chair John Chiang
member Jerome E. Horton
member Ana J. Matosantos

State of California
Franchise Tax Board

Memorandum

Pursuant to Government Code Sections 7085 and 7085.5 please note the following information and attachments:

- Zone tax incentive usage for tax years 1986 through 2010. Please note that the chart summarizing the various tax incentives by year represents the amounts allowed (self-assessed, pre-audit) as income and tax reductions on returns filed pursuant to the Corporation Tax law. Returns filed pursuant to the Personal Income Tax (PIT) law contain insufficient information to allow reporting of the income reducing incentives. The tax reducing hiring, sales, and use tax special credits for the various PIT programs amounted to:

  Enterprise Zones - $283,744,844 reported on 29,174 returns;

  LARZ – $2,015,728 reported on 150 returns;

  LAMBRA - $511,264 reported on 68 returns;

  Targeted Tax Area - $4,861,344 on 188 returns; and

  Manufacturing Enhancement Area - $62,173 on 6 returns.

- The number of jobs for which enterprise zone hiring credits were claimed was reported to be 140,833.
- The number of new employees for which enterprise zone hiring credits were claimed was reported to be 53,541
- The geographic distribution of tax incentives used for the 2010 tax year. Taxpayers that applied incentives earned for activities conducted in more than one zone were placed in the "Multiple Location" category. Please note that records furnished to FTB for Enterprise Zone tax incentives were not sufficient to make a determination of location associated with tax credits in 4 percent of the cases. It is not known if the missing data are proportionally distributable across identified zones. In combination, multiple and unknown zones accounted for 18 percent of credits used and 28 percent of net interest deductions, which results in understatement of incentives attributed to specific zones.
- Zone incentive usage distributed by major industrial sector
- Zone incentive usage distributed by size of taxpayer as defined by end of year assets
- Zone incentive usage distributed by size of taxpayer as defined by amount of gross receipts
- Tax credit usage by year and tax program

In deriving the tax effect of the deduction provisions, it is assumed that business expense deduction is removed first from income, net interest deduction is then removed from remaining income, and net operating loss is removed last. Tax effect is computed as the difference in tax that would occur after adding back, sequentially, in reverse order, deductions reported.