California Competes Tax Credit Workshop

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Introduction

- Welcome
- Governor’s Economic Development Initiative
- California Competes Tax Credit Statute
- Draft Regulations
- Questions/Feedback
Governor's Economic Development Initiative

- Hiring Tax Credit
  - Starts January 1, 2014
  - Franchise Tax Board to administer

- Sales Tax Exemption
  - Starts July 1, 2014
  - Board of Equalization to administer

- California Competes Tax Credit
  - Anticipated start March/April 2014
  - GO-Biz to administer
California Competes Tax Credit Statute

- Negotiated tax credit
- Credit amount based on 11 factors:
  - Number of jobs created or retained
  - Compensation paid to employees
  - Amount of investment
  - Extent of unemployment or poverty in business area
  - Other incentives available in California
  - Incentives available in other states
  - Duration of proposed project and duration of commitment to remain in this state
  - Overall economic impact
  - Strategic importance to the state, region, or locality
  - Opportunity for future growth and expansion
  - Extent the benefit to the state exceeds the amount of the tax credit
California Competes Tax Credit Statute

- Tentative amount of credits available:
  - $30 million in fiscal year 2013/14
  - $150 million in fiscal year 2014/15

- No more than 20% may go to any one applicant per fiscal year

- 25% of total amount each fiscal year reserved for small businesses
California Competes Tax Credit Statute

- Negotiated written agreements between GO-Biz and the applicant for the credit. Terms and conditions of the agreements to include:
  - Minimum employee compensation and retention period
  - Credit distribution period
  - Recapture provisions if applicant fails to meet commitments
- Credit agreements must be approved by California Competes Tax Credit Committee
- Committee members- State Treasurer, Director of the Department of Finance, two legislative appointees, and the Director of GO-Biz
California Competes Tax Credit Workflow

**Phase One Evaluation**
- Submit online application
- Notified (do not pursue application process)
- Calculation using mathematical formula: amount of credit requested divided by the sum of the applicant's proposed investments and compensation paid to new full-time employees.

**Phase Two Evaluation**
- Top ranking apps with aggregate credit requested reaching at least 300% of the credit amount available will move to phase 2 (informal on website).
- A total of 500% of credit requested will move to phase 2.

**Evaluation Phase**
- Opportunity for future growth
- Extent of unemployment and poverty in business location
- Strategic importance
- Range benefits

**Negotiation Phase**
- 10 days before vote of credit agreement
- Executed credit agreements reviewed and voted by 9 member CA Competes Committees.

**Award Phase**
- Award information and results will be posted on the GO-Biz website.
Application Phase

- Director sets the application period each fiscal year

- On-line application submission
  (www.business.ca.gov)

- Automated Phase One Ranking

- Rolling application process versus expiration
Evaluation Phase One

- Two-phase application evaluation process

- The first phase is an automated process where quantifiable information from the application (job creation, investment, and amount of credit requested) is calculated and compared against other applications received during each application period.

- Applications with the most advantageous cost-benefit ratio to the state will move into the second phase.
Evaluation Phase One

Examples

Company A

Requests a tax credit of $1 million and commits to creating 500 jobs with an average annual salary of $50,000, and making an investment of $2 million in purchases of new manufacturing machinery. The cost-benefit ratio of this application would be 0.0370 ($1 million credit request divided by the sum of 500 jobs * $50,000 salary + $2 million investment).

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\frac{\$1 \text{ million}}{(500 \times \$50K) + \$2 \text{ million}} = 0.0370
\]

Company B

Requests a tax credit of $100,000 and commits to creating 10 jobs with an average salary of $40,000 and making an investment of $1 million in new equipment purchases. The cost-benefit ratio of this application would be 0.0714 ($100,000 in credit requested divided by the sum of 10 jobs * $40,000 salary + $1 million in investment).

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\frac{\$100,000}{(10 \times \$40K) + \$1 \text{ million}} = 0.0714
\]
Evaluation Phase Two

- Evaluation factors
  - Job retention
  - Opportunity for future growth
  - Economic impact in California
  - Incentives available in/out of state
  - Fringe benefits paid to employees
  - Strategic importance
  - Unemployment/Poverty in business area
Negotiation and Award Phase

- GO-Biz and applicant will negotiate terms of the contract
- GO-Biz will recommend fully executed contracts for Committee approval
- Contract will be made public prior to the Committee meeting
- Committee will either approve or reject the terms
- Award information will be posted on GO-Biz’s website upon approval by the Committee
Additional questions or feedback:
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