

California – Revised budget proposes job creation and economic development changes

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In brief

California Governor Jerry Brown's May Revision to the 2013-2014 state budget includes proposals that would modify the state's hiring credit, create a statewide sales tax exemption on purchases of certain machinery and equipment, and create a fund for businesses that create or retain certain jobs.

[\[Governor's Budget May Revision 2013-14\]](#)

In detail

Governor Brown introduced proposed changes to the state's enterprise zone program in his initial January budget. [Click here](#) for our summary of the proposals, including the requirement that applications to document eligibility of new hires for the enterprise zone credit would have to be submitted within one year of the date of hire. Applications made within the California tax return's normal four year open statute would no longer be granted (referred to as 'retroactive vouchering'). Most of the governor's suggested changes were introduced as [draft regulations](#), which remain under review. [Click here](#) for our summary of a public hearing relating to the draft regulations.

The governor's May Revision to the state budget contains

provisions to revamp existing investment and employment incentives to "encourage manufacturing investment and increase employment in high poverty areas across the state." The revised budget proposes to be revenue neutral and seeks to strengthen the state's hiring credit and enterprise zone programs to "bolster California's business environment and reintegrate people into the workforce."

Refocus the hiring credit to impoverished areas

Under the revised budget, the hiring credit would be refocused to specific areas with high unemployment and poverty areas. The credit would be available for the hiring of long-term unemployed workers, unemployed veterans, and people receiving public assistance.

Statewide sales tax exemption for manufacturing or biotech R&D equipment purchases

Current law provides that manufacturers pay sales tax on the purchase of manufacturing equipment. Businesses located in an enterprise zone, however, are exempt from such tax limited to \$20 million of qualified property purchases. The revised budget would expand the enterprise zone sales tax program to a statewide, upfront sales tax exemption for manufacturing or biotech research and development equipment purchases. A qualified business would be allowed to exclude the first \$200 million of equipment purchases from the state share of sales tax (4.25%) following approval by the Board of Equalization.

Creation of recruitment and retention fund

The revised budget proposes the creation of the California Competes Recruitment and Retention Fund, administered by the Governor's Office of Business and Economic Development (Go-Biz). Go-Biz would negotiate agreements to provide businesses tax credits in exchange for investments in California employment expansion. A portion of this fund would be made available to small businesses.

The takeaway

It is not clear at this point how the Revised Budget will impact the existing enterprise zone program or

the proposed regulation that is being pursued.

While specifics of the changes are not detailed in the Revised Budget, the proposal to refocus the hiring credit to certain impoverished areas appears to be motivated by concerns with the program as stated in the revised budget and concerns raised in the draft regulation public hearings. For example, the budget states that the New Jobs Hiring Credit created in 2009 "has not been effective at stimulating job growth." Additionally, the enterprise zone program "fails to encourage the creation of new jobs and instead rewards moving jobs from one place to another within the state."

The proposed changes appear to advance the following purposes:

- Encourage employers to do business in the state's poorest areas.
- Encourage employers to hire individuals who are less employable than others, such as long-term unemployed, unemployed veterans, public assistance recipients, and severely low-income persons.
- Provide incentives to businesses that locate or expand within California.

We will continue to monitor the governor's budget proposals and report on any significant progress.

Let's talk

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