



Strictly Business | By Randy Gordon, President and CEO



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The Enterprise Zone Program Is Gone; What's Next?

Dear Member:

Governor Brown signed into law a new legislative bill package that eliminated California's enterprise zone (EZ) program as we used to know it.

Labor, a longtime opponent to the EZ's hiring tax incentives due to their belief that it was subsidizing the nonunion workforce, got its way with one stroke of the Governor's pen. However, the Governor is quick to point out that there are some new economic development incentives included in the newly signed bill package. And on the surface, seemed to be business friendly.

The Chamber had always believed that the EZ program was an essential (and the last available) economic tool for our business community. The program helped business owners, mostly small, jump start economically distressed communities and helped to provide much needed jobs to those most economically challenged. The program was instrumental in creating local economic development especially since redevelopment agencies (RDAs) were completely eliminated statewide last year.

One particular highlight of the new redefined EZ program, which becomes effective in 2014, is the creation of a new incentive for business which reflects a true up-front exemption from the state general sales tax, currently at 4.19%. However, the exemption only applies to equipment and personal property used in manufacturing and in research and development. While the exemption is limited to equipment and property with a useful life of more than one year, it does not include equipment used in agriculture or natural resource extraction. There are also certain limits and funds available for such purchases. This provision is geared towards larger businesses that would likely make these investments anyway, and are likely already receiving federal and state research and development credits.

Another highlight that the Governor's administration included in the new law aims to replace the expiring liberal EZ hiring tax credit with a new hiring credit that is limited to new positions filled by long-term unemployed, military veterans, ex-offenders, or earned-income credit recipients (versus 13 plus eligible categories under the EZ program). Generally, only employees making between \$12 to \$28 an hour will be eligible for the new credit.

Considered another economic development incentive, the Governor's Office of Business and Economic Development (GO-Biz) will be charged with distributing up to \$780 million, for the next 5 years, in income or corporate tax incentives to companies seeking to locate, expand or remain in California. Currently, the criteria to qualify for these tax incentives is indefinite - meaning GO-Biz will have a wide range criteria that could be very subjective and potentially political when selecting eligible companies.

One thing we do know for sure is that GO-Biz must allow for priority to companies with projects in areas of high unemployment or high poverty levels. GO-Biz will also have to consider other factors such as potential job creation, compensation levels for employees, and overall economic impact effectiveness just to name a few. And of course, all of this is must be ratified by an oversight committee.

If this new program is to succeed past the initial 5 years, it will need to show that GO-Biz can attract and retain businesses in California. We urge our members and regional business community to claim their current and past EZ program credits and refunds which are still accessible for the near-term, and also apply for these new tax incentives as soon as possible as the competition will be intense among individual businesses and local economic development agencies in the region. And with RDAs and EZs eliminated, this may as well be the only game in town.

We continue to learn more and more about the Governor's new proposed economic incentive plans and we will continue to keep our members and the regional business community informed as we find ways to strengthen our local economy...

...and that's Strictly Business.

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For more information on GO-Biz, visit: www.business.ca.gov