



STATE OF CALIFORNIA
Franchise Tax Board

Main Street Small Business Tax Credit Report

Economic and Statistical Research Bureau

Main Street Small Business Tax Credit Report

This report is intended to fulfill the Franchise Tax Board's obligation under Senate Bill 1447 (Chapter 41, Statutes of 2020) which added Revenue & Taxation Code sections 6902.7, 6902.8, 17053.72, and 23627 and included language that the Franchise Tax Board shall report by April 1, 2022, 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 allowed 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

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Background

Chapter 41 of the Statutes of 2020 (SB 1447) created the California Main Street Small Business Tax Credit. This credit may be claimed under Personal Income Tax Law (PITL) or Corporation Tax Law (CTL) for the 2020 taxable year. Alternatively, taxpayers can elect to use it under the Sales and Use Tax Law. 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 December 1, 2020, and January 15, 2021.

When the qualified small business employer submitted their tentative credit application, their application included their net increase in qualified employees and indicated whether they would apply the credit under PITL or CTL, or both. The taxpayer could also make an irrevocable election to apply the credit against sales and use tax.

The qualified small business employer then received a tentative credit reservation, in an amount equal to \$1,000 times the net increase in qualified employees, not to exceed \$100,000 per qualified employer. The amount of credit generated by an S-corporation can exceed \$1,000 because they 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, this is not the case if the S-corporation elects to use the credit to offset sales and use tax. In this case the S-corporation would receive less than \$1,000 as 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.

The net increase in employees is calculated by comparing the taxpayer's average number of employees for the three-month period beginning April 1, 2020, and ending June 30, 2020, with the average number of employees for the five month period beginning July 1, 2020, ending on November 30, 2020. The amount of credit available for the California Main Street Small Business Tax Credit program was capped at \$100,000,000.

For an employer to qualify for the credit, the qualified small business employer must meet two requirements.

- They must have employed 100 or fewer employees as of December 31, 2019.
- They must have experienced a 50-percent decrease in gross receipts when comparing the three-month period beginning on April 1, 2019, and ending June 30, 2019, with the three-month period beginning on April 1, 2020, and ending June 30, 2020.

Franchise Tax Board Statutory Reporting Requirements

In accordance with Section 41 of the Revenue and Taxation Code, The Franchise Tax Board (FTB) and CDTFA are each required to provide a report to the Legislature, no later than April 1, 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 allowed 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 1: 2020 Main Street Small Business Credit I Reservations*

Election Type	Number of Applications	Reservation Amount	Net Increase in Employees
Income Tax	6,319	\$37,695,867	31,942
Sales Tax	3,169	\$15,538,018	20,236
Total	9,488	\$53,233,885	52,178

*Data provided by the CDTFA.

Of the \$37 million in credit reserved for income tax purposes, approximately \$3.6 million had been claimed through March of 2022. Additional research into reservation recipients, found that many taxpayers who received the required reservation for the [Main Street Small Business Hiring Credit](#) did not claim the credit on a timely-filed original tax return, as required under the law. As a result, these taxpayers will be unable claim the credit on an amended return or a subsequent year return.

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 10-percent of the income tax allocations were utilized in its first year.

Table 2: 2020 Main Street Small Business Credit Totals Allowed by the Franchise Tax Board

Election Type	Count Allowed	Credit Amount Allowed	Average Credit Amount Allowed
Personal Income Tax	1,204	\$3,286,813	\$2,730
Corporation Tax	294	\$352,814	\$1,200
Total	1,498	\$3,639,627	\$2,430