

# ALERT

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## California Enterprise Zone Program Positive, Effective State Policy

The enterprise zone (EZ) program continues to serve as a productive tool to stimulate the California economy, applying broadly to companies of all sizes and from virtually all industries.

The program offers a variety of tax credits and incentives to encourage businesses to locate, invest and create jobs and environmentally friendly operations in economically distressed communities.

Established by California Chamber of Commerce-supported legislation signed in 1984, the EZ program is one of the few remaining statewide tax incentives that can be used for local economic development.

Current law allows for 42 enterprise zones. Communities apply for and receive EZ designations from the state through a competitive process.

“California’s EZ program not only breathes economic life into distressed areas, but also helps California compete for jobs with other states and countries,” said CalChamber Policy Advocate Kyla Christoffersen.

### Studies Show Program Value

In recent years, the program has come under scrutiny due to controversy over the perceived cost of the program to the state. Several recent studies, however, have established the program’s effectiveness.

For example, an August 2006 study commissioned by the California Hous-

ing and Community Development Department documented the success of enterprise zones in spurring economic recovery. From 1990 to 2000, compared to the rest of California, enterprise zones on average experienced:

- poverty rates 7.35 percent lower than the rest of the state;
- household incomes 7.1 percent higher;
- salary income 3.5 percent higher; and
- median rents 2.3 percent higher.

Another 2006 study from the University of California, Davis, described California’s EZ program as “probably the most successful in the nation” — adding nearly 300,000 jobs to California from 1992-2002.

### Program Goals

The program incentivizes businesses to partner with distressed communities through benefits including:

- **Hiring credits:** Companies can earn \$35,600 or more in state tax credits for each qualified employee (including disadvantaged individuals) hired over a five-year period (up to \$11,700 during the first 12-month employment period).
- **Employee assistance:** A one-time individual credit of up to \$525.
- **Equipment credits:** Subchapter C corporations can earn sales tax credits on purchases of up to \$20

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million (\$1 million for S corporations, partnerships and LLCs) per year for qualified machinery and machinery parts, including manufacturing, processing, research and development, and pollution control equipment used exclusively in an EZ.

- **Net operating loss carryforward:** Up to 100 percent for 15 years.
- **Tax deduction:** Lenders to EZ companies may receive an income tax deduction for EZ loans.
- **Preference points:** Available on state contracts for EZ companies.

### Coalition Support

The CalChamber-led California Businesses for Enterprise Zones coalition will continue to promote improvements to the EZ program that will make it a more powerful local economic development tool to attract new businesses to California communities and encourage existing businesses to stay and expand within these communities.

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