a Hiring Tax Credit can be issued.

Information in this handbook will be periodically updated to reflect changes in the legislation and/or changes in the process.

To request a copy of this handbook please call Vouchering Coordinator, Community Development Department at (323) 563-9529 or you can download a copy from www.cityofsouthgate.org.

DISCLAIMER

The Hiring Tax Credit procedures and requirements contained within this handbook are to be used as a guide only, and all users of this handbook are strongly recommended to consult the FTB publication 1047, the State Vouchering Guidelines and Enterprise Zone Law and other appropriate State of California references. This Manual is for use in determining eligibility for State Enterprise Zone hiring Tax Credit Program only, and is not intended to be used in determining the legal right-to-work status of new hires. It is the sole responsibility of the employer to verify right-to-work status of all new hires.

SUMMARY OF ENTERPRISE ZONE INCENTIVES

The South Gate/Lynwood Enterprise Zone provides significant “bottom-line” savings for local businesses of all types and sizes. The Enterprise Zone program is designed to promote business growth and job generation by offering state tax credits and valuable local incentives to businesses.

HIRING CREDIT

A qualified business may reduce its state income tax by the amount of wages paid to one or more qualified employees over a five-year period. Approximately, \$31,570 or more in tax credits is available per qualifying employee. The credits may be carried over until they are exhausted.

SALES AND USE TAX CREDIT

California income or franchise tax may be reduced by the amount of sales or use tax paid on process-related machinery parts purchased for exclusive use in an Enterprise Zone. \$1.45 million or more per year in tax credit is available for qualifying machinery. Qualifying machinery also includes: air and water pollution control equipment, data processing and communications equipment and motion picture manufacturing equipment. The credits may be carried over to future years.

BUSINESS EXPENSE DEDUCTION

Part of the cost (up to \$20,000 combined total) of certain property purchased for exclusive use in the Enterprise Zone may be deducted as business expense in the first year it is placed in service.

NET OPERATION LOSS CARRYOVER *(Suspended for Tax Years 2002 and 2003)*

Up to 100% Net Operating Loss Carryover (NOL) for individuals or corporations doing business in the Enterprise Zone may be carried over for up to 15 years to reduce the amount of taxable income generated within the Enterprise Zone for those years.

NET INTEREST DEDUCTION FOR LENDERS

A deduction from income is allowed on the amount of “net interest” earned on loans made to a trade or business located exclusively in the Enterprise Zone.

FAQs ABOUT THE SOUTH GATE/LYNWOOD ENTERPRISE ZONE PROGRAM

What is an Enterprise Zone?

An Enterprise Zone is a geographic area that has been designated by the State of California to encourage and stimulate business growth, development, and investment in the area. Taxpayers that conduct business activities within the boundaries of an Enterprise Zone may qualify for special tax incentives.

How long does the Enterprise Program last?

The City of South Gate has a fifteen-year designation, which began on October 15, 2006 and is scheduled to expire on October 14, 2021.

How do I know if I am located in an Enterprise Zone?

To verify whether your business is located within an Enterprise Zone, please refer to the EZ Map and the Street Address Range. You may also contact the Community Development Department.

Vouchering Coordinator.
City of South Gate
Community Development Department
8650 California Avenue
South Gate, CA 90280
Telephone: (323) 563-9529

Must my business or corporate headquarters be located in the Enterprise Zone?

As long as your business is located in the Enterprise Zone, your business is potentially eligible to qualify for the tax credits.

What are the available Enterprise Zone tax incentives and who is qualified to take those incentives?

There are five incentives available to taxpayers that invest in or operate a trade or business located within an Enterprise Zone. The incentives are:

- Hiring tax credit
 - A qualified business may reduce its state income tax by the amount of wages paid to one or more qualified employee. Approximately \$31,570 or more in tax credits is available for each qualifying employee over a five-year period.
- Sales or use tax credit
 - California income or franchise tax may be reduced by the amount of sales or use tax paid on process-related machinery parts purchased for the exclusive use of a qualifying business located in the Enterprise Zone. \$1.45 million or more per year in tax credit is available for qualifying machinery and the tax credit may be carried over. Qualifying machinery includes, but is not limited to, air and water pollution control equipment, data processing and communications equipment and motion picture manufacturing equipment.
- Business expense deduction
 - Part of the cost (approximately up to \$20,000 combined total) of certain items purchased for the exclusive use in the Enterprise Zone may be deducted as a business expense in the first year it is placed in service.
- Net interest deduction
 - A deduction from income is allowed on the amount of “net interest” earned on loans made to a trade or business located exclusively in the Enterprise Zone.
- Net operating loss (NOL) deduction
 - Up to 100% Net Operating Loss Carryover for individuals or corporations doing business in the Enterprise Zone may be carried over for up to 15 years to reduce the amount of taxable income generated within the Enterprise Zone for those years.

For additional information about each incentive, refer to the State of California Franchise Tax Board Publications: [FTB 3805Z, Enterprise Zone Business Booklet](#)

How do I claim Enterprise Zone tax incentives?

Form [FTB 3805Z, found in the Enterprise Zone Business Booklet](#), is filed with your California tax return to claim the Enterprise Zone tax incentives. If an election is required to claim an incentive, the election is made on this form.

The *hiring tax credit*, *sales or use tax credit*, and *net interest deduction* may be claimed on either an original return or an amended return.

The *business expense deduction* can be claimed only by making an election on an original return; the election may not be made on an amended return. The election is revocable only upon the written consent of the Franchise Tax Board.

An Enterprise Zone *Net Operating Loss (NOL) deduction* can be claimed only by making an election on an original return; the election may not be made on an amended return. The election is revocable only upon the written consent of the Franchise Tax Board.

Before claiming the hiring tax credit on your tax return, businesses must obtain a voucher for each eligible employee from the Vouchering Coordinator of the City of South Gate, Community Development Department. Please call (323) 563-9529 for more information.

Do I have to include the FTB 3805Z form with my tax return?

Yes. The Franchise Tax Board summarizes the information on this form and upon request provides the information to the California Legislature or the California Technology, Trade and Commerce Agency. The information may be used to evaluate the usefulness of the incentives, to improve the program, or to make future decisions about continuation of the program.

Must I hire only South Gate residents in order to qualify for the Hiring Tax Credits?

No. Eligibility is not necessarily restricted to only South Gate residents. Rather, there are a number of eligible criteria (see below).

Which employees qualify me for the Hiring Tax Credit?

For income or taxable years beginning in 1997, you qualify for the hiring tax credit if you hire an employee who is hired after the area is designated as an Enterprise Zone and who, immediately before starting to work for you, is one of the following:

1. A person enrolled or eligible to participate in activities under the Cal Works program.
2. A person enrolled in or eligible for WIA – Intensive Service or Core B
3. A member of a target group under WOTC- Federal Worker Opportunity Tax Credit
4. An economically disadvantaged individual 14 years of age or older with low household family income.
5. A qualified dislocated worker
 - a. Clean Air Act Compliance
 - b. Active Armed Forces or National Guard as of 9/30/90
 - c. Seasonal Unemployed
 - d. Long-term Unemployed
 - e. Unemployed/Self employed Due To Economic Conditions
 - f. DOD Civilian Employee at a Military Installation
 - g. Terminated, Laid Off and Eligible for unemployment Insurance (Unlikely to return to work in previous occupation/industry)
 - h. Plant, Company or Facility Closure
6. A disabled individual eligible for, enrolled in, or who completed a state rehabilitation plan
7. A service-connected disabled veteran
8. A Vietnam era veteran
9. A recently separated veteran
10. An ex-offender convicted of a felony or misdemeanor punishable by incarceration or probation
11. A recipient of the following public benefits:
 - a) Federal Supplemental Security Income (SSI)

- b) Aid to Families with Dependent Children (AFDC)
 - c) Food stamps
 - d) State and local General Assistance (GA)
12. Native American Indian, Native Samoan, Native Hawaiian or other Native American descent
13. A resident of a Targeted Employment Area (TEA) at the time of hire

What if the employee's eligibility status changes after the date of hire?

Eligibility for the Hiring tax Credit is based solely on the employee's status at date of hire.

May I take the sales or use tax credit if the item purchased was exempt from sales or use tax when purchased?

No. The sales or use tax credit is allowed only for sales or use tax actually paid or incurred on the purchase of qualified property. If the property was exempt from sales or use tax at the time of purchase, no sales or use tax was paid or incurred.

Do leases qualify for the business expense deduction or the sales or use tax credit?

Yes, if the item is acquired through a leasing arrangement that constitutes a financial (conditional sales) contract the item may qualify for the business expense deduction or the sales or use tax credit, or both.

What type of loan qualifies a creditor for the net interest deduction?

Some types of loans that qualify for the net interest deduction include business loans and mortgage loans from commercial or noncommercial sources. To qualify all of the following must be met:

- The funds must be loaned after the Enterprise Zone was designated
- The loan must be made to a trade or business located solely within an Enterprise Zone
- The loan proceeds must be used only for the trade or business activities within an Enterprise Zone

Additionally, the lender may not have any type of ownership interest in the borrower's trade or business.

Is the net interest deduction allowed for the life of the loan?

No. The net interest deduction is allowed as long as the borrower's trade or business is located in an Enterprise Zone. Once the Enterprise Zone designation expires or the borrower moves out of the Enterprise Zone, the net interest deduction is no longer allowed.

Is the carryover of the net operating loss (NOL) deduction to future years limited?

If your business operates both inside and outside the Enterprise Zone, or is part of a unitary group, you must determine your NOL deduction by using the Enterprise Zone apportionment formula. The carryover deduction can offset only business income attributed to the Enterprise Zone. See [FTB 3805Z, Enterprise Zone Business Booklet](#).

What is the maximum amount of Enterprise Zone credits I may take in any one year?

The total of all Enterprise Zone credits that may be taken in any income or taxable year may not exceed the lesser of the Enterprise Zone tax limitation or the "net tax" limitation for individuals and the "tax" limitation for corporations. California Revenue and Taxation Code Sections 17039 and 23036 respectively defined "net tax" and "tax."

Can I amend past tax returns and carry credits forward?

Yes. The Franchise tax Board allows you to go back up to four years and amend your taxes to reflect newly identified tax credits. Any unused tax credits carry forward indefinitely as long as your business remains in the Enterprise Zone, even after the State designation expires.

GUIDELINES FOR ENTERPRISE ZONE HIRING TAX CREDIT SCREENING

1. ENTERPRISE ZONE HIRING TAX CREDIT PRE-APPLICATION

Applicants are to complete the **entire** application.

Note: Section “E” needs to be entirely completed and is critical in determining eligibility. If “yes” is checked to any of the questions or if family size falls below the income category, then the applicant is potentially EZ eligible. The person screening or the placement agency will need to collect supporting documentation to verify eligibility.

Applications will be reviewed for processing if the employee was hired on or after January 1, 1999. (Policy effective date: January 1, 2000).

2. COLLECTION OF DOCUMENTS

Depending on how the applicant is determined eligible (i.e. JTPA or CalWORKS enrolled, income criteria, public assistance, etc.), proof of that status is needed.

EXAMPLES OF SUPPORTING DOCUMENTATION

- JTPA or CalWORKS enrolled: a copy of the enrollment application or letter from their case manager
- Income Status: 2-3 RECENT CHECK STUBS OR W-2 form as a last resort (calculate pay for 6 months)
- Public Assistance: unemployment insurance check stubs or statement, copy of food stamp card, AFDC check stub or notification letter, (SSI) Supplemental Security Income, (SSP) State Supplemental Program check stub, Unemployment Insurance check stub, etc.
- Dislocated Worker: severance pay documentation, layoff letter, evidence of early retirement in lieu of layoff or discharge, if self employed (one of the following) notice of foreclosure, W-2 failure to return profit last 12 months, downturns in businesses, which can be verified by list of declining occupations, failures of suppliers or buyers of supplies or products.

3. “CERTIFICATE OF ELIGIBILITY”

A “Certificate of Eligibility” is issued by the Vouchering Coordinator once the supporting documentation is verified and collected.

4. A COMPLETE FILE CONSISTS OF:

- a. Fully completed pre-application;
- b. Appropriate supporting documentation;
- c. Date of hire, wage, and position;
- d. Employer information
- e. Completed Voucher for City review and signature

Once file is complete, an Enterprise Zone Hiring Credit Voucher can be issued.

CITY OF SOUTH GATE
ENTERPRISE ZONE HIRING CREDIT INFORMATION
(For Employees and Potential Employees)

The City of South Gate/Lynwood Enterprise Zone program is designed to promote business growth and job generation by offering state tax credits and valuable local incentives to businesses. Your employer (or potential employer) is located in the Zone.

In using the Hiring Credit, a qualified business may reduce its state income taxes by the amount of wages paid to one or more qualified employees. A business has the potential to earn approximately \$31,570 or more in tax credits per qualifying employee over a five-year period.

“Qualified Employees” generally include those who have been laid off, are long-term unemployed, are low-wage earners (based on family size), reside within a designated area called the “Target Employment Area,” or meet WOTC qualifying criteria. At least 50% of the employee’s work must be performed inside the boundaries of the Enterprise Zone. Both full-time and part-time employees qualify. [For expanded eligibility list, click here.](#)

The process of qualifying an employee (or potential employee) begins by completing the Enterprise Zone Pre-Application. Once completed and reviewed, supporting documentation, such as previous employer paycheck stubs, a lay-off letter or unemployment insurance check stubs, etc., may be collected. After this process, the business receives a voucher, which allows them to claim the hiring tax credit against its state income taxes.

We hope that you will cooperate fully in the short and easy process to determine you eligibility of the Enterprise Zone program. Your participation is voluntary and your income or tax status will not be affected.

Your employer (or potential employer) and the City of South Gate appreciate your time and cooperation.

If you have any questions or would like more information, please call Sandra Rodriguez, Vouchering Coordinator at (323) 563-9529.