

An Expert Weighs in: Hiring Tax Credits Bring Business to the Bay Area
Q & A with Corporate Tax Incentives (CTI)

SF Works partner Corporate Tax Incentives, an accounting firm specializing in hiring tax credits, has over 10 years of experience working with businesses in Enterprise Zones across the state. The firm has helped over 300 Bay Area businesses and over 1,000 businesses in California access their benefits. SF Works spoke with Taz Singh, principal at CTI on his experience and recommendations for Enterprise Zone reform.

SF Works: Why were hiring tax credits in Enterprise Zones created and how are they important to local economies and economic revitalization?

Taz, CTI: Hiring tax credits, which are triggered by being located in Enterprise Zones were created to incentivize business. They're a tool for employers to attract business and retain employees, and to encourage the hiring of specific groups. In today's climate of high unemployment, they're very important because they encourage business to hire and they increase our competition with other states.

For example, recently several California companies including some of the larger tech companies such as Adobe, Electronic Arts, Oracle, Ebay, and Twitter announced that they are expanding or locating to a new facility in Salt Lake City rather than California. Their hundreds of millions in investments will create thousands of jobs in Salt Lake City rather than California had they expanded within the state. The lower tax structure and tax incentives played a part in the role.

Good examples of companies taking advantage of hiring tax credits in California are Bayer Healthcare and Baxter. In May of 2009, Bayer Health Care, the East Bay's largest biotech employer with 1,300 employees, was considering moving key elements of the company's next generation drug manufacturing to an out-of-state contract manufacturing organization. Fortunately, the state was able to expand the Oakland Enterprise Zone into Berkeley to not only keep Bayer Health Care from relocating but to also invest in their facility in Berkeley. Joerg Heidrich, Bayer's Berkeley Site Head and Senior Vice President and Global Head for Product Supply-Biotech said that, "the Enterprise Zone was a vital component of Bayer's decision to make the \$100 million investment in our Berkeley site." Similarly, Baxter decided to stay in Los Angeles and invest in California. Costco also announced that they were opening a new store in Los Angeles due to recent expansion of the Los Angeles Enterprise Zone.

SF Works: What do you see as the greatest barriers for companies to access these hiring tax credits?

Taz, CTI: There are three barriers: First, lack of knowledge. Second, the ever-changing government regulations. Constant new legislation creates uncertainty and turns the incentives into disincentives. Lately it has been more stable, but often by the time businesses find out about the credits, there is legislation in process to change Enterprise

Zone policies. Third, businesses are often too busy to focus on the credits and they are intimidated by the paperwork.

SF Works: How do companies learn about these programs?

Taz, CTI: Companies learn about the programs through the cities' own marketing efforts, CPAs and consultants. SF Works is a perfect example of an organization that is helping to increase knowledge among business owners.

SF Works: How is the experience different for larger companies versus smaller companies?

Taz, CTI: Larger companies can take advantage of all the hiring tax credits, because they often work with bigger CPA firms that can do all the paperwork. Small companies might not be aware of all the tax credits, because they don't have a CPA to work with. But they both benefit equally. The benefits they receive are relative to the size of the business.

SF Works: Can you provide a San Francisco success story that demonstrates the benefits of hiring tax credits?

Taz, CTI: Most San Francisco businesses qualify for hiring tax credits and here's a great example of one business that accessed the credits and really benefited from them: we worked with a small manufacturing company in San Francisco and the owner was able to hire several employees and buy machines with the money saved from the hiring tax credits. In partnership with SF Works, I can think of one chain restaurant, a local restaurant and a hardware store where they were not only able to take advantage of the hiring tax credits, but they were able to help their employees with the savings and resources SF Works offers.

SF Works: How could Enterprise Zone managers do a better job of marketing the program?

Taz, CTI: There need to be more resources spent on doing outreach. The city should work with CPAs and the San Francisco Chamber of Commerce. As of right now in San Francisco it costs \$80 for a voucher to get an employee registered in the program. That money should go back into the program, and specifically into marketing the program.

SF Works: From your experience, how have Enterprise Zones fulfilled their purpose of supporting economic development and job creation and retention?

Taz, CTI: Enterprise Zones work to lower unemployment. Again, an example is Bayer Health. They're investing \$100 million to stay in Berkeley, so they're retaining jobs and they're hiring new employees as well.

SF Works: What do think will happen if the pending Enterprise Zone legislation passes as it is written?

Taz, CTI: Ninety percent of the benefits will be eliminated. California is getting less and less competitive. This is our main tax incentive to bring business to California and we will lose it. Because of the loss of credits, businesses that hired people based on the



benefits will most likely cut back. Especially in today's time, this could make unemployment even worse.

SF Works: What do you think would be effective reforms to the Enterprise Zone program that would help it be more effective and support its purpose?

Taz, CTI: The best thing we can do for the program right now is not change it at all. There's already enough uncertainty around the program among business owners, especially with all the pending legislation. It will be very difficult in future to convince employers from smaller rapidly growing companies such as Twitter to larger companies such as Baxter or Bayer Healthcare to stay and invest in California when there is so much uncertainty regarding the promised incentive. There have been several changes, including new regulations and requirements to utilize the latest census tracts for targeted employments areas, and the state needs to give time for the changes to take effect. The uncertainties and the ever-changing legislation regarding the incentives is actually turning this into a disincentive for investment. No change will create stability and allow companies to make an accurate projection of the benefits, which helps in making long term decisions such as expansions and investments.

SF Works: How could enterprise zone benefits help green businesses scale up and create green jobs?

Taz, CTI: I've worked with several international green businesses that have moved to California because of the hiring tax credits. They can create jobs and take advantage of tax savings that lower their operating costs. Enterprise Zones can be the decisive factor when businesses are considering moving to another state or outsourcing. California is not the most business friendly state (we have high taxes and workers compensation costs) and we have high living costs, so Enterprise Zones make a difference by neutralizing some of those costs. It's one of the few tools we have in California for businesses and it's a great program to advertise to the green industry.