

CALIFORNIA BUDGET PROJECT

# Restructuring California's Enterprise Zone Program

1107 9th Street,  
Suite 310  
Sacramento,  
California 95814  
(916) 444-0500  
[www.cbp.org](http://www.cbp.org)  
[cbp@cbp.org](mailto:cbp@cbp.org)

CHRISTOPHER HOENE  
Executive Director  
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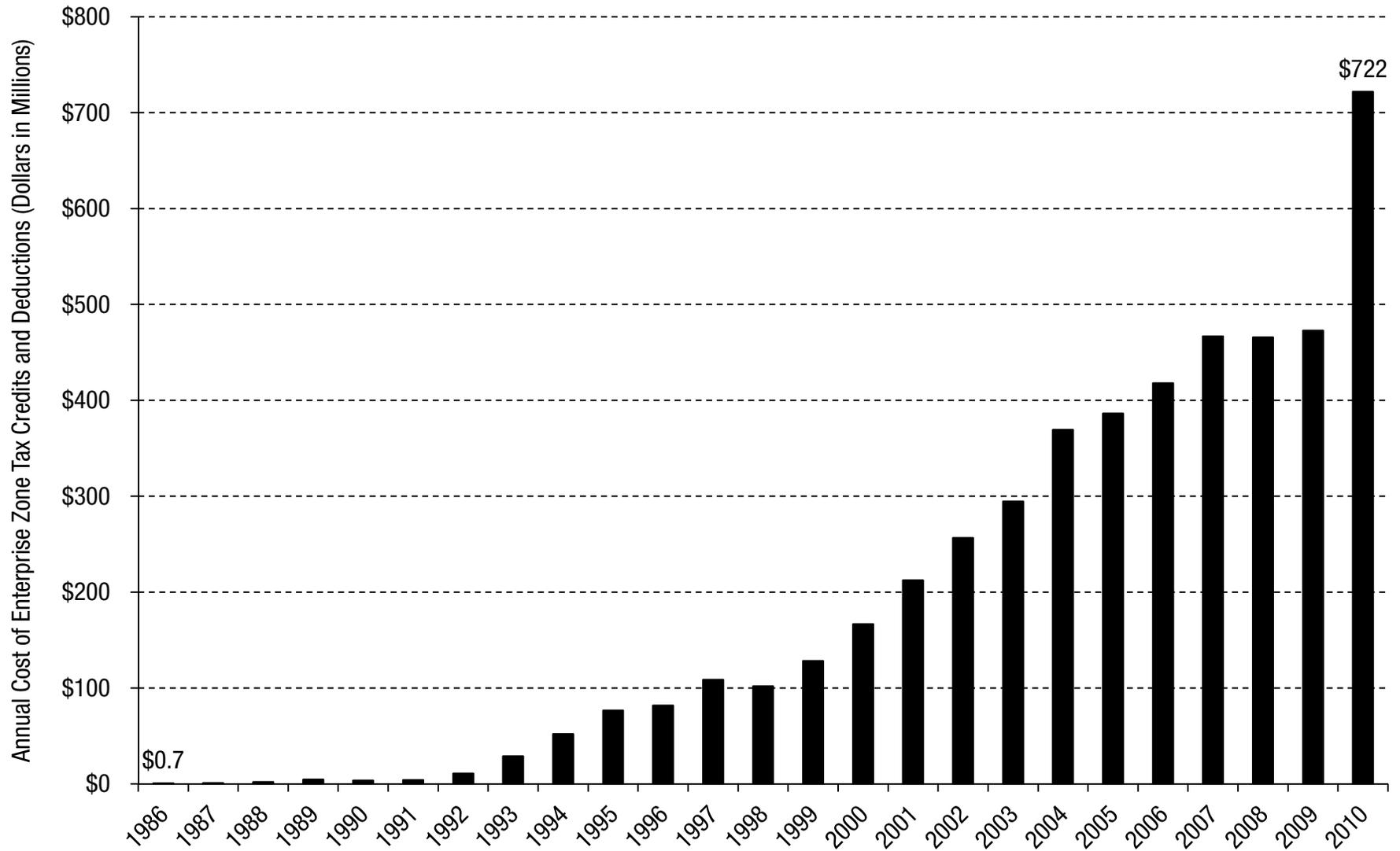
# Overview

- While the purpose of California's Enterprise Zone (EZ) program is to promote business development and job creation in economic distressed areas, the program, as currently structured, fails to achieve its goals and places an increasing strain on the state budget.
- The program should be restructured to increase its likelihood of success and reduce its hit to the state budget.



# Enterprise Zones Are Very Costly and Have Placed an Increased Strain on the State Budget

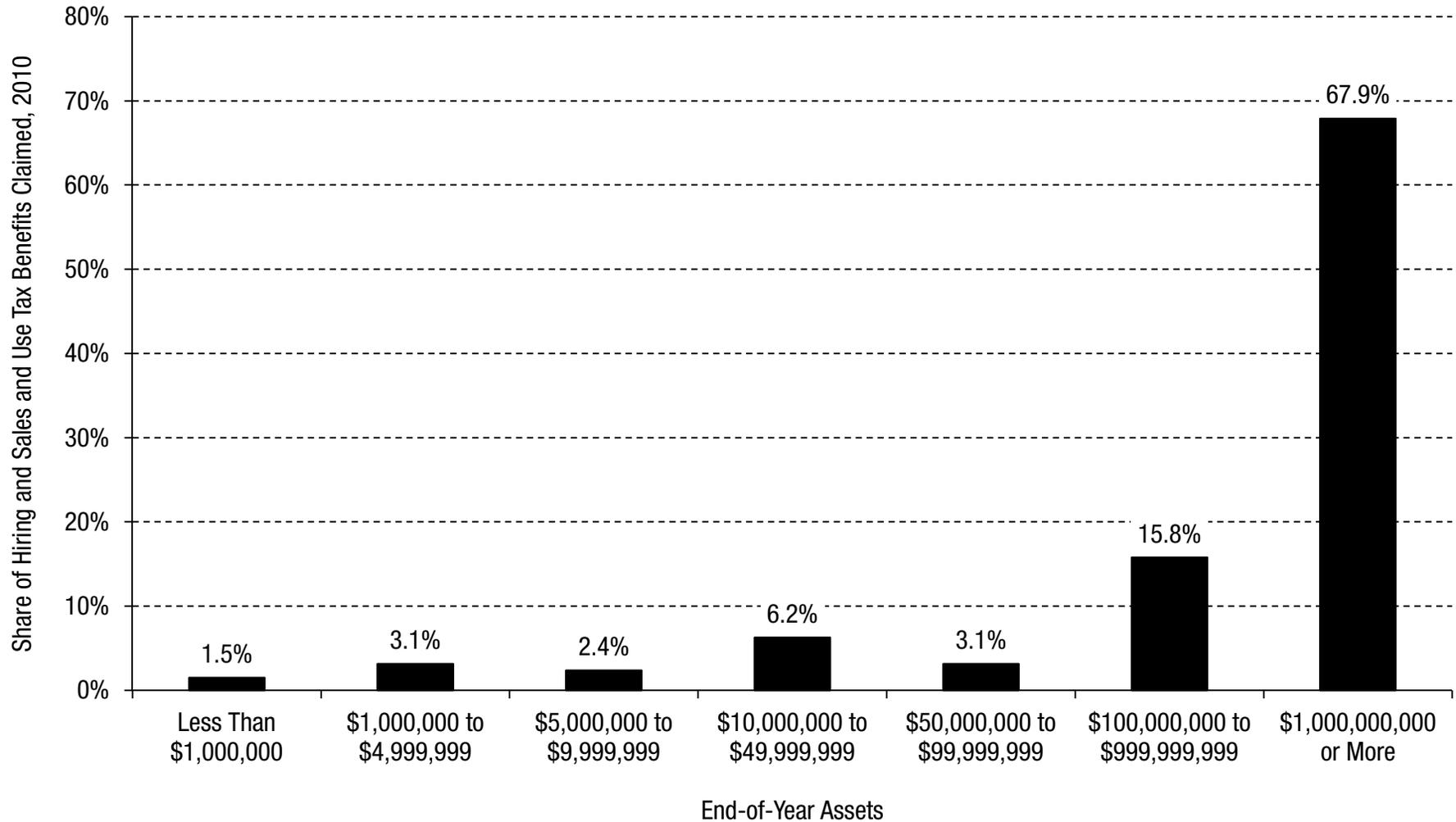
## The Cost of Enterprise Zone Tax Credits and Deductions Has Skyrocketed to More Than \$700 Million





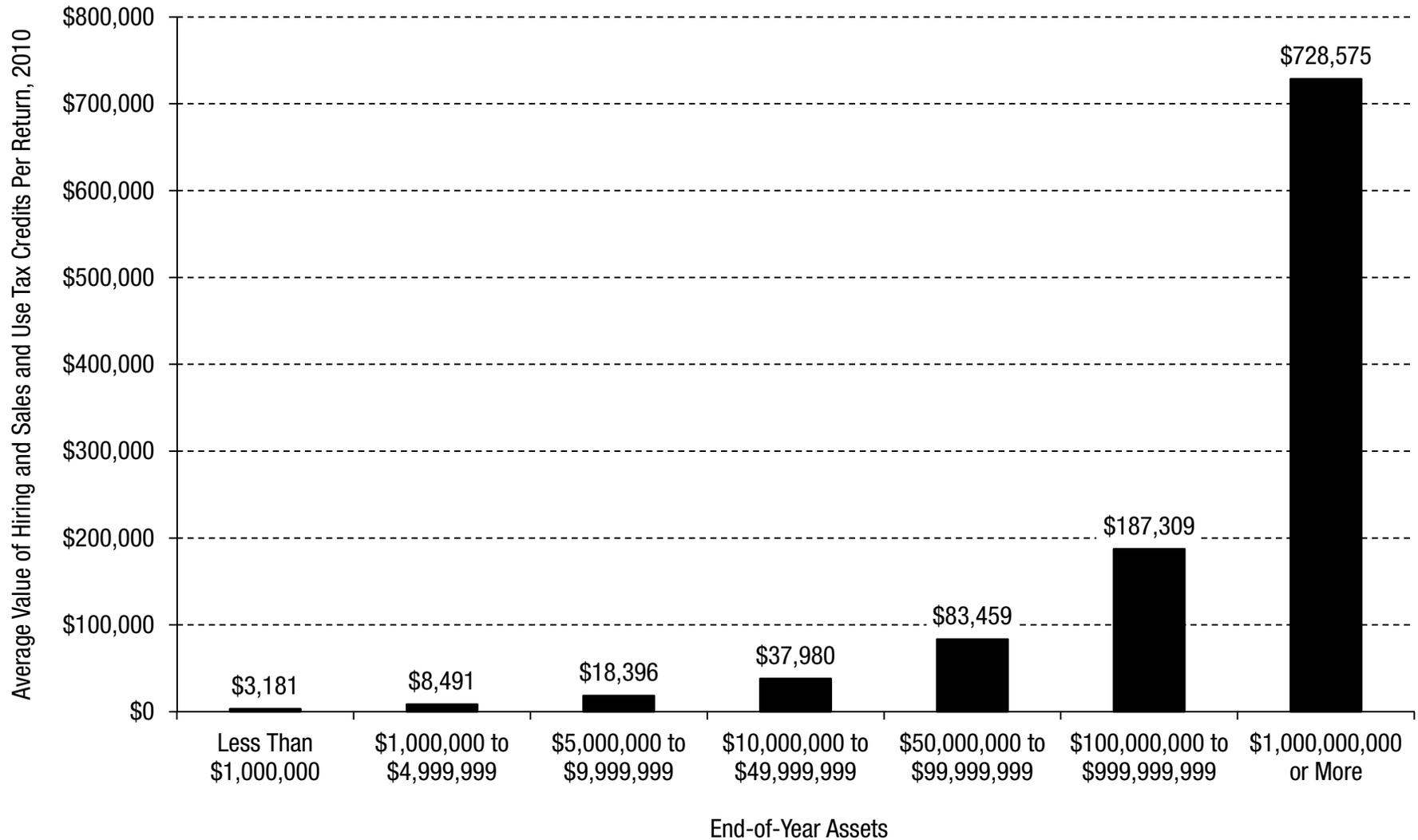
# Very Large Corporations — Not Small Businesses — Are the Primary Beneficiaries of Enterprise Zone Tax Credits

**More Than Two-Thirds of Enterprise Zone Tax Benefits Go to Corporations With Assets of \$1 Billion or More**  
**Less Than Half of 1 Percent of Corporations Filing Tax Returns in California Have At Least \$1 Billion in Assets**



Note: Data exclude companies that file personal income tax returns and claims with missing or negative values.  
 Source: Franchise Tax Board

## The Largest Corporations Claim an Average of About \$730,000 in Enterprise Zone Tax Credits

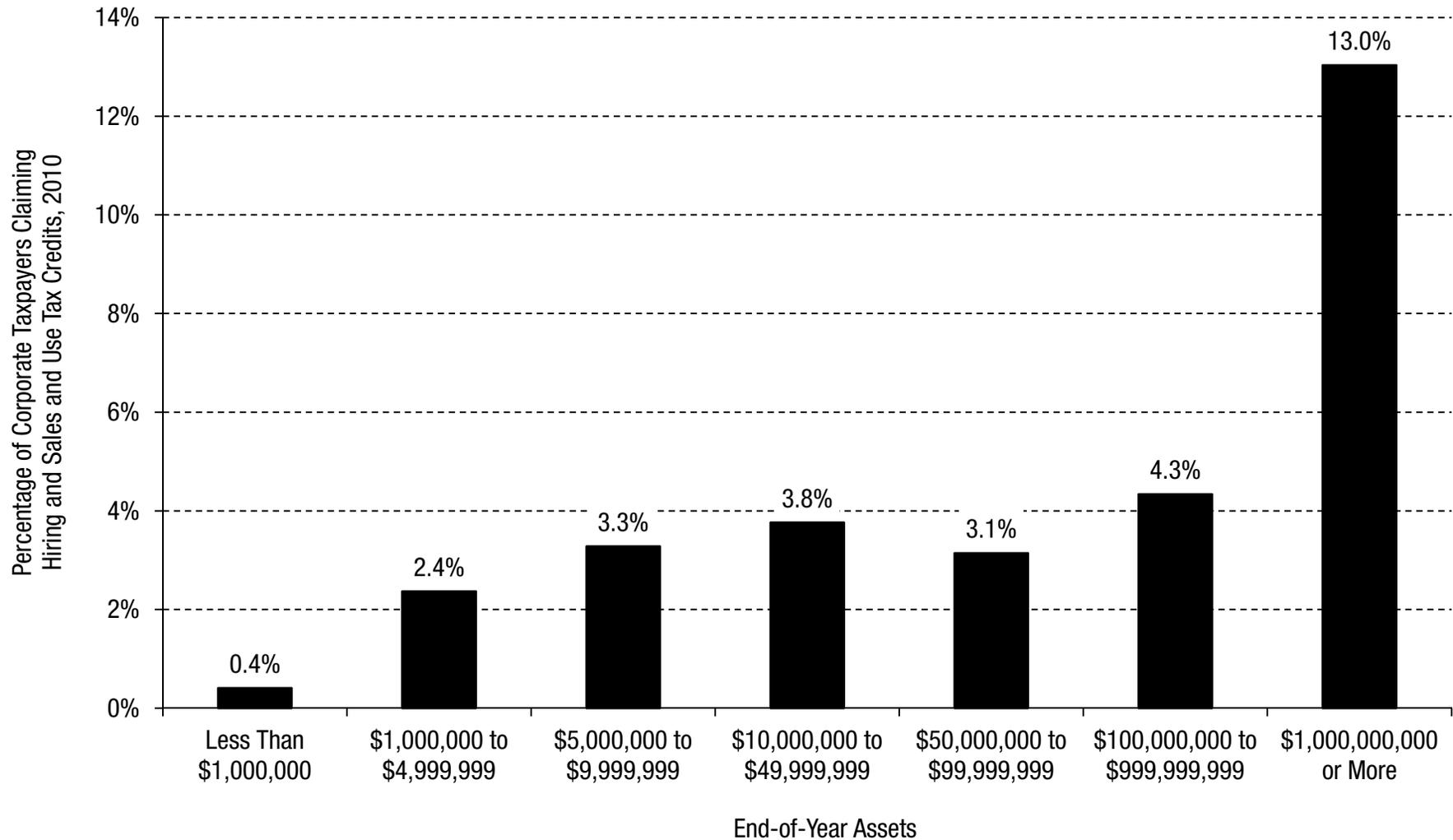


CALIFORNIA BUSINESS PROFITS TAX

Note: Data exclude companies that file personal income tax returns.

Source: Franchise Tax Board

## More Than One Out of Eight Corporations With Assets of \$1 Billion or More Claim Enterprise Zone Credits





# Enterprise Zones Have Not Boosted Employment Growth

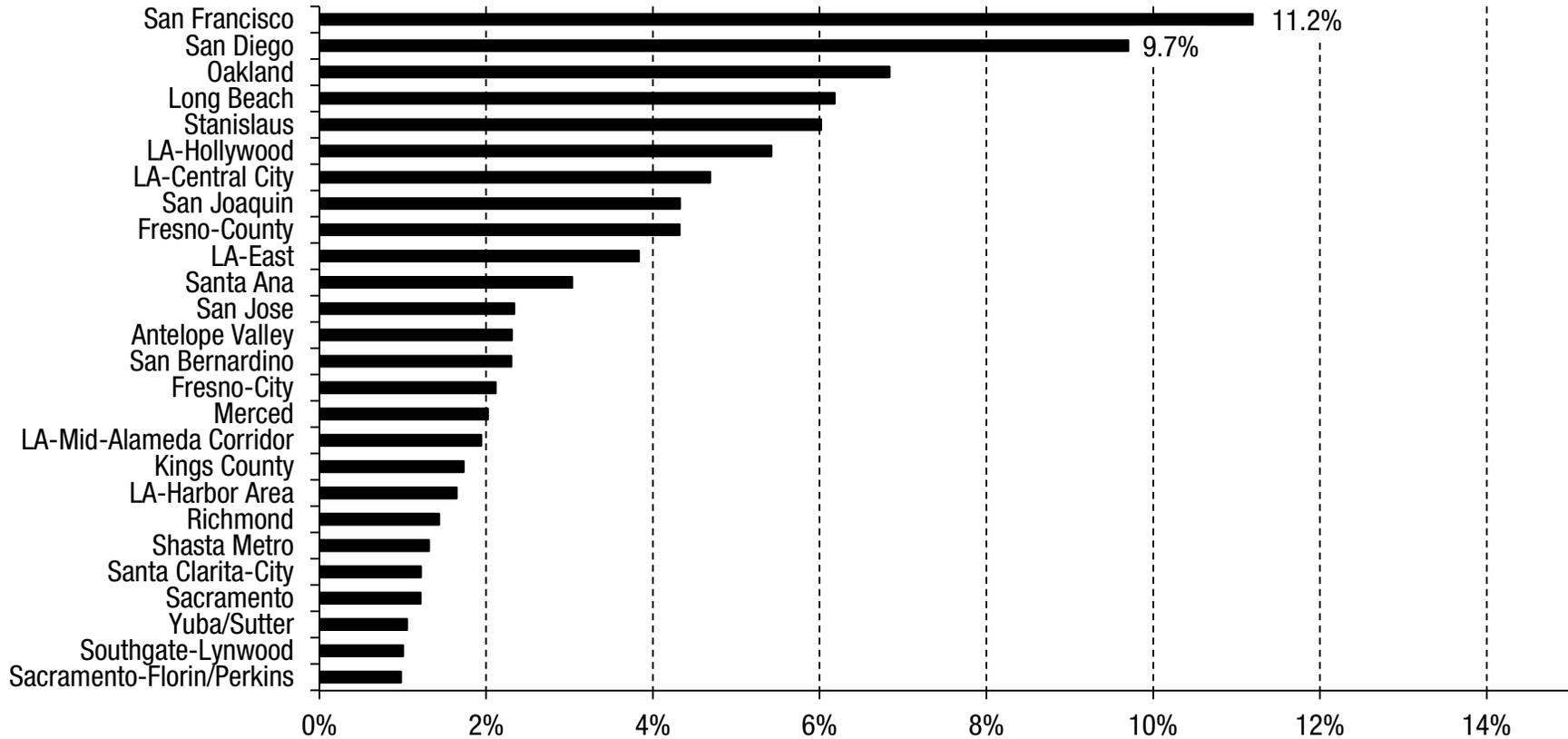
# Research Shows Little Effect on Jobs, Growth

- Public Policy Institute of California found that “California’s enterprise zone program – the state’s largest economic development program – has no statistically significant effect on employment.”
- Why? One reason is flaws in the Hiring Tax Credit, including:
  - No requirement for net new jobs created;
  - Retroactive hiring credits; and,
  - Targeted Employment Areas.



# Enterprise Zones Are Not Well Targeted to the Most Economically Distressed Areas

## The San Francisco and San Diego Enterprise Zones Account for the Largest Shares of Enterprise Zone Tax Benefits

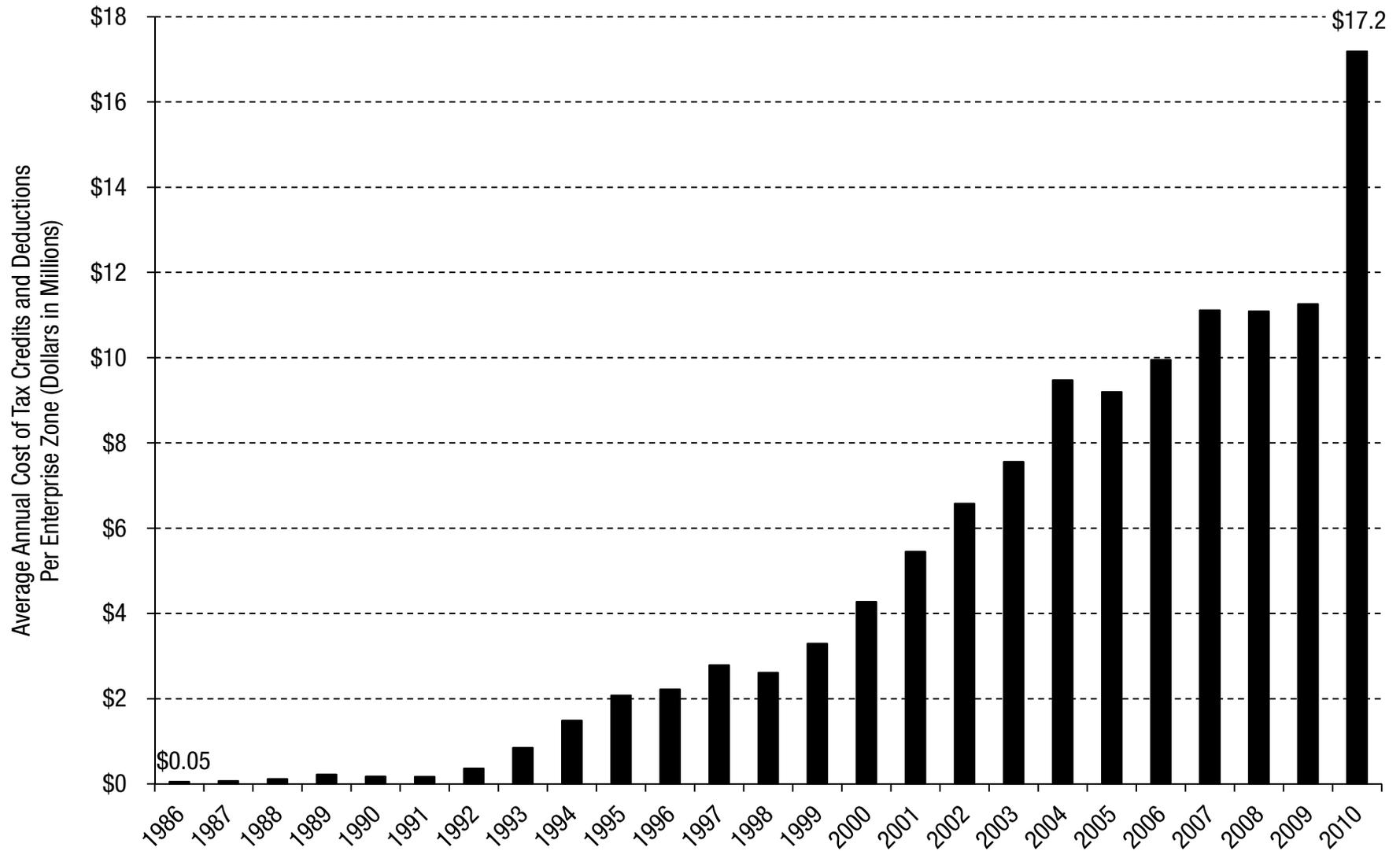


Share of Enterprise Zone Hiring and Sales and Use Tax Benefits Claimed, 2010

Note: Data exclude credits for companies that file personal income tax returns and companies claiming credits in multiple zones or with unknown locations. Data include expired enterprise zones due to companies' ability to claim credits retroactively. The 29 zones each claiming less than 1 percent of tax benefits are not shown.

Source: Franchise Tax Board

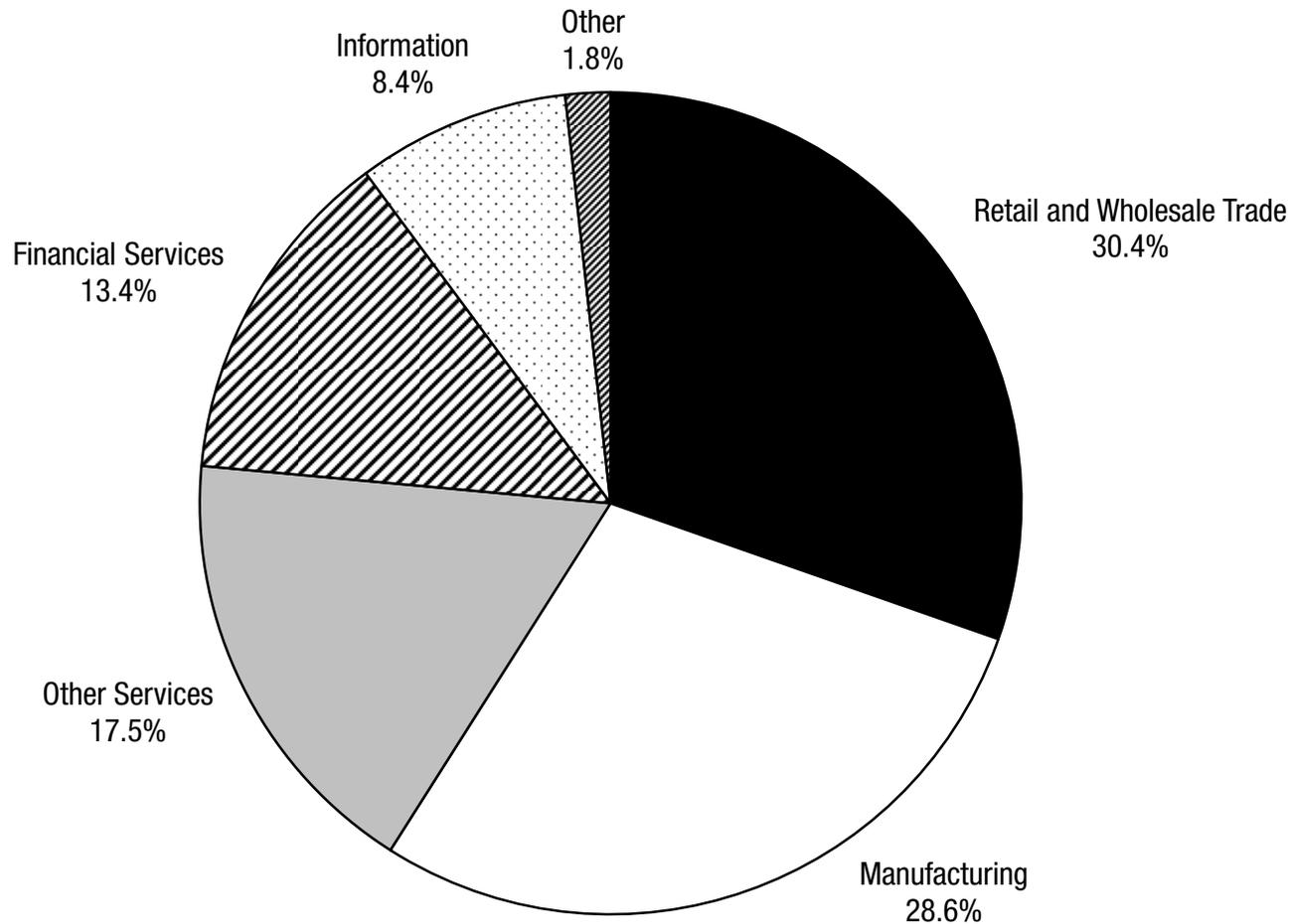
## The Cost of Tax Credits and Deductions Per Zone Has Increased Substantially





# A Large Share of Enterprise Zone Tax Credits Go to Trade and Service Corporations Whose Location Decisions Are Unlikely To Be Influenced by Zone Tax Benefits

## Trade and Service Corporations Claim the Majority of Enterprise Zone Tax Benefits



Share of Total Value of Enterprise Zone Hiring and Sales and Use Tax Credits Claimed, 2010

Note: "Other" includes agriculture, construction, mining, and unknown industries. Data exclude companies that file personal income tax returns. Percentages do not sum to 100 due to rounding.  
Source: Franchise Tax Board

# Recommendations for Restructuring EZs

- Improve the targeting of EZs:
  - Restrict zone designation and expansion to the most economically distressed communities;
  - Prioritize zone designation for areas with strong economic development/targeting strategies.
- Reform the Hiring Tax Credit:
  - Require net increase in employment;
  - Eliminate the ability to claim retroactive hiring credits.
- Reassess the program and zones regularly: terminate zones that are no longer in distressed areas and zones that willfully abuse program rules.

# Resources on Enterprise Zones

- California Budget Project reports available at [www.cbp.org](http://www.cbp.org):
  - *California's Enterprise Zone Program: No Bang for the Buck (update forthcoming May 2013)*
  - *California's Enterprise Zones Miss the Mark*
- Public Policy Institute of California report available at [www.ppic.org](http://www.ppic.org):
  - *Do California's Enterprise Zones Create Jobs?*
- Legislative Analyst's Office handout available at [www.lao.ca.gov](http://www.lao.ca.gov):
  - *California's Enterprise Zone Programs*