

# Hiring Tax Credits Available to San Francisco Businesses

## An Overview

**A resource provided by**



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## Summary

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There are four types of hiring tax credit programs available to businesses located in San Francisco, one local, one state and two federal programs. Hiring tax credits can be extremely valuable – some can significantly reduce or almost eliminate a business’s tax liability – but can also be cumbersome and time-consuming to apply for and access. This document is meant as a resource for San Francisco business owners and managers seeking to understand the tax credit opportunities available.

Hiring Tax Credits Available in San Francisco	Maximum Value
California EZ Program: Hiring Credit	\$37,440 per qualifying employee
San Francisco Payroll Tax Credit	Varying percent of qualifying employees’ wages
Federal Work Opportunity Tax Credit	\$9,000 per qualifying employee
Federal Renewal Community Tax Credit	\$1,500 per qualifying employee/year

## Additional Information

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For more information about screening your employees, applying for and performing annual tests for hiring tax credits, or to participate in a program that will screen your business for tax credits while screening your low-wage workers for community benefits and personal tax credits, please contact SF Works. SF Works is a part of the San Francisco Chamber of Commerce. We are partnering with tax credit service providers to help businesses access tax credits while helping their low-wage workers connect to benefits and resources.

### Contact:

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## California Enterprise Zone (EZ) Program

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**Purpose:** Stimulate business growth and create job opportunities for all Californians

**Amount:** Up to \$37,440 per qualified hire over five years

*Example: One employee earning SF minimum wage (\$9.36/hour). Formula for calculating credit is 150% of state minimum wage (\$8/hour) = \$12/hour or \$24,960 annually*

Year 1 - 50%	= \$12,480
Year 2 - 40%	= \$9,984
Year 3 - 30%	= \$7,488
Year 4 - 20%	= \$4,992
Year 5 - 10%	= <u>\$2,496</u>
	\$37,440

**Overview:** The California Enterprise Zone (EZ) Program is a set of special incentives for businesses that locate and operate in an Enterprise Zone, including:

- Hiring tax credits
- Net operating loss carry-forward
- Sales and use tax credits
- Up-front expensing of certain depreciable property
- Preference points on state contracts
- Lenders to Zone businesses may receive a net interest deduction

The benefits can substantially reduce, or almost completely eliminate, a taxpayer's California income tax liability.

Unused tax credits can be applied to future tax years, and can be retroactively claimed for four years.

**Geography:** Large sections of San Francisco are located in an Enterprise Zone, including the Financial District, Chinatown, Hayes Valley, SoMa, Third St. Corridor, Mission District and Bayview/Hunters Point (See map of Enterprise Zone, page 7)

**Qualifications:** Businesses located within the EZ that hire qualified individuals to work within the EZ. An employee meeting any one of 18 characteristics will qualify the business. Qualifying hires:

- California Work Opportunity and Responsibility to Kids (CalWORKS) recipients
- Workforce Investment Act (enrolled/eligible Core B)
- Work Opportunity Tax Credit Program
- Economically disadvantaged individual 14 years of age or older
- Dislocated worker:
- Terminated and laid off
  - Company closure
  - Long-term unemployed



- Formerly self-employed
- Former Department of Defense civilian employee at a military installation
- Active military/National Guard 9/30/1990
- Seasonal unemployment
- Clean Air Act compliance
- Disabled individual of service-connected disabled veteran
- Vietnam Veteran or veteran recently separated
- Ex-Offender (misdemeanor or felony)
- Recipient of, or eligible for, public assistance (CalWORKS, SSI, Food Stamps)
- Native American, Native Samoan, Native Hawaiian
- Targeted Employment Area Resident

#### **Application Process:**

- Screen employees to determine whether they qualify
- Gather documentation to support determination
- Complete voucher application request form (available from Mayor's Office)
- Submit complete package to the San Francisco Enterprise Zone coordinator for approval
- Submit approved vouchers with state tax returns

#### **Record Keeping:**

- Approved vouchers with supporting documentation
- List of qualified employees by qualification category
- Detailed credit calculations with supporting payroll information
- Proper application of EZ credit usage limitations (i.e. EZ Apportionment)
- Document additional employee requirements (perform an Annual Test)

#### **Best Practices:**

- Review prior years to identify any miss opportunities to secure California EZ Credits -
  - *California tax returns have a four-year statute of limitations so you can go back and capture previous years' credits*
- Review effectiveness of current employee screening process
- Be aware of credit limitations for tax planning purposes
  - EZ Credits can only offset tax attributable to EZ income
  - EZ Credits do not expire, but remember the credits cannot be used if you move your operations outside of the Enterprise Zone
- Store records in a manner that will allow for efficient record retrieval
- Consider other similar federal programs (WOTC, Renewal Community Credit)



## San Francisco EZ Payroll Tax Credit

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**Purpose:** Encourage business investment & job creation in economically distressed locations

**Amount:** A depreciating percentage of payroll tax owed (1.5%), claimed over ten years

*Example: One employee earning \$20,000 per year. Beginning at 100% of payroll tax owed (1.5% of \$20,000 = \$300), the credit amount depreciates and is realized as follows:*

Year 1-2 - 100%	=	\$300/yr
Year 3-4 - 50%	=	\$150/yr
Year 5-6 - 25%	=	\$75/yr
Year 7-8 - 15%	=	\$45/yr
Year 9-10 - 10%	=	<u>\$30/yr</u>
		\$1,200 total

**Overview:** The San Francisco Payroll Tax Credit is a tax incentive against the payroll taxes for any new hires of businesses that locate and operate in an Enterprise Zone. *Note this is a recent change: prior to June 24, 2008, the tax credit was available only for new hires of newly created jobs.*

**Geography:** Large sections of San Francisco are located in an Enterprise Zone, including the Financial District, Chinatown, Hayes Valley, SoMa, Third St. Corridor, Mission District and Bayview/Hunters Point. (See map of Enterprise Zone, page 7)

**Qualifications:** Businesses located in the State Enterprise Zone that hire qualified San Francisco residents to work within the Enterprise Zone. An employee meeting any one of 17 characteristics will qualify the business. The qualifications for employees are the same as the State EZ Program (see qualifying hires, page 2), *except that the Targeted Employment Area is not a qualification, and the employee must be a San Francisco resident.*

### Application Process:

- Apply for the California Enterprise Zone Tax Credit
- Apply within six months of hiring new employee
- Screen employees to determine whether they qualify
- Gather documentation to support determination
- Complete voucher application request form (available from the Mayor's Office)
- Submit complete package, along with approved CA EZ vouchers, to the San Francisco Treasurer's Office for approval

### Record Keeping:

- Approved vouchers with supporting documentation
- List of qualified employees by qualification category
- Detailed credit calculations with supporting payroll information
- Proper application of EZ credit usage limitations (i.e. EZ Apportionment)

## Federal Work Opportunity Tax Credit

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**Purpose:** To promote the hiring of individuals who qualify as a member of a target group.

**Amount:** Up to \$9,000

**Overview:** A credit against federal taxes available to any business that hires individuals from a target group of at-risk individuals. Tax credits can be carried forward for up to 20 years and carried back one year.

**Geography:** There are *no geographic requirements* for the Work Opportunity Tax Credit (WOTC).

**Qualifications:** A business may qualify for the Work Opportunity Tax Credit if an employee is a member of a designated target group and meets that group's specific requirements. Employees who qualify the employer for the WOTC automatically qualify a business located in an Enterprise Zone for the EZ credits as well (See page 2), Qualifying hires:

- Qualified recipients of Temporary Assistance to Needy Families (in California, CalWORKS)
- Qualified veterans receiving Food Stamps or qualified veterans with a service connected disability who:
  - have a hiring date which is not more than one year after having been discharged or released from active duty OR
  - have aggregate periods of unemployment during the one year period ending on the hiring date that equal or exceed six months.
- Ex-felons hired no later than one year after conviction or release from prison
- Designated Community Resident – an individual who has attained ages of 18 but not 40 on the hiring date who resides in an Empowerment Zone, Renewal Community or Rural Renewal County
- Vocational rehabilitation referrals, including Ticket Holders with an individual work plan developed and implemented by an Employment Network
- Qualified summer youth ages 16 through 17 who reside in an Empowerment Zone, Enterprise Zone Community or Renewal Community
- Qualified Food Stamp recipient ages 18 but not 40 on the hiring date
- Qualified recipient of Supplemental Security Income (SSI)
- Long-term family assistance recipients

### Application Process:

- Complete required federal forms (Forms 8850 and 9061) *on date of hire*
- Application must be received within 28 days from the employee hire date
- Screen employees to determine whether they qualify
- Gather documentation to support determination
- Submit complete package to the California Employment Development Department WOTC Processing Center in Sacramento, CA

### Record Keeping:

- After State certifies the employee, begin tracking wages
- Approved certificates w/supporting documentation
- List of qualified employees by qualification category
- Detailed credit calculations with supporting payroll information

## Federal Renewal Community Tax Credit

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**Purpose:** To stimulate economic development in economically distressed areas, and to encourage businesses to open, expand and hire local residents.

**Amount:** Up to \$1,500 per qualifying employee *per year*.

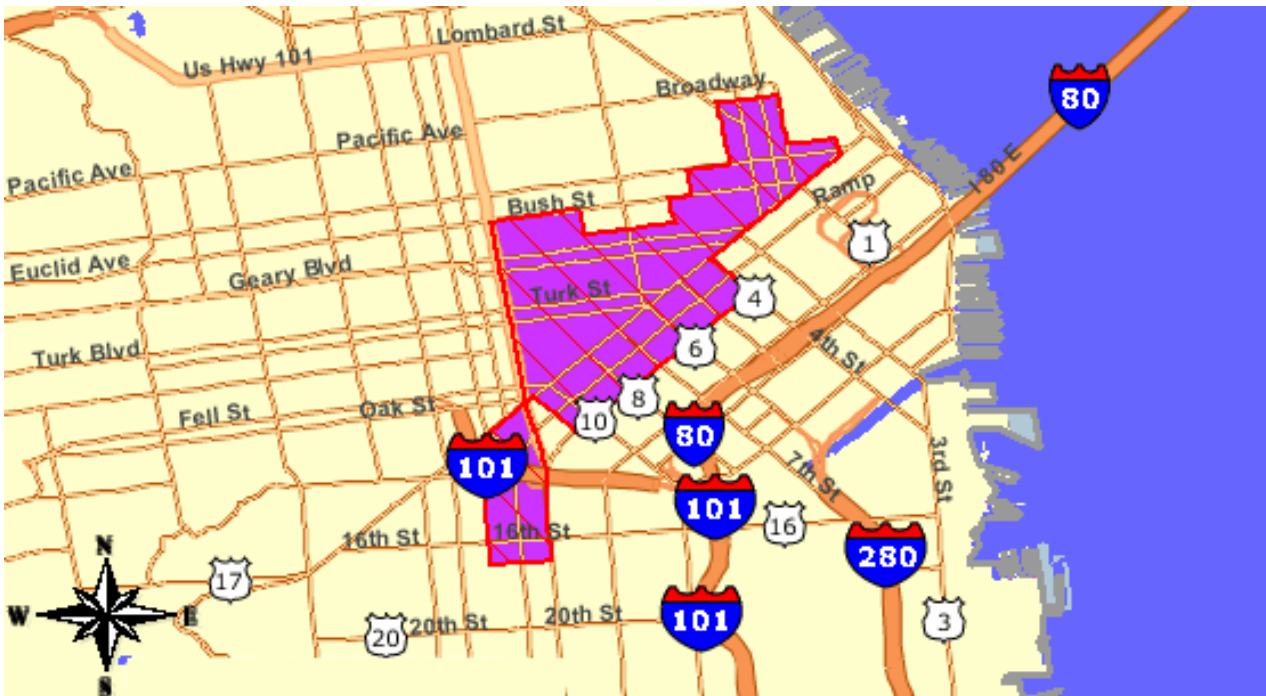
**Overview:** A set of special incentives for businesses that are located in a renewal community, including a credit against federal taxes for hiring employees who live and work in the same renewal community. Other benefits include no tax on capital gains and accelerated depreciation through Commercial Revitalization Deductions, and more.

**Geography:** The Federal Renewal Community for San Francisco includes parts of the Financial District, Chinatown Tenderloin and SoMa Districts. (See map below)

**Qualifications:** A business qualifies for renewal community tax credits if it is located within the renewal community and employs a worker who resides in the *same* renewal community.

Credits are reported on IRS Form 8844

### Federal Renewal Community in San Francisco



## San Francisco's Enterprise Zone Map

If your business is located in the shaded area, you may qualify for the State EZ Program and San Francisco Payroll Tax Credits.

