

## **How Hiring Tax Credits Can Better Support Jobs**

Backgrounder from SF Works - August 23, 2010

*"Enterprise Zones play a key role in revitalizing economically challenged parts of our state. By helping businesses create well-paying jobs, we empower communities to climb the economic ladder and build the state's overall economy."  
- Governor Arnold Schwarzenegger*

In this economic downturn there is an active debate in California about that state's enterprise zone program that provides tax credits to local employers. On one side is increased legislative activity to save the state money by significantly reducing or eliminating this program and on the other side are business and economic development interests who view tax credits as the state's key economic program, and one that has had increased utilization as businesses try to stay afloat. We offer our perspective at the ground-level of how these credit programs are effective and how they can be improved.

SF Works began assisting San Francisco businesses to better access these credits in 2008 because we understood they support job creation and retention. We have outreached to hundreds of businesses, primarily small business, and provided direct assistance to dozens of employers. Here is what we have learned, where we see these programs can be improved, and what activities we are doing.

### **A. Improve Marketing with a Focus on Individualized Assistance**

A 2008 report by San Francisco's Office of Economic and Workforce Development estimated that 90% of San Francisco businesses were not taking advantage of their hiring tax credits. Since then, there has been increased utilization, with 723 credits issued in 2009, a 64% increase from 2008. We estimate that if very small businesses are not considered because they often do not create enough credits to justify making an application, over 50% of businesses are still not fully taking advantage of the credits. While many businesses may not be applying for these credits because they don't have significant tax burden, there are still hundreds of businesses in San Francisco that could bring millions of dollars into our local economy and create or retain a significant number of jobs by claiming these tax credits. These tax credits are significant, up to \$37,000 per qualifying employee for the state credit alone, and so under-utilization points to the need for a more effective local marketing program.

### **What Have We Learned About Marketing Hiring Tax Credits:**

- Most businesses don't understand these credits and if they have heard of them, assume, often incorrectly, that they don't qualify because of their location, their type of corporation or their nature of their employees. Given that each business has a

different situation in terms of its profitability and interests and assumes they don't qualify for the program, general outreach about tax credits has limited effect and credits are best marketed through individualized outreach.

- Most businesses make a slow decision to access these credits because not only do they have to be convinced that they qualify, they have to overcome their concerns that the paperwork to apply is not too cumbersome, the opportunity cost of their time which is being fully spent on immediate and critical business activities, and their prejudice about a government managed program.

#### Policy Recommendations Based on Our Experiences:

- Include greater outreach and individual support to businesses in local marketing of tax credits. One local official asked us why businesses need such "hand holding" in accessing the credits. Given the barriers and time constraints businesses have, it should be assumed that businesses will need multiple touch points and quick responsiveness to their concerns in order to access the credits. San Francisco has recently doubled its fees to process hiring tax credits. A portion of these fees should be used for more effective outreach and support which will pay for itself with increased utilization of the program.
- One of the policy changes currently under discussion is to not allow businesses to access these tax credits retroactively, because it does not connect to hiring. From our experience we do not support this recommendation. Businesses, especially small businesses, often learn about these programs after hiring and it takes them a period of time to apply for the credits. Once they see the value of the program it can then influence their future decisions. In addition, since this program has a dual purpose of both jobs and business attraction and retention, our experience is that retroactive credits keep businesses from leaving town.

#### What SF Works is Doing:

- Activity #1: SF Works will continue to do targeted individual outreach to businesses on the tax credits as well as have a presence at small business networking events. In addition, we are interested in developing an easier guide or tool kit for small business on how to access these credits and also missteps to avoid in either applying with assistance from a vendor or applying directly.

#### B. Increase the Connection of Hiring Tax Credits to Workforce Development

SF Works became involved in hiring tax credits because of the program's potential to support jobs, particularly for people who have barriers to employment and can trigger tax credits for their employer. While our experience over this last two years has been

How Hiring Tax Credits Can Better Support Jobs

SF Works

August 23, 2010

significantly tainted by our deep recession, large numbers of layoffs and slow level of hiring, we see much missed opportunity to better link hiring tax credits to jobs.

#### What We Have Learned about How Tax Credits Support Hiring:

- Businesses are reluctant to make a hiring decision based on whether a candidate qualifies the company for hiring tax credits. Their biggest concern is that factoring in hiring tax credits would be discriminatory and expose them to legal action and significant liability.
- When tax credits are marketed through job training and placement programs, businesses have a stigma about the job candidate because of beliefs about who is involved in these programs or the quality of the programs. In addition, many of the staff of these programs don't understand the credits very well and so can be reluctant to explain the credits to hiring managers.
- While hiring managers make decisions about who gets the job, it is often a finance responsibility to access tax credits. In a very small business, hiring and finance usually rest with the same person, the business owner. In a larger business they are separated and while the human resources person wants to show how they help the bottom-line, they often defer or are not involved in tax issues.

#### Policy Recommendations Based on Our Experiences:

- We have received legal opinion that it is not discriminatory to make a hiring decision that factors in the value of hiring tax credits. We recommend that state and local administering agencies further explain this issue and provide this legal opinion to the business community as well as legal resources to small businesses that cannot afford their own counsel.
- Chambers of Commerce and other business and economic development associations, particularly ones that cater to financial professionals, can play an effective role in marketing these tax credits, reducing the stigma that is associated with workforce development programs and government managed programs.

#### What SF Works is Doing:

- Activity #2: Beginning in August 2010, SF Works will be providing individual assistance to employers who hired people through the City's JOBS NOW! program. This program that began in August 2009 placed more than 3,000 qualifying people into jobs that were 100% wage subsidized through federal stimulus funds. The JOBS

How Hiring Tax Credits Can Better Support Jobs

SF Works

August 23, 2010

NOW! program is scheduled to end in September, 2010 and almost all of the participants could qualify their employers for tax credits if they continue in their positions, which could be up to 50% of the wages being a credit. We view this as a great opportunity to connect jobs to tax credits because employers will not have legal concerns about hiring.

- Activity #3: SF Works coordinates its marketing with the San Francisco Chamber of Commerce. Additionally, we are now increasing our outreach to banks and financial advisors who can encourage businesses to take better advantage of the program.
- Activity #4: SF Works has had several discussions with job training and placement organizations where we have offered to provide technical assistance on hiring tax credits and even pre-certify job candidates as qualifying for hiring tax credits, and affiliating this certification with a third party organizations that does not have a stigma. We will continue to seek partnerships in this area that can further test these ideas.

### C. Connect Financial Support for Low-Wage Workers to Hiring Tax Credits

Some businesses have concerns about gathering information from their potential or existing employees that will trigger the richest tax credits for the business because they think their employees will be reluctant to participate in a program that benefits the company and does not help the individual. By better coupling financial benefit for workers to the hiring tax credit process, there can be better utilization of tax credits as well as critical assistance provided to low-wage workers.

#### What We Have Learned:

- Businesses gather information in two ways to take advantage of hiring tax credits. The most common and easiest way is to look at where an employee lived at the time of hire and whether he or she lived in a target employment area (TEA). This can be done without any direct contact with an employee. A more robust way to identify tax credits is to gather demographic information from interviewing employees that shows whether they qualified in another 17 different ways for tax credits, the most common being that they were economically disadvantaged, typically by not working for three months prior to employment. Many businesses are reluctant to ask their employees these types of questions because they are concerned it will open them to legal action and liability. We have received legal opinion that asking these background questions is legal but still many firms have concerns about how this can relate to ADA and other workplace policies. Many business owners find the greatest value of hiring an

How Hiring Tax Credits Can Better Support Jobs

SF Works

August 23, 2010

outside vendor to identify their credits is that the information that identifies which employees trigger the credits is shielded from them by having a third party gather and submit the paperwork.

- Through our direct work with businesses, we have learned that we can typically identify two to four times the tax credit by doing interviews with employees and gathering information that will trigger additional credits. We have used these interviews as an opportunity to also connect employees to a valuable package of discounts and community resources that they personally benefit from and can save them thousands of dollars annually. Employers who participate tell us they like being able to do something for their loyal employees and it makes them more comfortable that their employees are also benefiting when they apply for tax credits. As one local business owner told us, "Getting the tax credit is like the drug I need to stay alive and helping my employees is like the vitamins I know is the right thing to do, I like being able to do both."
- Low-wage workers are disconnected from financial supports because they are busy working, aren't looking for a hand-out and don't think there is any assistance available for them. Reaching them where they are every day, the workplace, is an effective way to provide critical support to people whose income is not enough to make ends meet in our expensive City.

#### Policy Recommendations Based on Our Experiences:

- Local and state agencies can provide legal information and guidance to businesses on what questions are appropriate and inappropriate to ask of your employees and how such questions impact other human resource activities.
- The California Enterprise Zone does provide a financial benefit to participating employees but the amount is so restrictive and so small, that it is typically considered not worth pursuing. We recommend that this financial benefit be made more meaningful and accessible.

#### What SF Works is Doing:

- **Activity #5:** SF Works will continue to combine tax credit and employee support screenings at the workplace. We are also completing an on-line resource portal that employees can access at the workplace or on their own time that will also be a way for people to access a valuable range of discounts and resources. In addition, SF Works actively markets the Earned Income Tax Program (EITC) to employers and

How Hiring Tax Credits Can Better Support Jobs

SF Works

August 23, 2010

employer associations during the tax season so that low-wage workers can receive back much of their federal taxes.

#### D. Cautiously Adjust the Tax Credit Program

Much of the concern about hiring tax credits relates to some companies that take advantage of the credits, large profitable corporations, and some employees who trigger tax credits for their employers, people who live in wealthy communities who don't have barriers to employment. It has been our experience that these incidents are well publicized exceptions and often misreported because of confusion about the program, similar in a way to how incidents of welfare fraud wrongfully implicates the vast majority of recipients who are using the program as it is intended.

#### What We Have Learned:

- As has been described above, these tax credits program could be significantly improved by better marketing, better understanding by employers of the legal issues and better support for low-wage workers. We do not encounter businesses that are trying to take advantage of the program, they are just attempting to access it to the best of abilities.
- It takes a long time for information about tax credits to be filtered down and understood. When there are changes afoot or these credits have only a short time duration, the credits have limited impact. As an example, the federal HIRE Act illustrates these challenges. This is a credit for the employers' portion of social security portion qualifying new employees hired beginning in February, 2010. It took a couple of months for the regulations and forms to come out and several months to be understood and implemented by companies and payroll service firms. However, the credit is only for 2010, so with such limited duration, we have not heard of any employers who are having it influence their decision to create or hire people into jobs.

#### Policy Recommendations Based On Our Experiences:

- Given the confusion that already exists by business on the value of tax credits and how to access them, we do not recommend changes that would further increase confusion, such as dramatic reductions in the geographic area where a business needs to be located in order to participate in the program. We do recommend that the Target Employment Area (TEA) which is used for qualifying an employee based on address by re-examined. Presently, these TEA's are census tracts which because the Enterprise Zones are in dense urban areas have areas of wealth and poverty. We

recommend that instead of using whole census tracts, portions of census tracts that have a certain percentage of people at a certain percentage of median area income be used instead.

What SF Works is Doing:

- Activity #6: We have a unique perspective of being on the ground, having a dual customer of the worker and the employer and working in alignment with many local business groups. We have and will continue to share this perspective at policy hearings, external communication and further study of our experience. It is important that this program not be evaluated solely on aggregate data and that weaknesses in the program's execution not be the reason to make policy changes that reduce the program's potential for supporting local business growth and jobs.

As the debate and legislative activity over hiring tax credits continues, we will continue to update this briefing paper. We also welcome your comments and suggestions. Please contact us at [info@sffworks.org](mailto:info@sffworks.org) or 415-217-5181 or visit our website at [www.sffworks.org](http://www.sffworks.org) to learn more about what we are doing to support low-wage workers and the businesses that employ them.