

# BUSINESS INCENTIVES PRACTICE

## MAJOR INCENTIVE PROGRAMS CALIFORNIA

A Cushman & Wakefield Global Business Consulting Publication



2015

### BUSINESS INCENTIVES PRACTICE

The Business Incentives Practice (“BIP”) strategically assists companies through the process of securing optimal incentive packages for projects considering an expansion, consolidation, or relocation. BIP leverages a project’s unique strengths and benefits to identify, negotiate, and implement all feasible economic development or government incentives (“Incentives”) opportunities. Moreover, BIP provides ongoing support and administration for a project to address any issues that may arise. By engaging BIP to work in parallel to the site selection team, businesses can have assurance that the optimal level of Incentives is secured and realized.

#### SERVICES

BIP’s mission is to develop a strategy that enhances business performance, while reducing a project’s up-front capital and ongoing operational costs through the procurement of Incentives. Many businesses are not aware they may be entitled to Incentives benefits for certain expansion, consolidation, and relocation activities. BIP identifies said opportunities through a multifaceted methodology that begins with careful analysis of project-specific data. The process continues with a detailed due diligence on all aspects of site-specific Incentives opportunities and concludes with the negotiation, implementation, and administration of Incentives.

#### RESULTS

BIP has successfully secured Incentives packages for a broad range of clients globally. The BIP team maintains a robust incentives database and along with its vast experience it facilitates the best possible results for a project. Since its inception, BIP professionals have negotiated in excess of \$3.0 billion in savings for its clients.



### KEY PROJECT TYPES

BIP enables its clients to identify, negotiate, and quantify the myriad of incentives available through the federal, state, and municipal governments, as well as utilities service providers. BIP clients represent all industry sectors, ranging in size from Fortune 100 corporations to private owners, occupiers and developers. Almost any type of corporate location initiative can benefit from the use of C&W’s Business Incentives Practice:

- Corporate Headquarters Facilities
- Manufacturing Facilities
- R&D Centers
- Warehouse and Distribution Facilities
- Call Centers
- Data Centers
- Back-Office Centers
- Mixed-Use Developments

### CALIFORNIA’S RECENTLY AWARDED INCENTIVES (USD M)

COMPANY	INVESTMENT	JOBS	INCENTIVES
Control Air Conditioning	\$1.5	209	\$0.5
FLIR Commercial Systems	\$76.0	83	\$0.5
US Corrugated of Los Angeles	\$33.0	100	\$0.5
Alibaba.com	\$12.0	140	\$0.6
Split Decision Holding	\$15.0	665	\$0.7
lynda.com	\$11.0	216	\$0.8
United Natural Foods	\$65.0	445	\$0.9
National Steel and Shipbuilding	\$100.3	384	\$2.0
Macy’s	\$399.2	171	\$2.7
Samsung Semiconductor	\$194.7	327	\$9.0
Northrop Grumman	\$520.0	1,359	\$10.0
Control Air Conditioning	\$1.5	209	\$0.5

## OVERVIEW OF MAJOR CALIFORNIA INCENTIVE PROGRAMS

### RESEARCH & DEVELOPMENT TAX CREDIT

The research and development tax credit allows companies to receive a 15% credit against corporation tax liability for qualified in-house research expenses, and a 24% credit for basic research payments to outside organizations.

Qualified research expenses generally include wages, supplies and contract research costs. To qualify, a taxpayer's research must be conducted within California and include basic or applied research of scientific inquiry, original investigation for the advancement of scientific or engineering knowledge or improved function of a business component.

### ENTERPRISE ZONES

On June 27, 2013, the California Legislature approved Assembly Bill 93, which repealed the existing statewide Enterprise Zone credit effective January 1st, 2014. In place of the Enterprise Zone Credit, the bill redirects funds to three new business incentive programs that make up the Governor's Economic Development Initiative ("GEDI"). The three programs with make up the GEDI are a New Employee Credit, a Sales & Use Tax Exemption for Manufacturing Equipment, and the California Competes Tax Credit.

### NEW EMPLOYEE CREDIT

The hiring credit is for businesses located in census tracts with the 25 percent highest share of both unemployment and poverty in the state. The hiring credit also applies to current Local Agency Military Base Recovery Areas (LAMBRA), Enterprise Zone boundaries excluding wealthy areas, and reinstates the boundaries for two recently expired Enterprise Zones in Antelope Valley and Watsonville.

The hiring credit is available for taxpayers hiring long-term unemployed workers, veterans within 12 months of separation from service, people receiving the Federal earned income tax credit, ex-offenders and recipients of CalWorks or general assistance. The hiring credit will only be allowed to taxpayers who have a net increase in jobs. The hiring credit will be 35 percent of wages, between 1.5 and 3.5 times the minimum wage for a period of five years. In five pilot areas designated by GO-Biz, the credit will be calculated on wages starting at \$10 per hour. The hiring credit is available for employees hired between 1/1/14 and 1/1/21.

### MANUFACTURING EQUIPMENT SALES & USE TAX EXEMPTION

The existing sales tax credit for businesses located in Enterprise Zones was expanded to a statewide sales tax exemption on manufacturing equipment or research and development equipment purchases by companies engaged in manufacturing or biotechnology research and development. Businesses can exclude the first \$200 million equipment

# California shows an average deal value of \$4.74 million with 381 new jobs created per deal

purchases from the state share of sales tax (4.19%) beginning on 7/1/14. The sales tax exemption will be available statewide until 6/30/22. The credit is only available to certain manufacturing and R&D companies classified under NAICS 2012 Codes 3111 to 3399, 541711 or 541712.

### CALIFORNIA COMPETES TAX CREDIT

The California Competes Credit is a new income tax credit available to businesses that relocate or expand in California. The tax credit agreement is negotiated by GO-Biz and approved by a newly created "California Competes Tax Credit Committee," consisting of the State Treasurer, the Director of the Department of Finance, the Director of GO-Biz, one appointee from the Senate, and one appointee of the Assembly.

The amount of credit awarded is based on the following factors:

- The number of jobs the business will create or retain in this state
- The compensation paid or proposed to be paid by the business to its employees, including wages and fringe benefits
- The amount of investment in this state by the business
- The extent of unemployment or poverty where the business is located
- The incentives available to the business in this state, including incentives from the state, local government, and other entities
- The incentives available to the business in other states
- The duration of the business' proposed project and the duration the business commits to remain in this state
- The overall economic impact in this state of the business
- The strategic importance of the business to the state, region, or locality

- The opportunity for future growth and expansion in this state by the business
- The extent to which the anticipated benefit to the state exceeds the projected benefit to the business from the tax credit

The tentative amount of credits that can be allocated by GO-Biz is as follows:

- \$30 million in fiscal year 2013/14
- \$150 million in fiscal year 2014/15
- \$200 million in each fiscal year 2015/16, through 2017-18.

In each fiscal year, no more than 20 percent may be allocated to any one taxpayer. Approved credits may be recaptured if a business fails to fulfill the terms and conditions of the contract. Additionally, 25% of these credits will be designated for small businesses.

#### CALIFORNIA EMPLOYMENT TRAINING PANEL (ETP)

The Employment Training Panel ("ETP") assists employer efforts to effectively train workers and maintain skilled workforces capable of responding to changing business and industry needs. ETP job training funds are available to all California manufacturing companies, companies that face out-of-state competition and businesses that are expanding or relocating to California from other states or countries.

The ETP training Incentive reimburses a business after the training has taken place and is based on each trainee who successfully completes training and a subsequent 90-day employment retention period. To offset training costs, a business may receive "progress payments" as a trainee progresses through training – in lieu of receiving full reimbursement after training/retention. Benchmarks and amounts of progress payments would be stipulated in the training agreement. The training can take place over a two-year term under the ETP agreement.

A business would match training funds awarded by ETP for training, making the Project a true public-private partnership. ETP conducts performance audits of agreements to determine whether the costs claimed for reimbursement by a contractor comply with program regulations and the terms of the contract with ETP.

## OTHER CALIFORNIA INCENTIVE PROGRAMS

- Local Agency Military Base Recovery Area
- California Film & television Tax Credit Program
- Advanced Transportation and Alternative Source Manufacturing Sales and use Tax Exclusion Program
- Sales and Use Tax Exclusion for Advanced Manufacturing
- California Capital Access Program
- Collateral Support Program
- Industrial Development Bonds
- Small Business Loan Guarantee Program
- Go Solar California
- Self-Generation Incentive Program
- Energy Innovations Small Grant Program
- Alternative and Renewable Fuel and Vehicle Technology
- Electric Program Investment Charge
- Air Quality Improvement Program Clean Rebate Project
- Recycling Market Development Zones Revolving Loan
- Brownfields Revolving Loan Fund Program

For more information, contact:

#### Alexander Frei

Co-Head, Business Incentives Practice for the Americas  
Global Business Consulting  
T +1 (312) 470 1836  
alex.frei@cushwake.com

#### Aaron Hirsch

Consulting Analyst  
Global Business Consulting  
T +1 (312) 470 2373  
aaron.hirsch@cushwake.com