

Enterprise Zone Program Within the City of South Gate

WHAT IS THE ENTERPRISE ZONE PROGRAM?

The Enterprise Zone program offers special state and local incentives to encourage business investment and promote the creation of new jobs. The purpose of the program is to provide tax incentives to businesses within the Enterprise Zone. Businesses already located in the Enterprise Zone as well as business relocating into the Enterprise Zone are eligible for the benefits.

WHERE IS THE ENTERPRISE ZONE LOCATED?

The Enterprise Zone covers nearly all of the commercial and industrial zoned properties in the city of South Gate. Hiring residents residing in targeted areas surrounding the zone may qualify your firm for additional special tax credits.

For more information, please contact:

City of South Gate
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WHAT IS THE BACKGROUND OF THE CITY'S ENTERPRISE ZONE?

In September 2006, the city of South Gate applied to the State of California for an Enterprise Zone designation. This is a competitive process and on November 3, 2006, the city of South Gate was awarded conditional designation. The city of South Gate was also authorized to receive and process applications from eligible businesses located within the Enterprise Zone area. South Gate's Enterprise Zone designation does not expire until 2021.

WHO IS ELIGIBLE?

Any individual or company operating a trade or business within the Enterprise Zone is eligible to participate in the program.

WHAT ARE THE BENEFITS?

The Enterprise Zone program may provide substantial tax savings for your business. There are five incentives available to taxpayers that invest in or operate a trade or business located within the Enterprise Zone. For additional information about each incentive, refer to the State of California Franchise Tax Board Publication: FTB 3805Z Enterprise Zone Deduction and Credit Summary 2010 (<http://www.fresnoregionalez.com/files/TaxBooklet10.pdf>) or call the Voucher Coordinator in the City of South Gate.

The incentives are:

- 1) *Hiring Tax Credit*
- 2) *Sales and Use Tax Credit*
- 3) *Business Expense Deduction*
- 4) *Net Operating Loss Carryover*
- 5) *Net Interest Deduction for Lenders and Bankers*

1. HIRING TAX CREDIT

WHAT ARE STATE HIRING CREDITS?

A business within the Enterprise Zone boundary may reduce its State income tax by a percentage of the amount of wages paid to one or more qualified employee(s). A business/firm can claim up to 50% of an employee's wages in the first year of employment. The credit percentage decreases by 10% annually, phasing out after five years. Approximately \$31, 570 or more in State tax credits is potentially available per qualifying employee hired over a five-year period.

WHICH EMPLOYEES QUALIFY ME FOR THE HIRING TAX CREDITS?

A qualified employee is an employee who immediately before starting work for the business is any of the following:

- 1) An employee who qualified for the former Program Area hiring credit;
 - 2) A person receiving or is eligible to receive subsidized employment, training, or services funded by the federal Job Training Partnership Act (JTPA), or it is successor;
 - 3) A person eligible to be voluntary or mandatory registrant under the Greater Avenues for Independence Act of 1985 (GAIN), or its successor;
 - 4) An economically disadvantaged individual 14 years of age or older;
 - 5) A qualified dislocated worker;
 - 6) A disabled individual eligible for, enrolled in, or who has completed a state rehabilitation plan;
 - 7) A service-connected disabled veteran;
 - 8) A veteran of the Vietnam era;
 - 9) A veteran who recently separated from military service;
 - 10) An ex-offender convicted of a felony or misdemeanor punishable by incarceration or probation;
 - 11) A person eligible for or a recipient of:
 - Federal Supplemental Security Income (SSI) benefits;
 - Aid to Families with Dependent Children (AFDC);
 - Food Stamps; or
 - State and local general assistance (GA)
 - 12) A Native American Indian or other Native American descent;
 - 13) A resident of a Targeted Employment Area (TEA);
- or
- 14) For employees hired during taxable years beginning on or after 1/1/1998, a member of a targeted group as defined in the federal Work Opportunity Tax Credit (as in effect January 1, 2001, in Internal Revenue Code Section 51).

In addition, at least 90 percent of the employee's work must be directly related to a trade or business activity located in the Enterprise Zone and at least 50 percent of the employee's work must be performed inside the boundaries of the Enterprise Zone. The City will issue a hiring tax credit voucher to the business for each qualified employee. The voucher must be retained by the business and shared with their tax preparer in order to claim the hiring credit.

2. SALES AND USE TAX CREDIT

WHAT ARE SALES AND USE TAX CREDITS?

California income or franchise tax may be reduced by the amount of sales and use tax paid on process-related machinery parts purchased for exclusive use in the Enterprise Zone. Qualifying property is machinery or machinery parts used to: (a) Manufacture, process, fabricate, or assemble a product; (b) Produce renewable energy resources; (c) Control air or water pollution; (d) Data processing and

communications equipment including, but not limited to, computers, computer-automated drafting systems, copy machines, telephone systems, and fax machines; and (e) Motion picture manufacturing equipment central to production and postproduction, including but not limited to, cameras, audio recorders, and digital image and sound processing equipment. Individuals, partnerships, and limited liability companies may claim a credit equal to the sales and use tax paid or incurred on the first \$1 million of qualified machinery purchased. For corporations, the limit goes up to \$20 million. The tax credit may be carried over.

MAY I TAKE THE SALES AND USE TAX CREDIT IF THE ITEM PURCHASED WAS EXEMPT FROM SALES AND USE TAX WHEN PURCHASED?

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

DO LEASES QUALIFY FOR THE BUSINESS 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 and use tax credit, or both.

3. BUSINESS EXPENSE DEDUCTION

WHAT ARE BUSINESS EXPENSE DEDUCTIONS?

Part of the cost (up to \$20,000 combined totals) of certain property 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. Eligible property includes items expected to depreciate: tangible personal property, most equipment, and furnishings purchased for use in the Enterprise Zone; office supplies are not included. This deduction makes start-up or expansion less expensive by allowing businesses to expense out the cost of equipment in the first year it is placed in service, rather than depreciating the cost of the property over its useful life.

4. NET OPERATING LOSS CARRYFORWARD

WHAT IS NET OPERATING LOSS CARRYOVER?

Net operating losses (NOL) occur when business deductions exceed your business income. As a business recovers in later years, the amount of the loss can be deducted from State taxes. Up to 100% of the NOL can be carried over for individuals or corporations doing business in the Enterprise Zone for up to 15 years.

5. NET INTEREST DEDUCTION FOR LENDERS AND BANKERS

WHAT IS NET INTEREST DEDUCTION FOR LENDERS AND BANKERS?

Net interest deduction was created to encourage loans in areas that otherwise would be avoided. The deduction is primarily for the lender, but the business benefits indirectly by receiving a loan with better terms or a loan that might otherwise have been turned down. A deduction from income is allowed on the amount of "net interest" earned on loans made to a business located in the Enterprise Zone.

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: (a) The funds must be loaned after the Enterprise Zone was designated; (b) The loan must be made to a trade or business located solely within an Enterprise Zone; (c) The loan proceeds must be used only for the trade

or business activities within an Enterprise Zone; and (d) Additionally, the lender may not have any type of ownership interests 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 the 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.

GENERAL ISSUES

IF MY BUSINESS CANNOT USE ALL THE CREDITS I EARN THIS YEAR, CAN I USE THE REMAINING CREDITS AGAINST NEXT YEAR'S TAXABLE INCOME?

Yes, you may carry over the sales tax credits, use tax credits, and hiring credits until they are exhausted. However your business must remain in the Enterprise Zone boundaries.

HOW DO I RECEIVE TAX CREDITS?

With the exception of the Hiring Tax Credit, most of the enterprise zone tax credits require no work on your part until tax time. However, good record-keeping throughout the year will help. Obtain the appropriate forms from the Franchise Tax Board [www.ftb.ca.gov] and attach them to your income tax statement, or make sure your tax preparer is aware that you are operating in an Enterprise Zone. To receive the Hiring Tax Credit, you will need to follow the vouchering process at the time of hire; business must obtain a voucher for each eligible employee from the Voucher Coordinator of the respective city.

For more information on the Hiring Credit Application process, you may contact:

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Community Development Department
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DO I HAVE TO INCLUDE, FORM FTB 3805Z (ENTERPRISE ZONE DEDUCTION AND CREDIT SUMMARY) 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.

SPECIAL SERVICES FROM THE CITY OF SOUTH GATE

THE CITY OF SOUTH GATE PROVIDES SPECIAL SERVICES FOR ELIGIBLE BUSINESSES LOCATED WITHIN THE ENTERPRISE ZONE.

City level benefits include:

- 1) *Fast-Track permitting*
- 2) *Site Location Services*
- 3) *One-Stop Career Center*
- 4) *Financial Assistance*

WHAT IS FAST-TRACK PERMITTING?

Businesses located within the Enterprise Zone area can take advantage of South Gate's streamlined Fast-Track permitting process that can help speed your plans through the necessary review process. A special business ombudsman acts as your personal liaison with city departments and local agencies to assure that your requests receive a prompt response.

WHAT TYPES OF SITE LOCATION SERVICES ARE AVAILABLE?

Businesses interested in locating or expanding within the Enterprise Zone can take advantage of South Gate's free Site Location Services. Let the City know your specific requirements and they will identify potential sites in the area that fit your needs.

WHAT IS THE ONE-STOP CAREER CENTER?

The City of South Gate is a member of the HUB Cities Job Consortium, a non-profit association of cities, whose mission is to provide and assist employers and job seekers in the Southeast Los Angeles County area. HUB Cities Job Consortium provides Enterprise Zone businesses with a valuable human resource tool that can help them find and prescreen qualified candidates that meet the standards required to obtain State Hiring Credits as well as their own unique staffing requirements. HUB Cities Job Consortium can also assist in creating customized training programs to prepare your workforce and can develop ongoing programs to enhance key skills. East Los Angeles Community College operates a major satellite campus in South Gate, and the College can provide continuing education opportunities and programs tailored to specific employer needs.

WHAT TYPES OF FINANCIAL ASSISTANCE IS MADE AVAILABLE?

Enterprise Zone business have a variety of financial resources at their disposal to assist them in obtaining working capital, financing land acquisition for improvements and other purposes. Some of the resources are:

a. *SBA Loans:* Businesses wishing to purchase property, make building improvements, purchase equipment, add to inventory or supplies, provide working capital or benefit from debt consolidation may be eligible for Small Business Administration (SBA) loans provided through a participating Certified Development Company (CDC). The SBA 504 loan provides below market, fixed rate financing for acquisition and/or construction. These loans range from \$250,000 to over \$10,000,000. The SBA 7(a) program provides working capital loan guarantees to meet both short-term and long-term financing needs.

b. *Industrial Development Bonds:* Industrial Development Bonds are a low cost and flexible financing mechanism for manufacturing firms to purchase land, buildings or new equipment. Interest rates are reduced by exempting the interest paid to bondholders from state and federal income taxes. Terms of twenty to thirty years are available as is flexible amortization. Financing is available for sums between \$1 million and \$10 million. Los Angeles County is a certified Industrial Development Authority and is a major issuer of IDB financing in the State. In addition, a number of banking institutions provide IDB financing as well.

c. *Import/Export Financing:* The California Technology, Trade and Commerce Agency and Small Business Administration provide loan guarantees to assist small businesses currently engaged or preparing to engage in international trade, as well as small businesses adversely affected by competition from imports.

d. Recycling Market Development Loans: The Recycling Market Development Zone (RMDZ) revolving loan program provides direct loans to businesses that use post-consumer or secondary waste materials to manufacture new products or that undertake projects to reduce the waste resulting from the manufacture of a product. To be eligible, the business must be located in a designated RMDZ and must divert waste from local landfills. Each eligible business may borrow up to 75 percent of the cost of a project, for a maximum loan of \$2 million. The term of the loan is not to exceed 10 years (15 years if secured by real estate) and amortization schedules are based on the useful life of the asset being financed. Interest rates are fixed for the term of the loan and are set by the California Integrated Waste Management Board semiannually. A nonrefundable application fee of \$300 is due at the time of application submittal. A loan origination fee of one-half percentage point will be charged on each loan. Points are due at the time of closing. The points are an eligible loan expense.