



What are the Benefits of an Enterprise Zone:

- Hiring Tax Credit – *currently up to \$37,440 each qualifying employee!*
- Sales & Use Tax Credit
- Business Expense Deduction
- Net Operating Loss Carryover
- Net Interest Deduction for Lenders

The Hiring Credit

Amount of credit – is based on a percentage of the employees' wages over a 5-year period. 50% of an employee's wages may be claimed as a credit in the first year of employment, 40% in yr. 2, 30% in yr 3, 20% in yr 4, and 10% in year 5. The credit calculation limits the wage rate to the lesser of the actual hourly wage paid or 150% of the minimum hourly wage.

Overtime hours can also be used to generate credits.

Hiring Credit Example: An employee hired 1/1/08 works 2080 hrs/yr. Wages paid at a rate over 150% of minimum wage would generate the following credit amounts over the 5-year period:

<u>Yr. Of Emplmt.</u>	<u>Hours Worked</u>	<u>150% Min. Wage</u>	<u>Credit Rate</u>	<u>Tax Credit</u>
1	2080	12.00	50%	\$ 12,480
2	2080	12.00	40%	\$ 9,984
3	2080	12.00	30%	\$ 7,488
4	2080	12.00	20%	\$ 4,992
5	2080	12.00	10%	\$ 2,496
Total 5-year Credit				<u>\$ 37,440</u>



The Hiring Credit - Continued

Qualified employees - Employers conducting a trade or business inside an Enterprise Zone may claim the hiring credit for wages paid to a *qualified* employee who, immediately preceding employment was:

1. Receive subsidized employment, training or services under the terms of the Federal Workforce Investment Act
2. A member of a targeted group as defined in the federal Work Opportunity Tax Credit (WOTC).
3. An economically disadvantaged individual 14 years of age or older.
4. A qualified *dislocated* worker.
5. A disabled individual, enrolled in or who completed a state rehabilitation plan.
6. A veteran who is: a veteran of the Vietnam Era, a service connected disabled veteran, or a veteran who recently separated from military service.
7. An ex-offender.
8. A person receiving various forms of public assistance such as: SSI, AFDC, Food Stamps or State and local public assistance.
9. A Native American, Samoan or Hawaiian
10. A resident of a *Targeted Employment Area* (TEA)

Application of Credits - The tax credit is used to directly offset state income tax subject to certain limitations. The credits cannot offset AMT. Any excess unused credits may be carried forward to offset taxes in future years. (Consult your Tax Professional, CPA)

Apportionment of Credits – Total Assets & Payroll in Zone vs Out of Zone



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Sales & Use Tax Credit

Employers conducting a trade or business inside an Enterprise Zone may claim a credit for the sales or used tax paid or incurred on the purchase of certain qualified machinery or equipment.

- Qualified machinery must be used to:
 - Manufacture, process, combine, or otherwise fabricate a product,
 - Produce renewable energy resources, or
 - Control air or water pollution
 - Qualified machinery also includes data handling or communications equipment (computers, telephones, faxes, etc.)

Business Expense Deduction

Businesses conducting a trade or business within an Enterprise zone may elect to treat 40% of the cost of qualified property as a business expense in the first year it is placed in service.

- The definition of “qualified property” includes, but is not limited to, tangible personal property (excludes buildings) acquired by purchase for exclusive use within a zone.
- The amount of the deduction is limited:
 - 1st and 2nd year \$40,000 (\$100,000 @ 40%)
 - 3rd and 4th year \$30,000 (\$75,000 @ 40%)
 - Thereafter \$20,000 (\$50,000 @ 40%)

Net Operating Loss Carryover

100% (compared to the other rules) of NOLs of individuals or corporations doing business in an enterprise zone may be carried over to future years to reduce the amount of taxable income derived within the zone or area.

Net Interest Deduction for Lenders

A deduction from income is allowed for the amount of “net interest” received from loans made to a trade or business located in an Enterprise Zone. The lender is not required to be located within the zone.