



chair **John Chiang**
member **Betty T. Yee**
member **Ana J. Matosantos**

State of California
Franchise Tax Board

02.01.10

Andrew Myrick
Salinas Valley Enterprise Zone
65 W Alisal St, 2nd Floor
Salinas, CA 93901-2639

Dear Mr. Myrick,

Thank you for your proposal submitted for the Taxpayers' Bill of Rights Hearing held on December 3, 2009. I am responding to your proposal to modify the 540 2EZ to allow individuals to claim the Enterprise Zone Employee Tax Credit.

The Enterprise Zone Employee Credit is calculated by multiplying the first \$10,500 of qualified wages by 5 percent. However, the credit is reduced by \$.09 for each dollar of adjusted gross income (AGI) above \$10,500. The credit is completely phased out once the taxpayer's adjusted gross income (AGI) reaches \$16,334. Also, the credit is nonrefundable and there is no carryover provision. When staff reviewed the credit, we found that few taxpayers can actually benefit from the credit since a full-time employee earning the minimum wage of \$8.00 would have earnings of approximately \$16,600, which exceeds the AGI phase-out, thus resulting in no credit.

For part-time employees with AGI below the phase-out amount, there is limited opportunity for the credit. Using 2008 tax year numbers, single taxpayers claiming the standard deduction and personal exemption credit, with no dependents, would not owe any tax liability unless AGI exceeds \$12,242. For AGI between \$12,242 and \$16,334, tax liability ranges from \$1 to \$81. However, due to the phase-out range, the allowable enterprise zone credit ranges from \$1 to \$67. The allowable credit is limited to the lesser of the credit or tax. For example, the allowable credit is \$15 with AGI of \$13,000, \$35 with AGI of \$14,000, \$55 with AGI of \$15,000, and \$30 with AGI of \$16,000. The highest amount of credit is \$67 with AGI between \$15,550 and \$15,600. Furthermore, if the taxpayer is eligible for the \$60 renter's credit, their tax is eliminated in most cases without use of the credit. Also, if the taxpayer has one or more dependents, their tax is eliminated without use of this credit. Finally, to claim the Enterprise Zone Employee Tax Credit, the taxpayer must also complete and file Form 3553 with the taxpayer's return.

Because of the very low percentage of taxpayers that are actually able to claim this credit, the Enterprise Zone Employee Tax credit is only available on the Form 540. We do not recommend adding this rarely utilized credit on the Form 540 2EZ.

Sincerely,

Steve Sims, EA
Taxpayers' Rights Advocate

cc: Hon. John Chiang, Chair
Hon. Betty T. Yee, Member
Hon. Ana J. Matosantos, Member