

An Effective Method of Creating and Retaining Companies

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- *Two Views: This is one of two commentaries written for the Business Journal regarding the debate over enterprise zones.*

The California Enterprise Zone program has been around since the 1980s and offers both employees and employers a number of tax benefits to encourage businesses to operate in the 42 most economically challenged regions throughout the state.

And it's far from the only state to do so. Thirty-nine other states offer state-level tax incentive programs to encourage businesses to operate in designated regions in their states.

Locally, six Los Angeles-area zones and 17 Southern California zones benefit under the current program. However, 22 enterprise zones across the state are set to expire in the next twelve months absent approval of SB 1008 or other legislation. This would be a great loss.

The enterprise zone program encourages hiring and training of local residents, as well as job seekers who might not get employment elsewhere. Employees who work for an enterprise zone business are eligible for a personal tax credit of up to \$525 on their California tax return. The vast majority of the employees who meet the criteria for the credit often live in economically challenged areas and often have limited education and work experience at the time they are hired.

Employer benefits are substantial too. They include: hiring credits of up to \$10,000 per "qualified" employee per year; sales tax credits of up to 8.75% on the cost of manufacturing, processing, pollution control, energy conservation, and data collection equipment; and exclusion of net interest income earned by lenders loaning funds to enterprise zone businesses. Other benefits include low-interest loans, grants and favorable bidding procedures in certain cities.

This is not a program California can do without. The state is consistently ranked at the bottom of national surveys ranking "Business Friendly" states and the enterprise zones are one of the few attractive provisions in our state tax code. With tax rates as high as 10.3% for individuals and 10.8% for banks and financial institutions, California has the highest tax rates in the country, as well as some of the least business-friendly employment law and regulations.

Target areas

The enterprise zone program also encourages businesses to increase technology spending and expansion of operations within the zones, rather than in more upscale business districts.

As you may be aware, the program was recently criticized by the California Budget Project and has been under scrutiny by the state legislators for the past several months. We support this review and evaluation as it maintains the integrity of a successful program that has unfortunately been abused by a very few firms that were in fact merely acting in the hope of some financial gain. Only Oakland has been cited for a pattern of aggressive vouchering practices, yet the legislators paint the entire program as being riddled with fraud.

Finally, the enterprise zone program encourages banks and other lenders to finance these inner-city businesses. Businesses operating in these regions tend to be smaller and viewed as higher-risk creditors by lenders.

The Legislature is now in the midst of a careful review to determine where the Enterprise Zone Program needs to be fine-tuned or completely overhauled to meet the needs of California's 21st century economy. Proposals range from extending the life of 28 expiring enterprise zones, total overhaul of the program and even suggestions of scrapping it.

Juan Arambula, D-Fresno, chair of the Assembly Jobs Committee, has proposed a detailed plan of action. While some of Arambula's proposals need refinement, we agree that the Legislature should provide an interim two-year extension and let the state Department of Housing and Community Development continue its due diligence, finalize their standardized set of regulations for issuing hiring credit vouchers and continue their analysis of the long-term effectiveness of the program.

We encourage the state, county and city legislators, as well as the business community, to continue to support the 42 enterprise zones throughout the state in order to offer the state an effective business attraction and retention tool, ensure economically challenged residents get good jobs and provide business owners the necessary incentives to successfully operate their businesses in inner cities.

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