



## Tax Alert

August 2009

### **Don't Miss Out on California's New Jobs Tax Credit**

#### **California encourages small businesses to hire**

##### **How the New Jobs Tax Credit works:**

For tax years beginning on or after January 1, 2009, a California business that employed fewer than 20 people on the last day of the previous year, is allowed a tax credit of up to \$3,000 for each net increase in qualified full-time employees hired during the tax year. The 20-employee limit is determined by including all employees of related businesses.

A qualified full-time employee is: (1) an hourly employee working at least 35 hours per week, or (2) a salaried employee who was paid compensation during the tax year for full-time employment. Employment credit "double-dipping" is not allowed, so a new jobs credit will be denied for an employee (1) certified as a qualified employee in an economic development area (e.g. an Enterprise Zone), or (2) whose wages area included in calculating any other credit.

##### **How the net increase in qualified full-time employees is determined:**

The net increase in qualified full-time employees is determined on an "annual full-time equivalent" basis. For hourly employees, this is the total hours worked by the employee (not to exceed 2,000 hours per employee) during the year divided by 2,000. For salaried employees, this is the total number of weeks worked divided by 52. The net increase in qualified full-time employees is determined under the following formula:

1. The total number of qualified full-time employees employed in the current tax year; less:
2. The total number of qualified full-time employees employed in the preceding tax year.

An adjustment must be made for employees of a business the taxpayer acquires during the current tax year. Unlike many other credits, the taxpayer is not required to reduce the deduction for salaries and wages by the amount of the allowable credit.

##### **File return ASAP due to credit cap:**

The credit is subject to an overall \$400 million cap for all taxpayers for all tax years. The credit is allocated on a "first-come, first served" basis, so taxpayers are encouraged to file their returns claiming the credit as soon as possible. The return claiming the credit must be a timely-filed original return received by the Franchise Tax Board (FTB) on or before the cut-off date. The cut-off date is the last day of the calendar quarter within which the FTB estimates it will have received timely filed original returns claiming the credit that will cumulatively total \$400 million.

It is critical for the taxpayer to have proof of timely filing and receipt, so we recommend that the returns be filed electronically, or sent certified mail, return receipt requested. The FTB provides notices on its website with respect to the amount of credits claimed. The credit is non-refundable and may not offset certain taxes, including the AMT, but any unused credit can be carried forward for 8 years until fully utilized.

**If you would like to learn more about California's New Jobs Tax Credit, please call or e-mail Alan Griffith, Principal in Charge of Corporate and International Tax Services, at 310.432.7407, or [agriffith@sjaccounting.com](mailto:agriffith@sjaccounting.com), or any other Stonefield Josephson principal. (Toll-free number: 866.225.4511).**



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