

Business Incentives County of Los Angeles

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Los Angeles County Economic Development Corporation

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BUSINESS INCENTIVES OVERVIEW

Los Angeles County has a variety of incentive programs available to both small and large businesses. However, the majority of bigger incentives are targeted, but not limited, to manufacturing companies (manufacturing, high tech manufacturing, and R&D) which plan to utilize large numbers of employees in the targeted community. Incentives should not be the only reason why one should consider a location, but could be one of many factors that could help lead to a final location decision. Potential business incentives may be offered at the federal, state and local level. *Of the 88 cities in Los Angeles County, the City of Los Angeles offers the most in terms of incentive programs.*

Incentives typically fall into two categories: legislated and discretionary. State and federal legislated incentives are "on the books" and available to any business that meets stated criteria. Discretionary incentives are customized and provided by certain cities and only for specific projects on a case-by- case basis. In almost every case, discretionary incentives come into play when a community is trying to attract a **large business operation that brings significant investment into that community and will have a substantial impact on jobs created.**

Rarely will either legislated or discretionary incentives turn a poor location into an acceptable one. Therefore, they should be considered only after a number of locations have been identified that satisfies a company's key operation requirements. But among roughly equal alternatives, incentives can represent a decisive factor. Incentives should be combined with other factors as part of a strategic comparison of contending site locations.

Financial incentive availability depends on a variety of factors including the state or community's needs and the project's economic impact. In general, incentives are likely to be minimal in prosperous areas unless the project is viewed as highly desirable by local authorities. On the other hand, areas in dire need of new jobs and tax revenue are more likely to offer larger packages. Until all parties meet to discuss the potential size and economic impact of the project it is difficult to offer a preliminary estimate of incentives to be offered.

Sometimes just being in LA (Los Angeles County) and being identified with LA (the creative LA Brand) is a major incentive that is often overlooked.

DISCLAIMER: This guide is not all-inclusive and the criteria included may change after its release. The intent of this guide serves to provide an overview of programs and incentives that may be available to qualifying businesses physically located in the County of Los Angeles. Not all programs apply to all businesses. The information contained in this guide is not a substitute for legal counsel or for information provided by the agency administering the program.

STATE OF CALIFORNIA INCENTIVES

Enterprise Zone Credits

Enterprise zones are specific areas in the community where the state & local government partner and offer a variety of incentives to attract private business investment.

There are 13 Enterprise Zone areas in Los Angeles County:

Antelope Valley	Compton	Long Beach
Los Angeles-East	Los Angeles-Eastside	Los Angeles (Hollywood)
Los Angeles-Harbor Area	Los Angeles-Central City	Pasadena
Los Angeles-Northeast Valley	L.A.-Mid-Alameda Corridor	Santa Clarita
South Gate/Lynwood		

The Enterprise Zone Program spurs business development in designated communities through special zone incentives. Businesses located within the boundaries of an enterprise zone are eligible for tax credits against their California bank and corporation tax liability.

Sales and Use Tax Credit:

The first major enterprise zone tax credit is equivalent to the sales and use tax paid on the first \$20 million of new or used manufacturing equipment purchased each year. Qualified machinery is the machinery or machinery parts used to:

- Manufacture, process, fabricate, or otherwise assemble a product;
- Produce renewable energy resources; or
- Control air or water pollution

The definition of “qualified property” has been expanded to include data processing and communications equipment including, but not limited to, computers, CAD systems, copy machines, telephones systems, and faxes. Equipment must be purchased in California unless equipment of comparable price and quality cannot be found in California.

Hiring Tax Credit

Secondly, businesses may claim a percentage of the wages paid to a qualified employee as a tax credit. The credit is based on the lesser of the actually hourly wage or 150% of the state established minimum wage.

The credit is provided over a five year period with 50% of the wages creditable in the first year of employment, 40% the second year, 30% the third year, 20% the fourth year, and 10% the fifth year. If the employee were to stay with the company for the entire 5-year period, the company would receive credits totaling nearly **\$32,000** per qualified employee. If the employee is terminated prior to 270 days of employment the credit is recaptured.

Electrical Rate Discount

Enterprise Zone businesses in the City of Los Angeles also benefit from Department of Water & Power 5-Year Electrical Rate Discount. Save 35% in the first year as a rate reduction on electrical consumption- for new or expanding businesses. Over five years Enterprise Zone businesses average a 25% rate reduction

Other California Incentives

Research and Development Tax Credit (R&D Tax Credit)

Designed to encourage companies to increase their basic research and development activities in California, the research and development tax credit allows companies to receive a 15% credit against their bank and corporation tax liability for qualified in-house research expenses, and a 24% credit for basic research payments to an outside organization. It must not include research for the purpose of improving a commercial product for style, taste, cosmetic or seasonal design factors.

<http://www.ftb.ca.gov/forms/misc/1082.pdf>

Net Operation Loss Carryover

California tax law allows business that experience a loss for the year to carry this loss forward to the next year in order to offset income in the following years. New businesses can carryover 100% of their losses for ten years if the loss is in their first year of operation, 100% over seven years if the loss is in their second year of operation, and 100% over six years if the loss is in their third year of operation. Existing California business can carryover 50% of their losses for five years.

Maps of Los Angeles County Enterprise Zones on the web:

City of Los Angeles

http://www.lacity.org/CDD/bus_state.html

Pasadena

<http://www.ci.pasadena.ca.us/planninganddevelopment/ezone/enterprisezone.asp>

Long Beach

http://www.longbeach.gov/ecd/bus_dev/enterprise_zone/default.asp

Santa Clarita

<http://www.santa-clarita.com/cityhall/cmo/press/release.asp?ID=810>

Compton

<http://www.comptoncity.org/econdev/econdev.html>

South Gate/ Lynwood

<http://www.cityofsouthgate.org/enterprise.htm>

Lancaster-Palmdale

<http://www.avez.org/>

FEDERAL INCENTIVES

Federal Empowerment Zone

Employer Wage Credit

Federal tax credits of up to \$3000 for hiring employees in the Empowerment Zone

Benefits:

The Empowerment Zone employer wage credit provides an incentive to hire individuals who both live in the Empowerment Zone and work for an Empowerment Zone business.

The wage tax credit is 20% of the first \$15,000 in wages paid to an individual who resides in the Empowerment Zone and works for an Empowerment Zone business, or up to \$3,000 yearly, from 2000 to 2009.

Section 179 Deduction

Section 179 property deduction increases up to an additional \$20,000 for Empowerment Zone businesses

Benefits:

Section 179 Deduction allows businesses to deduct all or part of the cost of eligible property in the year the property is purchased and used. Businesses in an Empowerment Zone can increase their Section 179 deduction up to \$20,000 on this qualifying property. This deduction is taken instead of taking depreciation deductions over a specific recovery period.

Eligibility:

Any depreciable property that is necessary for production of the business' income is eligible except inventory and real estate. Examples of qualifying depreciable property include; machinery, furniture, equipment, computers.

For more information on federal empowerment zone incentives and maps, go to http://www.lacity.org/Cdd/bus_taxzin.html (click on empowerment zone map)

Foreign Trade Zones (FTZ)

Deferral, reduction or elimination of US Customs duties for importers and exporters. Foreign Trade Zones allow business to postpone customs payments on imported goods until the product is shipped out of the zone. Foreign trade zones are secured areas legally outside of U.S. customs territory usually located in or near customs points of entry.

Foreign trade zones allow entry of foreign or domestic merchandise without formal customs entry or government excise taxes. Merchandise entering a zone may be stored, tested, sampled, re-labeled, repackaged, displayed, repaired, manipulated, mixed, cleaned, assembled,

manufactured, salvaged, destroyed or processed. Products exported from or imported into foreign trade zones are excluded from customs duty and excise taxes until the time of transfer from the foreign trade zone.

General Purpose Foreign Trade Zones in Los Angeles County:

- Zone No. 50, Long Beach, California Grantee: Board of Harbor Commissioners of the Port of Long Beach, P.O. Box 570, Long Beach, CA 90801-0570 Larry Ditchkus (562) 590-4162. For more information go to http://www.polb.com/html/1_about/overview3.html
- Zone No. 191, Palmdale, California Grantee: City of Palmdale 38300 North Sierra Highway, Palmdale, CA 93550-4798 , (805) 267-5125. For more information on this zone go to <http://www.cityofpalmdale.org/business/foreign.html>
- Zone No. 202, Los Angeles, California Grantee: Board of Harbor Commissioners of the City of Los Angeles 425 South Palos Verdes Street, San Pedro, CA 90731 Stan Yon (310) 732-3849. For more information on this zone and subzones go to http://www.portoflosangeles.org/publications_FTRG.htm
- City of Industry's Foreign Trade Zone, contact the David Harlow of International Trade Consultants @ (562) 843 6962. Or Email to dharlow@H2consultants.com.

For more information see:

<http://www.ia.ita.doc.gov/ftzpage>

<http://www.portofla.org/>

http://www.polb.com/html/1_about/overview3.html

World Trade Center Association Los Angeles – Long Beach

The World Trade Center Association Los Angeles – Long Beach, through its two World Trade Center locations, promotes international trade and foreign direct investment as the leading international trade and investment resource organization in Los Angeles County.

Los Angeles Office

350 S. Figueroa St., Ste. 272
Los Angeles, CA 90071
Tel: (213) 680 1888
Fax: (213) 680 1878

Long Beach Office

One World Trade Center, Ste. 410
Long Beach, CA 90831
Tel: (562) 495 6075
Fax: (562) 495 1501

World Trade Center Los Angeles – Long Beach: www.wtca-lalb.org

Through its network of local business providers and a global network of 288 affiliated World Trade Centers, the World Trade Center Association Los Angeles-Long Beach offers a variety of assistance services to help you grow your business:

- Investment Attraction
- Export/Import Training
- Marketing Support
- Trade Financing Assistance
- Network for Trade Opportunities

New Market Tax Credits

The New Market Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39% of the cost of the investment and is claimed over a 7-year credit allowance period.

For more information:

http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5

Joint Strike Fighter Income Tax Credits

The JSF is the next-generation air combat strike aircraft developed and produced under the JSF Program. The JSF Credits provide for a wage and a property credit under both the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL). These credits apply to qualified taxpayers under initial contract or subcontract to manufacture property for ultimate use in a JSF. The credits are available for taxable years beginning on or after January 1, 2001, and before January 1, 2006. Any excess credit can be carried forward for up to eight years from the year in which the credits are incurred. No credits are allowed unless the credit is reflected within the bid upon which the JSF contract or subcontract is based.

LA County Recycling Market Development Zone (RMDZ)

The RMDZ is a low-interest loan program & technical assistance for manufacturers who use recycled material or process recycled material into a form usable to manufacture a new product. It also helps businesses that reuse post-consumer secondary materials and add value to recycled materials.

Zone areas are unincorporated LA County & cities of Burbank, Carson, Compton, Commerce, Covina, El Monte, Glendale, Huntington Park, Los Angeles, Lynwood, Montebello, Pasadena, South El Monte, South Gate, Long Beach, and Vernon and Santa Clarita.

For more information: www.ciwmb.ca.gov/rmdz

CITY OF LOS ANGELES INCENTIVES

Additional incentives for businesses locating in the City of Los Angeles:

City of Los Angeles Section 108 Loan Program

This loan program has been established to facilitate larger real estate based projects that will result in the economic and physical revitalization of the City of Los Angeles. Funds are intended to finance real estate acquisition, construction or other related project costs whose objective will benefit low and moderate income communities through job creation or retention.

For more information: http://www.lacity.org/Cdd/bus_finops1.html

City of Los Angeles Renewal Community

The Renewal Community creates business and community revitalization through Federal tax credits and incentives. The Renewal Community covers 9.5 sq. miles inclusive of Pico Union, Chinatown, Downtown's garment and jewelry districts, and South Central Los Angeles.

For more information: http://www.lacity.org/Cdd/bus_ren.html

Utility Programs

Energy Conservation & Rebate Programs

Southern California Edison offers a number of programs to help qualifying businesses reduce energy usage and lower electricity costs; SCE energy efficiency & Savings By Design, (www.sce.com), click on rebates & offers)

LA Department of Water & Power offers a variety of rate reduction programs for qualifying businesses in the City of Los Angeles (<http://www.ladwp.com/ladwp/cms/ladwp001859.jsp>)

EMPLOYEE TRAINING

Employment Training Panel

The Employment Training Panel (ETP) assists businesses in acquiring and retraining a highly skilled work force with expertise in very specific fields in order to increase competitiveness and productivity. ETP will enter into a performance-based customized training contract, for new or existing employees, which are performed by either an approved training agency or the company itself.

As the training is completed, the costs for developing, implementing, and completing the training are reimbursed. Ranging from about \$1,500 to \$2,000 per employee, reimbursements are made to the company for each employee that completes training and remains on the job for 90 days. The program is open to all California companies that face out-of-state competition and one or more of the following conditions:

- A need to retrain current employees to prevent layoffs
- A need to upgrade workers in areas where there are skills shortages
- A desire to hire and train unemployed workers eligible to receive unemployment insurance
- Special or unique training needs in industries related to defense conversion or emerging technologies

For more information: www.etp.ca.gov

WorkSource California (Workforce Investment Board)

WorkSource California is the name for the network of full-service business centers located throughout Los Angeles County. Each WorkSource center offers efficient, cost-effective hiring, downsizing, training, and technology services to employers and businesses of all sizes. These centers offer qualified candidate listings, employee training sessions, conference room and meeting space, free job postings, and a fully equipped office center with computer, fax, and Internet access. Small business owners can also take advantage of specialized workshops and seminars related to recruitment and other human resources issues.

For more information, call the toll-free number (888) 226-6300 or visit www.WorkSourceCalifornia.com.

Financing Assistance

There are a variety of State, County and Local financing assistance programs available.

Industrial Development Bonds

California cities, counties and state government have the authority to offer low interest financing to businesses locating in their communities through the use of tax-exempt industrial revenue bonds. An eligible bond project can be the construction of a new plant, or replacement of all or part of an existing plant. Industrial activities eligible for financing include assembly, fabrication, manufacturing and processing.

The primary advantage of industrial development bonds is that the financing provided bears an interest rate significantly lower than conventional methods (the lower interest rate is the result of the tax exempt status of the securities), the bonds are long term 15-30 years maturity, and are assumable.

Companies taking advantage of industrial bond financing receive approval for a project through a local industrial development authority or the California Economic Development Financing Authority. The authority makes findings regarding eligibility and public benefits pertaining to the project before authorizing the tax-exempt status of the bonds.

To qualify for industrial development bonds a borrower needs to meet certain eligibility criteria: 1) the firm must be engaged in a manufacturing, processing or value-added industry, 2) the total project cost should be at least \$1 million and may not exceed \$10 million, 3) the borrower must secure a standby letter of credit for 100 percent of the issue value from a bank with a substantial credit base, 4) the capital expansion must provide a public benefit such as creating new jobs; and 5) the project must have city or county support.

The proceeds from a bond issue can be used to pay for virtually all costs incurred by the company for its project including the financing of land acquisition, building construction, machinery and equipment, and other incidental costs as well as all expenses associated with the financing and issuance of the bonds. In addition, 5 percent of the net proceeds of the bond sale can be set aside for the working capital needs of the business.

For more information: http://www.ibank.ca.gov/state/ibank/ibank_homepage.jsp

County of Los Angeles Community Development Commission (LACDC) Financial Assistance Programs

County Business Loan Program: Loans for business and nonprofit expansion and development. Use: real estate, construction, equipment, working capital. Amount: \$25,000 to \$1 million. Current rate: 1% below prime, loan fee of 2 points. Term: 5 to 25 years.

County Development Loan Program: Loans for business and nonprofit expansion and development. Use: real estate, construction, equipment, working capital. Amount: \$100,000 to \$1 million.

County Earthquake Loan Program

The County Earthquake Loan Program (CELP) provides financing for firms impacted by Presidentially declared disasters, such as the Northridge Earthquake, or to finance hazard mitigation efforts, such as seismic retrofitting. Amount \$25,000 to \$1,000,000.

County Float Loan Program: Short-term loans for land acquisition, construction, equipment, and working capital for businesses, private developers and public agencies. Amount: \$1Mil to \$25Mil. Rate: below market, repayable as negotiated.

County Technology Loan Program: Loans for start-up, early state high technology firms located in participating incubators. Amount: \$10,000 to \$100,000. Use: equipment, working capital.

County Utility Loan Program: The County Utility Loan Program (CULP) provides financing for private and municipal water companies to upgrade and improve service in Los Angeles County. Amount \$25,000 to \$1,000,000.

For more information on these County of Los Angeles loans:

<http://www.lacdc.org/CDCWebsite/ER/FAQ.aspx?id=1027>