

Socially Responsible TAX PLANNING

By Blake Christian, CPA

California is known as the “Golden State” and the land of unlimited business opportunities. Unfortunately, California is also home of the highest tax rates in the country!

Married couples pay tax at a 9.3% rate on taxable income above approximately \$87,000 and single taxpayers pay this rate on taxable income above approximately \$44,000. For those taxpayers making more than \$1,000,000 of taxable income (note: there are over 400,000 millionaire households in Los Angeles and Orange County), the tax rate on amounts above \$1,000,000 is a whopping 10.3%. This is on top of a marginal rate of up to 35% for federal purposes, plus various payroll taxes.

Working hard to turn a profit, then turning over approximately half of every dollar earned is not necessarily a formula for economic prosperity and entrepreneurial motivation. However – fortunately there is a 20% chance throughout the state, and a 72% chance in Long Beach, to dramatically reduce business owners’ California tax bite, simply by having their business located in one of California’s 45 Enterprise Zones (EZ).

The California Enterprise Zone program has been around since the 1980’s and was developed to encourage businesses to locate in business districts that are surrounded by economically challenged residents. The program offers tax incentives for these businesses to hire local residents and other economically challenged employees, which saves the government money in the form of lower support payments. Earlier this year, the EZ program was extended for another 15 years in many regions, including Long Beach.

Kathleen, a Long Beach entrepreneur, and primary owner of a family business with approximately 60 employees, was pleased to find that the EZ benefits provided her business and family with much-needed tax savings. The shareholders had paid hundreds of

thousands of dollars of California income tax on S Corporation and individual-level operating income and asset sales in prior years. Her CPA was not familiar with the EZ program and no credits had been claimed on the business or personal tax returns.

After becoming aware of the EZ program, which allows employers to claim the hiring credits of up to \$11,000 per year for each “qualified” employee, plus sales/ use tax credits (8.25%) for technology, manufacturing, R&D, and pollution control equipment purchased, Kathleen’s family members filed amended returns and were able to obtain refunds of over \$600,000 for the 4 prior years.

After experiencing many regulatory and labor challenges in her multi-decade business operations, Kathleen was pleased to find the silver lining of the EZ program. “We were shocked that these benefits had been available for all these years. After becoming aware of the program and understanding both the economic and social good the programs generate, our family has made other EZ investments associated with certain start-up companies. This program encourages job growth in economically challenged areas, and also encourages us to invest in needed equipment and infrastructure.”

The EZ program is available to businesses in virtually any industry – and any size. The only requirement for eligibility is for the business to have W-2 employees and/ or equipment located in an EZ. The Long Beach EZ was dramatically expanded during January of this year, and with the exception of Southwest Long Beach, including, Belmont Shores, almost all of the remaining business districts within Long Beach are EZ eligible.

Let’s take a look at a white collar business, a Long Beach-based financial planning group headed by Ron Long. With just five employees, Ron’s firm generated tax credits of over \$60,000

over a 5 year period – resulting in the elimination of the majority of his California income tax liability, and providing him additional working capital.

According to Ron, “the Long Beach EZ program enabled our agency to hire more employees and invest in needed business and technology equipment. California is often rated near the bottom of “business friendly” states, but with the EZ program, California can look very competitive with other low-cost states.”

Charles Paul, CEO and Co-Founder of Worldwise Education, Inc., a 10-person, Signal Hill-based company that features student artwork on greeting cards that benefit several hundred elementary schools throughout the country, recently became aware of the EZ program and is looking forward to relocating his entire operation to Long Beach in order to be well-positioned for future staffing increases and production upgrades.

“Worldwise can operate in any city or state, but with the EZ program, we can remain competitive and work in a region we really enjoy. This is a wonderful example of how state and city governments work hand-in-hand with the private sector to improve the lives of local residents and the surrounding communities.”

Finally, from a business attraction and retention standpoint, the Long Beach EZ program is an excellent economic development tool for cities. According to Long Beach Chamber CEO, Randy Gordon, “the Long Beach Chamber worked with city officials and California Chamber of Commerce to obtain the 15 year extension of the EZ program, and we view the EZ program as the single most significant benefit for employers, employees, residents and the community. Everybody wins with this program”

Additional information regarding these programs and year-end tax planning ideas can be obtained at www.hcvt.com

