Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Perez, et al.	Analyst:	Jahna Alvarado	Bill Number:	AB 231
Related Bills:	See Legislative History	Telephone:	845-5683	Introduced & Amended Dates:	February 2, March 22 & 24, April 15 & June 7, 2011
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Targeted Employment Area Designation Modifications/Enterprise Zone Hiring Credit Modifications/California Economic And Community Development Zone Act

SUMMARY

This bill would make a number of modifications to the Government Code and the Revenue and Taxation Code with regard to the various Geographically Targeted Economic Development Area (G-TEDA) tax incentives.[1]

This is the department's first analysis of the bill. The analysis is limited to the changes that would affect the department.

The provisions of the bill will be discussed separately.

SUMMARY OF AMENDMENTS

The March 22, 2011, amendments added coauthors and eliminated all of the bill's provisions, replacing them with provisions that would rename the Enterprise Zone Act the California Economic and Community Development Zone Act and make a number of changes to the Enterprise Zone (EZ), Local Agency Military Base Recovery Area (LAMBRA), and Manufacturing Enhancement Area (MEA) programs.

The March 24, 2011, amendments would limit the 50 percent limitation on the EZ net interest deduction to taxable years 2011 and 2012, and would modify the hiring credit certification requirement.

The April 15 and June 7, 2011, amendments would make a number of changes to provisions of the Government Code and Revenue and Taxation Code relating to the G-TEDA programs as discussed in this analysis.

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[1] The acronym G-TEDA includes the following programs: Enterprise Zones, Manufacturing Enhancement Areas, Targeted Tax Areas, and Local Agency Military Base Recovery Areas.

Board Position:			Executive Officer	Date
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RECOMMENDATION AND SUPPORTING ARGUMENTS

No position.

Summary of Suggested Amendments

Department staff is available to assist with amendments to resolve the implementation and technical concerns discussed in this analysis.

PURPOSE OF THE BILL

According to the author's office, the purpose of the bill is to enact meaningful reforms to the G-TEDA programs to ensure that the state maximizes its investment in offering the programs and accurately targets benefits to economically challenged areas and individuals.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately. The operative dates of these changes vary and will be addressed separately for each provision.

ANALYSIS

FEDERAL/STATE LAW

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Existing federal law provides special tax incentives for empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Under the Government Code, state law provides for several types of G-TEDAs: EZs, MEAs, Targeted Tax Areas (TTAs), and LAMBRAs.

Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within a G-TEDA. These incentives include a hiring credit, sales or use tax credit, business expense deduction, and special net operating loss treatment. Two additional incentives include net interest deduction for businesses that make loans to businesses within G-TEDAs and a credit to taxpayers that are employees working in an EZ. The following table shows the incentives available to each of the economic development areas. Additional detail on each of the incentives appears in Attachment A.

Types of Incentives	EZ	LAMBRA	TTA	MEA
Sales or Use Tax Credit	X	X	X	
Hiring Credit	X	X	X	X
Employee Wage Credit	X			
Business Expense Deduction	X	X	X	
Net Interest Deduction	X			
Net Operating Loss	X	X	X	

<u>THIS BILL</u>

<u>GOVERNMENT CODE MODIFICATIONS</u>

Under the Government Code, this bill would modify the Enterprise Zone Act by doing all of the following:

- Redefining “eligible area” to mean an area:
  - Designated as an EZ, targeted economic development area, neighborhood development area, or program area, as specified; and
  - That is a geographic area within census tracts of the proposed eligible area with a median household income, as specified, and that meets one of the following criteria:
    - The unemployment rate within the census tracts within the proposed eligible area is at least 3 percentage points above the statewide average, as specified.
    - More than 70 percent of the children enrolled in the public schools serving the census tracts for the proposed eligible area participate in the federal free lunch program.
    - The area within the proposed zone has experienced significant distress factors as defined by the Department of Housing and Community Development (DHCD).
- Redefining “enterprise zone” to mean an area, as specified, that includes an eligible area and a qualifying commercial or industrial area, or both, as defined by the DHCD.
- Redefining “targeted employment area” (TEA) for TEAs adopted or amended on or after April 1, 2011, to mean an area that is composed solely of census block groups with low- or moderate-income levels of at least 51 percent of the block’s residents as reported in the most recent US Census Bureau data available, as specified.
- Requiring that the most current household income data, as published by the U.S. Census Bureau, be used when designating or updating a TEA.

- Requiring that every TEA adopted on or after April 1, 2011, be reviewed and updated to the extent necessary upon the release of new household income data in the U.S. Census Bureau's five-year American Community Survey.
    - o The DHCD would invalidate a TEA for a period of two years if the local zone administrator fails to provide notification within 180 days of the release of new household data of the updated TEA or that no changes were necessary. The DHCD would notify the Franchise Tax Board (FTB) and the local zone administrator that the TEA is invalid and no additional employee certifications based on residence within the TEA would be issued.
    - o A business that had received certification of an employee based on residence within the TEA prior to the invalidation of the TEA could continue to obtain TEA residence-based certifications.
- Revising the EZ application evaluation criteria for EZ applications submitted on or after January 1, 2011, by limiting the size of a proposed EZ in cases where a census block group, or portion of a census block group included in the proposed EZ is, or was, previously within the boundaries of a previously designated EZ, to 115 percent of the size of the previously designated EZ.
- Repealing the MEA and TTA provisions.
- Requiring that state agencies and departments (1) affirmatively support their statutory responsibilities under the EZ Act and, consistent with their statutory responsibility, to respond to requests made by and on the behalf of an EZ and (2) consider how the G-TEDA programs could be integrated into workforce development and training plans and strategies in order to maximize the benefits to workers and businesses.
- Requiring the DHCD to establish a registration process, as specified, for businesses located within an EZ or LAMBRA.
    - o Registration would be a precondition for claiming EZ or LAMBRA related tax incentives.
    - o Registration would not be required until 6 months after the DHCD establishes the registration process, and would be required to be updated at least once every five years.
    - o Businesses would be required to retain a copy of the registration and provide it to the FTB upon request.
- Expanding the FTB's current reporting requirement for EZ tax credits to include the dollar value of "other tax-related incentives" claimed during the taxable year. Additionally, the FTB would be required to design and distribute forms and instructions that would allow for the collection of information on the total amount of capital investments made and the total amount of the sales and use tax credit claimed by a business operating within an EZ. The number of new employees included in the computation of the hiring credit would be eliminated as a required item on forms and instructions. The FTB would be required to review both personal and corporate tax returns in the development of the required information and, at minimum, report the total for each G-TEDA tax incentive separately for personal and corporate tax filers.

50 PERCENT CREDIT UTILIZATION LIMITATION

For taxpayers with gross income of one million dollars or more, this bill would, for taxable years beginning on or after January 1, 2011, and before January 1, 2013, limit the use of the following G-TEDA credits to 50 percent of the tax due, as specified, for the taxable year:

- EZ sales and use and hiring credits
- LAMBRA sales and use and hiring credits
- TTA sales and use credits

The carryover period for EZ or LAMBRA sales and use or hiring credits suspended due to the limitation would be extended by the period of time the credit was not allowed.

TTA sales and use credits suspended under this provision would be ineligible for the extended carryover period.

This provision would be repealed by its own terms on December 1, 2013.

BUSINESS REGISTRATION REQUIREMENT

For taxable years beginning on or after January 1, 2011, this bill would require that a taxpayer be a registered business as specified, and, under penalty of perjury, state that they are a registered business, in order to claim the following G-TEDA tax incentives:

- EZ net interest deduction
- EZ sales and use tax credit
- EZ hiring credit
- LAMBRA sales and use tax credit
- TTA sales and use tax credit

EZ NET INTEREST DEDUCTION MODIFICATION

This bill would modify the EZ net interest deduction by doing all of the following:

- Eliminating language that allowed the deduction for taxable years prior to 2011.
- Allowing 50 percent of the net interest received, as defined, as a deduction for taxable years beginning on or after January 1, 2011, and before January 1, 2013.
- Allowing 100 percent of the net interest received, as defined, as a deduction for taxable years beginning on or after January 1, 2013.

EZ AND LAMBRA NET OPERATING LOSS (NOL) ELIMINATION

This bill would repeal the EZ and LAMBRA NOL provisions as of January 1, 2011, and would add language specifically allowing the continuation of carryover provisions.

EZ, LAMBRA, AND TTA SALES AND USE TAX CREDIT MODIFICATION

This bill would modify the EZ, LAMBRA, and TTA sales and use tax credit provisions by limiting the carryover period to 15 years and requiring that the taxpayer register their business with the DHCD, as specified, and state under penalty of perjury that the business is registered as a pre-condition of claiming an EZ, LAMBRA, or TTA sales and use tax credit.

These changes would be specifically applicable to taxable years beginning on or after January 1, 2011.

EZ HIRING CREDIT MODIFICATION

This bill would, with respect to qualified employees hired on or after January 1, 2011, modify the EZ hiring credit by doing all of the following:

- Changing the percentages the credit would be based on from a 50/40/30/20/10 scheme spread over the first five years of a qualifying employee's employment to a 30/40/50 scheme spread over the first three years of a qualifying employee's employment.
- Changing the maximum wage that would be subject to the credit to 180 percent of the minimum wage, or, for qualified employees working in certain manufacturing activities described in Codes 311 through 399 of the 2007 edition of the North American Industry Classification System (NAICS), the maximum credit would be 202 percent of the minimum wage.
- Replacing obsolete references to federal or state programs with references to the current programs.
- Specifying the maximum wage a TEA resident could receive and remain a "qualified employee" as a wage that is no greater than the median income for a family of four within the census block groups of the EZ.
- Requiring that an application for certification of an individual be submitted within 36 months of the employee being hired.
- Modifying the credit recapture period from 270 days to 300 days. For seasonal employees, the recapture period would be 300 days of employment during the first 36 months of seasonal employment with the taxpayer.

For taxable years beginning on or after January 1, 2011, this bill would do all of the following:

- Restrict the total EZ credit for taxpayers that relocate to an EZ from within the state, to the number of employees employed within the EZ in excess of the number of employees at the previous location. The number of employees at the previous location and the type of jobs undertaken would be established by the Employment Development Department (EDD). This bill provides for four exceptions from the limit that would be established:
    - Employees who undertake core work activities or activities that are the primary job duties of the employee that are significantly different from those activities at the previous location, as determined by the EDD.
    - Taxpayers that receive a bona fide offer to relocate to another state.
    - Taxpayers who relocate as a result of a natural disaster, civic unrest, or eminent domain proceeding.
    - Taxpayers who relocate within the same local government jurisdiction.

- Require a taxpayer to be a registered EZ business, as specified, and require the taxpayer to state under penalty of perjury that they are so registered, as a condition of claiming an EZ hiring credit.
- Disallow the credit for a taxpayer that has been notified by the Director of Industrial Relations of a final determination that the taxpayer is a serious, repeated, and willful violator of state employment laws.
- Limit the carryover of unused EZ hiring credits to 15 years.

LAMBRA HIRING CREDIT MODIFICATION

This bill would, with respect to qualified disadvantaged individuals hired by a qualified taxpayer on or after January 1, 2011, modify the LAMBRA hiring credit by doing all of the following:

- Restricting the credit to taxpayers that have registered their business with the DHCD, as specified.
- Changing the percentage applied to qualifying wages to determine the credit from a 50/40/30/20/10 scheme spread over the first five years of a qualifying employee's employment to a 30/40/50 scheme spread over the first three years of a qualifying employee's employment.
- Changing the maximum wage that would be subject to the credit to
- 180 percent of the minimum wage, or, for qualified employees working in certain manufacturing activities described in Codes 311 through 399 of the 2007 edition of the North American Industry Classification System, the maximum credit would be 202 percent of the minimum wage.
- Limiting to $2,000,000 the amount of qualified wages that could be included in the calculation of a qualified taxpayer's credit for a taxable year.
- Eliminating eligibility for, or participation in certain federal or state programs as categories qualifying an individual as a "qualified employee." [2]
- Requiring that an application for certification of an individual be submitted within 36 months of the employee being hired.
- Restricting the credit for taxpayers that relocate to a LAMBRA from within the state, to the credit attributable to the number of employees employed within the LAMBRA in excess of the number of employees at the previous location. The number of employees at the previous location and the type of jobs undertaken would be established by the EDD. This bill provides for four exceptions from the limit that would be established:
    - Employees who undertake core work activities or activities that are the primary job duties of the employee that are significantly different from those activities at the previous location, as determined by the EDD.
    - Taxpayers that receive a bona fide offer to relocate to another state.
    - Taxpayers who relocate as a result of a natural disaster, civic unrest, or eminent domain proceeding.
    - Taxpayers who relocate within the same local government jurisdiction.

[2] Federal Jobs Training Partnership Act, State Greater Avenues to Independence Act of 1985, or their successor.

- Increasing the credit recapture period from 270 days to 300 days. For seasonal employees, the recapture period would be 300 days of employment during the first 36 months of seasonal employment with the taxpayer.
- Limiting the carryover period for unused credits to 15 years.
- Disallowing the credit to a taxpayer that has been notified by the Director of Industrial Relations of a final determination that the taxpayer is a serious, repeated, and willful violator of state employment laws.

MEA AND TTA HIRING CREDIT MODIFICATION

This bill would modify the TTA and MEA hiring credits by doing all of the following:

- Redefining "qualified employee" for purposes of the TTA hiring credit and "qualified disadvantaged individual" for purposes of the MEA hiring credit to mean an individual that is:
  - Hired by the qualified taxpayer before January 1, 2011;
  - Certified by the EDD as eligible under the federal Targeted Jobs Tax Credit Program, or its successor;
  - Performing at least 90 percent of their services for the qualified taxpayer that are directly related to the MEA or TTA business activity; and
  - Performing at least 50 percent of their services for the qualified taxpayer within a designated MEA or TTA.
- Eliminating an employee's eligibility for, or participation in, certain federal or state programs[3] as a qualifier for "qualified employee" and "qualified disadvantaged individual" status.
- Replacing references to obsolete state and federal programs with current references.
- Repealing the TTA and MEA hiring credit provisions as of January 1, 2017.

IMPLEMENTATION CONSIDERATIONS

Department staff has identified the following implementation considerations for purposes of a high level discussion; additional concerns may be identified as the measure moves through the legislative process. In order for the FTB to implement this measure, clarification is necessary for the following issues:

- In what circumstances, how, and to whom would the exception from the TEA invalidation apply?
- Is the TTA hiring credit exclusion from the 50 percent limitation on credit utilization intended?
- Is the exclusion of the TTA sales and use tax credit from the extended carryover period that would be allowed for suspended EZ and LAMBRA sales and use tax credits subject to the 50 percent limitation intended?

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[3] Federal Jobs Training Partnership Act, State Greater Avenues to Independence Act of 1985, or their successor.

- Why would the LAMBRA hiring credit modifications be applicable to only one of the two categories of individuals that could qualify the taxpayer for LAMBRA hiring credits?
- Replacing the specified SIC codes with three digit NAICS codes, as specified, would expand the universe of taxpayers eligible for the Long Beach EZ's enhanced hiring credit.
- Definitions are needed for a number of terms and phrases, i.e., "activities that are the primary job duties of the employee that are significantly different from those activities at the previous location," "bona fide offer to relocate to another state," "hired by a qualified taxpayer," "other tax-related incentives," "tax incentives," "type of job undertaken," and "undertake core work activities." The absence of definitions to clarify these terms could lead to disputes with taxpayers and would complicate the administration of the bill's provisions.
- How, and in what circumstances, would an employer eligible for or a recipient of the federal Work Opportunity Tax Credit under IRC section 51 (WOTC) be a "qualified employee?"
- How and in what circumstances would the limitation on the hiring credit apply when a taxpayer relocates from one EZ to another EZ? If it is the author's intention that the limitation would apply only to relocations from a location within the state that is outside an EZ to a location that is within an EZ, this bill should be amended.
- Because the basis for determining the limitation on the credit (number of employees in excess of a specified amount) and the basis for calculating the amount of the credit (percentage of a specified employee's wages) are inconsistent, how would the credit be calculated under the proposed limitation? For example, if a taxpayer exceeded employment at the previous location by 10, would the wages paid to the most recently hired 10 employees be used to calculate the credit? The 10 employees with the highest wage?
- Would the limitation on the hiring credit apply for a limited period subsequent to a taxpayer's relocation, or would the limitation apply in perpetuity?
- How, when, and to whom would the information required to be "established by the EDD" be reported?
- Why would individuals that are participating in or eligible for services in specified federal and state programs be eliminated as "qualified employees" for purposes of the MEA and TTA hiring credit?
- Could the business registration process this bill would require as a pre-condition of claiming certain tax incentives be instituted in time for businesses to register prior to the filing period for 2011 tax returns?

TECHNICAL CONSIDERATIONS

The changes made to the hiring credit would be applicable to taxable years beginning on and after January 1, 2011. Because the hiring credit is based on wages paid to a qualified individual and an individual could begin employment at any time throughout a taxable year, it is recommended that this bill be amended to apply to qualified employees that first commence employment on or after January 1, 2011.

Several exceptions to the limit on the EZ hiring credit for taxpayers that relocate to an EZ refer to “taxpayers” when the correct reference is “employees.” This bill should be amended to correct these references.

Subclause (I) was inadvertently omitted on page 67, line 22, and should be inserted after the clause number.

The language that would limit the net interest deduction for taxable years beginning in 2011 and 2012, as specified, inadvertently eliminated language that allowed the net interest deduction prior to taxable year 2011 and should be corrected.

The operative date language in subdivision (e) of the R&TC sections 17235 (page 81, lines 29 through 31 inclusive) and 24384.5 (page 139, lines 31 through 33 inclusive) is redundant and should be eliminated.

The language that would allow unused EZ and LAMBRA NOLs to be carried over after the provisions have been repealed is unnecessary because existing state law provides this general rule.

It is recommended that the term “act” be replaced with specific cross reference where applicable, in the phrase, “act adding this subdivision.”

LEGISLATIVE HISTORY

AB 232 (Perez, 2011/2012) would have, among other things, required state entities to: (1) affirmatively support their statutory responsibilities under the Enterprise Zone Act and, within their statutory responsibility, to respond to requests made by and on the behalf of an EZ, and (2) consider how the G-TEDA programs could be integrated into workforce development and training plans and strategies in order to maximize the benefits to workers and businesses. These requirements are identical to provisions of this bill. AB 232 failed to pass out of the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 1278 (Hill, 2011/2012) would have limited the G-TEDA hiring credit available to taxpayers that relocate from within the state to a G-TEDA during a taxable year beginning on or after January 1, 2011. AB 231 would apply a similar limitation to a taxpayer that relocated within the state to a G-TEDA. AB 1278 failed to pass out of the Assembly Committee on Jobs, Economic Development, and the Economy.

AB 1411 (Perez & Alejo, et al., 2011/2012) would have, among other things, limited the size of a proposed EZ when the proposed EZ’s boundaries would overlap the boundaries of a previously designated EZ. AB 1411 failed to pass out of the Senate Appropriations Committee.

ABX1 11 (Perez & Alejo, et al., 2011/2012) would have modified the definition of a TEA and the process for obtaining and retaining the TEA designation and would have modified the EZ hiring credit. The provisions of ABX1 11 are similar to provisions included in AB 231. ABX1 11 died at the desk upon adjournment of the First Extraordinary Session of 2011.

SB 301 (DeSaulnier, 2011/2012) would have placed a size limit on proposed EZs in certain circumstances. The limitation provision in SB 301 is similar to the limitation provision in this bill. SB 301 failed to pass out of the Assembly Committee on Jobs, Economic Development, and the Economy.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota,* and *New York.* These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Florida allows several incentive provisions to encourage businesses in the revitalization of enterprise zones. The Florida Enterprise Zone Act and various tax incentive provisions are set to expire on December 31, 2015.

Illinois has 95 enterprise zones, *Massachusetts* has an Economic Development Incentive Program, *Michigan* has in excess of 150 geographic areas designated as Renaissance Zones, and *Minnesota* has 5 zone-based tax incentive programs, and *New York* has 72 Empire Zones.

New York's Empire Zone program sunsets as of June 30, 2010. Businesses certified in the program prior to the sunset date remain in the program, and continue to be eligible for all the Empire Zone benefits, for the rest of their benefit period as long as they remain in compliance with the law and Empire Zone regulations.

FISCAL IMPACT

The department's costs to administer this bill cannot be determined until implementation concerns have been resolved but are anticipated to be significant. Fiscal impact will be developed as the bill moves through the legislative process.

ECONOMIC IMPACT

Estimated Revenue Impact of AB 231 Effective for Taxable Years Beginning On or After January 1, 2011 Enactment Assumed On or After June 30, 2011 ($ in Millions)			
2010-11	2011-12	2012-13	2013-14
+$90	+$180	+$23	-$90

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

LEGAL IMPACT

Federal law prohibits discriminatory state taxation of interest on federal securities. This bill would modify the deduction related to interest received by lenders that loan money to taxpayers engaged in a trade or business in an EZ. This incentive, which provides a subsidy to non-federal securities, could be considered a violation of the federal law prohibiting discriminatory state taxation of interest on federal securities.

SUPPORT/OPPOSITION

Support: None provided to the FTB.

Opposition: None provided to the FTB.

ARGUMENTS

Pro: Proponents could argue that improved targeting of the existing G-TEDA tax incentives would serve as a catalyst to needed job growth and economic development in the state.

Con: Opponents could argue that reforming the existing G-TEDA programs fails to correct structural defects that limit the programs' value to the state.

LEGISLATIVE STAFF CONTACT

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Attachment A
AB 231
As Amended June 7, 2011

Sales or Use Tax Credit

The sales or use tax credit is allowed for an amount equal to the sales or use taxes paid on the purchase of qualified machinery purchased for exclusive use in an economic development area (except a Manufacturing Enhancement Area). The amount of the credit is limited to the tax attributable to economic development area income. Qualified property is defined as follows:

Enterprise Zone or TTA:

- Machinery and machinery parts used for:
  - Manufacturing, processing, assembling, or fabricating;
  - Producing renewable energy resources; or
  - Air or water pollution control mechanisms.
- Data processing and communication equipment.
- Certain motion picture manufacturing equipment.

LAMBRA:

- High-technology equipment (e.g., computers);
- Aircraft maintenance equipment;
- Aircraft components; or
- Certain depreciable property.

In addition, qualified property must be purchased and placed in service before the economic development area designation expires. The maximum value of property that may be eligible for the enterprise zone, LAMBRA, and TTA sales or use tax credit is $1 million for individuals and $20 million for corporations.

Hiring Credit

A business located in an economic development area may reduce tax by a percentage of wages paid to qualified employees. A qualified employee must be hired after the area is designated as an economic development area and meet certain other criteria. At least 90 percent of the qualified employee's work must be directly related to a trade or business located in the economic development area and at least 50 percent must be performed inside the economic development area. The business may claim up to 50 percent of the wages paid to a qualified employee as a credit against tax imposed on economic development area income.

The credit is based on the lesser of the actual hourly wage paid or 150 percent of the current minimum hourly wage (under special circumstances for the Long Beach enterprise zone, the maximum is 202 percent of the minimum wage). The amount of the credit must be reduced by any other federal or state jobs tax credits, and the taxpayer's deduction for ordinary and necessary trade or business expenses must be reduced by the amount of the hiring credit. Certain criteria regarding who may be qualified employees and certain limitations differ between the various economic development areas.

Business Expense Deduction

A business located in an economic development area (except an MEA) may elect to deduct as a business expense a specified amount of the cost of qualified property purchased for exclusive use in the economic development area. The deduction is allowed in the taxable year in which the taxpayer places the qualified property in service. For LAMBRA businesses, the amount of the deduction is added back to the taxpayer's income if at the close of the second year the taxpayer does not have a net increase of one or more jobs (defined as 2,000 paid hours per employee per year). The property's basis must be reduced by the amount of the deduction. For enterprise zones, LAMBRAs, and the TTA the maximum deduction for all qualified property is the lesser of 40 percent of the cost or the following:

If the property was placed in service:

Months After Designation	Maximum Deduction
0 to 24	$40,000
25 to 48	$30,000
49 and over	$20,000

Net Operating Loss Deduction

A business located in an economic development area may elect to carry over 100 percent of the economic development area net operating losses (NOLs) to deduct from economic development area income of future years. The election must be made on the original return for the year of the loss. The NOL carryover is determined by computing the business loss that results from business activity in the economic development area.

Net Interest Deduction

A deduction from income is allowed for the amount of net interest earned on loans made to a trade or business located in an enterprise zone. Net interest is defined as the full amount of the interest less any direct expenses (e.g., commission paid) incurred in making the loan. The loan must be used solely for business activities within the enterprise zone, and the lender may not have equity or other ownership interest in the enterprise zone trade or business. This incentive is not available for LAMBRAs, the TTA, or MEAs.

Enterprise Zone Employee Wage Credit

Certain disadvantaged individuals are allowed a credit for wages received from an enterprise zone business. Public employees are not eligible for the credit. The amount of the credit is 5 percent of "qualified wages," defined as wages subject to federal unemployment insurance. For each dollar of income received by the taxpayer in excess of qualified wages, the credit is reduced by nine cents. The credit is not refundable and cannot be carried forward. The amount of the credit is limited to the amount of tax that would be imposed on income from employment in the enterprise zone, computed as though that income represented the taxpayer's entire taxable income. This incentive is not available for LAMBRAs, the TTA, or MEAs.

Apportioning

For businesses operating inside and outside an economic development area, the amount of credit that may be claimed is limited by the amount of tax on income attributable to the economic development area. Income is first apportioned to California using the same formula as that used by all businesses that operate inside and outside the state (property, payroll, a double-weighted sales factor for taxable years beginning on or after January 1, 2011, certain corporations may elect to use a single factor, 100 percent sales apportionment formula). This income is further apportioned to the economic development area using a two-factor formula based on the property and payroll of the business.