

# Enterprise Zone Tax Credits

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In an effort to promote and stimulate economic development, the government has designated certain areas as Enterprise or Empowerment Zones. In many cases, businesses operating within the boundaries of these zones are eligible for both state and Federal incentive and credits.

Taking advantage of these credits is a great way to increase your company's profitability and reduce your effective tax rate.

Not all CPAs are familiar with this government-sponsored program; therefore, they often do not accurately identify, calculate and document the savings. Statistics show that only 10% of eligible businesses are capturing these savings.

Recently the state of California added new zones and expanded the boundaries of others, so it is important that your company take a fresh look at these savings opportunities.

Allow the GALLINA professionals to use our efficient systematic approach to identify ways to help your company and its employees capture the maximum amount of tax credit you are entitled to receive.

## State Credits and Deductions

### **Business Expense Deductions**

The cost of qualified property purchased for exclusive use in an Enterprise Zone may be deducted as a business expense in the first year it is placed in service. The maximum deduction is \$40,000 the first taxable year placed into service, \$30,000 the second and third taxable years placed into service and \$20,000 each remaining taxable year thereafter.

### **Hiring Credits**

An Enterprise Zone business can claim more than \$32,000 in credits for each eligible hired employee over a five-year period. The employer can take a tax credit of 50% of wages paid to a qualified Enterprise Zone employee in the first year of employment with subsequent years declining by 10%.

### **Net Operating Loss Carryover**

100% of Net Operating Loss (NOL) may be carried over for 15 years in order to reduce the amount of taxable income for those years.

### **Net Interest Deductions**

Income can be deducted on the amount of net interest earned on loans made to an Enterprise Zone business. Net interest is the full amount of interest less any direct expenses incurred in making the loan.

### **Sales and Use Tax Credits**

Sales or use tax incurred in connection with the purchase of qualified property used exclusively in the Enterprise Zone can be taken as a tax credit. Additionally, property that has been acquired by a lease arrangement in which sales or use tax was paid or incurred may qualify if structured using a financial (conditional sales) contract.

## Federal Credits and Deductions

### **Employer Wage Credits**

Federal tax credits of up to \$3,000 can be claimed by an Empowerment Zone Business on each new and existing employee. The employee must live and work within the zone boundaries.

### **Section 179 Deductions**

In general, all business taxpayers are allowed to deduct up to 100% of qualifying tangible property. \$100,000 is the maximum amount that can be deducted through 2007. Empowerment Zone businesses can increase this deduction an additional \$35,000 through December 31, 2009.

### **Partial Exclusion of Capital Gains**

An exclusion of 60% of capital gains is available from the sale of small business stock issued by an Empowerment Zone business that is a C corporation with gross assets of \$50 million or less. Stock must be acquired after December 21, 2000 and before December 31, 2009 and held for at least five years.

### **Utility Rate Subsidies**

Often, the local utility department gives rate discounts to new businesses moving into Empowerment Zones. Existing businesses that expand and increase usage also qualify.

### **Work Opportunity Tax Credits (WOTC)**

This credit can reduce an employer's federal tax liability up to \$2,400 each time they hire someone who is a member of a WOTC target group.