Main Street Small Business Tax Credit II Report

Economic and Statistical Research Bureau
Main Street Small Business Tax Credit II Report

This report is intended to fulfill the Franchise Tax Board’s obligation under Assembly Bill 150 (Chapter 82, Statutes of 2021) which added Revenue & Taxation Code (RTC) sections 6902.9, 17053.71, and 23628, and included language that the Franchise Tax Board shall report by January 1, 2024, to the Legislature the total number of tentative credit applications received by the California Department of Tax and Fee Administration, the net increase in qualified employees represented on those applications, and the average amount of credit on returns claiming the credit under Personal Income Tax Law and Corporation Tax Law.

Prepared by the Staff of the Franchise Tax Board
STATE OF CALIFORNIA

Members of the Board:
Malia M. Cohen, Chair
Antonio Vazquez, Member
Joe Stephenshaw, Member

Executive Officer: Selvi Stanislaus

Published October 2023
Background

Chapter 82 of the Statutes of 2021 (AB 150) created the California Main Street Small Business Tax Credit II (Main Street II). This credit was then modified by Chapter 55 of the Statutes of 2022 (AB 194). The Main Street II credit was similar to the California Main Street Small Business Tax Credit I (Main Street I) that was available for the 2020 taxable year (Chapter 41, Statutes of 2020, AB 1447).

The Main Street II may be claimed under Personal Income Tax Law (PITL) or Corporation Tax Law (CTL) for the 2021 taxable year. Alternatively, taxpayers can elect to use the credit under the Sales and Use Tax Law. Should the taxpayer have excess credits after filing their 2021 tax return, those credits may be carried over for the next five years. To receive the Main Street II credit the qualified small business employer was required to submit a timely application for a tentative credit reservation to the California Department of Tax and Fee Administration (CDTFA) between November 1, 2021, and November 30, 2021. When the qualified small business employer submitted their tentative credit application, they were required to include their net increase in qualified employees and indicate whether they would apply the credit under PITL or CTL, or both or the whether the taxpayer made an irrevocable election to apply the credit against sales and use tax.

The qualified small business employer would then receive a tentative credit reservation, in an amount equal to $1,000 times the net increase in the number of qualified employees, not to exceed $150,000 per qualified employer. If the qualified employer received an allocation for Main Street I, the tentative reservation amount for Main Street II would be reduced by the amount allocated under the Main Street I, as specified.

If the taxpayer was an S-corporation, the tentative credit amount requested to be used under PITL or CTL could exceed $1,000 because an S-corporation can use one-third of the credit to offset the S-corporation’s tax liability and their owners can use 100-percent of the credit to offset their personal income tax liability. However, if the S-corporation elects to use the credit to offset sales and use tax, it is only allowed to utilize one-third of the credit to offset sales and use tax. For example, if an S-corporation received a credit for an increase in employment of one full-time equivalent employee, they would be allocated $1,333 for income tax purposes or $333 for sales and use tax purposes.

To calculate the net increase in employees, taxpayers needed to compare their average monthly full-time equivalent employees for the three-month period beginning April 1, 2021, and ending June 30, 2021, with the average monthly full-time equivalent employees for the twelve-month period beginning July 1, 2020, and ending June 30, 2021.
For an employer to qualify for the credit, the qualified small business employer must meet two requirements.

- They must have employed 500 or fewer employees as of December 31, 2020, whose wages are subject to California withholding laws.
- They must have experienced a 20-percent decrease in gross receipts when comparing the period beginning on January 1, 2020, and ending on December 31, 2020, with the period beginning on January 1, 2019, and ending on December 31, 2019, or as specified for a fiscal year filer.

**Franchise Tax Board Statutory Reporting Requirements**

In accordance with RTC section 41, the Franchise Tax Board (FTB) and CDTFA are each required to provide a report to the Legislature on their respective credits, no later than January 1, 2024, which includes:

- The number of applications received for tentative credit reservation;
- The net increase in number of qualified employees represented on applications for tentative credit reservation; and
- The average credit amount by the reporting department.

**Data**

Table 1 shows the number of applications received by the CDTFA for tentative credit reservations and the net increase in number of qualified employees represented on applications by election type.

<table>
<thead>
<tr>
<th>Election Type</th>
<th>Number of Applications</th>
<th>Reservation Amount</th>
<th>Net Increase in Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax</td>
<td>1,975</td>
<td>$8,014,159</td>
<td>9,187</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>2,955</td>
<td>$13,443,872</td>
<td>17,565</td>
</tr>
<tr>
<td>Total</td>
<td>4,930</td>
<td>$21,458,031</td>
<td>26,752</td>
</tr>
</tbody>
</table>

*Data provided by the CDTFA.

The reservations against Income Tax for 9,187 qualified employees would normally generate $9.2 million in credit reservations. This number was reduced by $2.4 million for amounts allocated under the Main Street I credit and increased by $1.2 million for S-corporations that can use 1/3 of the credit at the entity level in addition to the full credit amount at the pass-through level, producing the $8.0 million in Income Tax reservations reported in the table. Because of the Main Street I credit offsets and the S-corporations reduction, Sales Tax reservations were $4 million lower than the amount which would have been determined based on the net increase in qualified employees.
Table 2 shows, of the $8 million in Main Street II reserved for income tax purposes, approximately $2.1 million has been claimed on taxable year 2021 returns filed through October of 2023. Table 2 includes the total number and amount of credits allowed under PITL and CTL and the average amount of credit allowed. An evaluation of the amounts reported in tables 1 and 2, indicates that approximately 27-percent of the income tax allocations were utilized.

Table 2: 2021 Main Street Small Business Credit II Totals Allowed by the Franchise Tax Board

<table>
<thead>
<tr>
<th>Election Type</th>
<th>Count Allowed</th>
<th>Credit Amount Allowed</th>
<th>Average Credit Amount Allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax</td>
<td>626</td>
<td>$1,876,049</td>
<td>$2,997</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>151</td>
<td>$257,141</td>
<td>$1,703</td>
</tr>
<tr>
<td>Total</td>
<td>777</td>
<td>$2,133,190</td>
<td>$2,745</td>
</tr>
</tbody>
</table>

For more information, see 2021 Main Street II Small Business Tax Credit II | Credits | FTB.ca.gov

Main Street I Update

As mentioned above, the Main Street II credit is a similar credit to the Main Street I credit. In 2022, the FTB and CDTFA produced comparable one-time reports on Main Street I credit usage for the 2020 taxable year. AB 194 (Chapter 55 of the Statutes of 2022) amended Main Street I to allow taxpayers to claim the credit on an amended return, thereby allowing taxpayers who failed to include the credit form with their 2020 tax return the opportunity to amend that return and claim carryover credits.

Table 3 includes the total number and amount of tax year 2021 credits allowed under PITL and CTL and the average amount of credit allowed for Main Street I.

Table 3: 2021 Main Street Small Business Credit I Totals Allowed by the Franchise Tax Board

<table>
<thead>
<tr>
<th>Election Type</th>
<th>Count Allowed</th>
<th>Credit Amount Allowed</th>
<th>Average Credit Amount Allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax</td>
<td>593</td>
<td>$1,686,377</td>
<td>$2,844</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>245</td>
<td>$341,624</td>
<td>$1,394</td>
</tr>
<tr>
<td>Total</td>
<td>838</td>
<td>$2,028,001</td>
<td>$2,420</td>
</tr>
</tbody>
</table>

Of the $38 million in credit reserved for income tax purposes in taxable year 2020, an additional $2 million was claimed on taxable year 2021 returns filed through October of 2023. This results in approximately $5.6 million in Main Street I credits being allowed on income and franchise tax returns since the programs began.
To review the Main Street I Tax Credit report, see [2020 Main Street I Report](https://www.ftb.ca.gov).

For more information, see [2020 Main Street I Small Business Tax Credit | Credits | FTB.ca.gov](https://www.ftb.ca.gov).