Skyrocketing National and California Unemployment Focuses Employers and Legislators on Hiring Tax Credit Programs

By Blake Christian, CPA, MBT

One of the many negative repercussions from the Wall Street credit meltdown and stock market plunge is a dramatic increase in unemployment. The U.S. unemployment rate was 6.1 percent as of September 30, 2008, and jumped to 6.7 percent nationally in November after shedding another 533,000 jobs. Hardest hit sectors include manufacturing, construction, finance, service and retail. Healthcare jobs have fared better than other industries, but are starting to see some softening. Teens, African -Americans, and Hispanics have felt the personal impact of unemployment more directly than other groups, and Asians have experienced lower-than-average unemployment.

The California job market is even bleaker, with November unemployment rates reaching 8.4% in November after losing another 42,000 positions. Los Angeles' unemployment rate is now 8.9%. The California unemployment rate places the Golden State in the third worst position nationally behind Rhode Island and Michigan. Similar to the national job loss trends, California is seeing job decreases in construction, manufacturing, service, retail, as well as international trade and transportation—due to the effects of decreasing imports and exports.

With a myriad of economic challenges impacting both the national and state landscape, unemployment is clearly one of the most challenging issues that national, state and local legislators will need to deal with during calendar 2009. Fortunately there are a number of existing state, local and federal hiring credit programs, which offer employers significant advantages for hiring and training economically challenged employees, including those who have recently been laid off, or meet other criteria. Depending on the specific program – employers can obtain annual tax credits ranging from $500 per employee to over $15,000 per employee. These program benefits can encourage businesses to continue operating in the U.S. since the credits can effectively reduce their labor costs to less than 50% of the cash wages paid to these eligible employees.

Federal eligibility for these credit programs is often driven by the individual or family income levels of the newly hired employee. Those employee candidates with wages at or near the poverty level will often generate credits for the new employer. The forty plus State-level incentive programs are often more liberal in their definitions of eligible employees and scope of benefits as compared to federal programs. Common themes in both federal and state programs are typically targeted to the groups that are being hardest hit by the current economic downturn, residents in economically distressed regions, as well as military veterans rejoining the workforce.

The fact is that, on a national basis, at least 20% of businesses have one or more locations that are eligible for these valuable tax breaks, which range from $500 to over $15,000 per "qualified" employee, yet many businesses are unaware of the full scope and value of these program benefits. We typically see 90% of businesses eligible for these programs grossly understate these program benefits, simply because the programs are not actively marketed by the sponsoring agencies or the employers believe the programs are too burdensome to access. However these programs are fairly straightforward and require relatively simple forms to complete.

While unemployment can have a devastating impact on the families of the unemployed breadwinner, there are many existing federal and state tax programs, including Location-Based Incentive Credit (LBIC) programs, which can offer both employers and employees significant tax and economic benefits. There are currently over 8,500 distinct LBIC regions throughout the United States ranging from specific blocks, census tracts, counties and occasionally entire states which offer very valuable tax credits and other incentives to businesses that increase employment and make other financial investments in economically challenged regions. These tax incentive regions have often been around for decades but are grossly underutilized due to a general belief by many companies and tax practitioners that the programs do not apply to them or that the documentation requirements are too burdensome.

President-Elect Obama has also announced that he will be proposing a $3,000 hiring tax credit for any business that hires additional U.S. employees. Business owners will need to wait and see if this proposal will advance through Congress and when such credit will be applicable to incremental hiring. In the meantime there are multiple programs that can be accessed in the current year, as well as retroactively for up to four prior years. These programs can work very well in lowering the labor costs associated with the billions of dollars of national and local infrastructure costs.

By promoting these existing programs via outreach to the business community, the new Administration, as well as state and local government officials can have invaluable economic development tools at their disposal to reduce unemployment while offering tax savings to businesses who hire these economically disadvantaged employee candidates.

LBIC programs are readily available throughout the country and include state Enterprise Zone (EZ) programs (available in approximately 80% of the states), as well as numerous federal programs. These tax incentive programs were originally developed in the U.K. to stimulate job growth in decaying “smokestack” regions throughout England. In the early 80’s, after seeing the success in Europe, the U.S. government and a large number of states adopted their own tax incentive programs.

<u>Wide Variety of LBICs</u>

LBICs include the following incentive hiring credits and other benefits associated with operating in any one of the distinct incentive “zones” throughout the country:

Program Type	Maximum Hiring Credit	Number of Zones	Form Number
State Enterprise Zones	$500 to $15,000	41	Varies by State
Empowerment Zone	$3,000/yr. per employee	41	IRS Form 8844
Renewal Community	$1,500/yr. per employee	39	IRS Form 8844
Indian Tribal Lands	$4,000/yr. per employee	4476	IRS Form 8845
Gulf Opportunity (GO) Zone	$2,400 per employee	132	IRS Form 8850
Free-Trade Zone	Deferred Customs Duty	612	N/A
Rural Renewal Counties	Eligibility for $2,400 to $4,800 WOTC	408	IRS Form 8850

To qualify for these programs, it is generally only required that the employer operate in the specified zone and that the employee live in certain designated areas (generally lower income census tracts). State LBIC programs can generate credits ranging from $500 to $15,000 per qualified employee.

Federal WOTC and WtW Credits

In addition to the LBIC benefits, businesses located anywhere in the country are also eligible for two valuable federal wage credits such as the Work Opportunity Tax Credit (WOTC) and the Welfare-to-Work Tax Credit (WtW). WOTC can generate up to $2,400 to $4,800 for public assistance employees, residents in the 408 Rural Renewal Counties throughout the country. Any business that hires a resident from one of these counties can obtain a credit ranging from $2,400 to $4,800 for most resident residing in the designated county. The WtW Credit can generate up to $8,500 per qualified employee for hiring former welfare recipients.

Magnitude of Tax Savings

The amount of tax savings are often in the tens of thousands to hundreds of thousands annually — even for single location middle-market companies. Certain states, such as California and larger employers in federal zones, can often generate credits in the $100,000 to $1,000,000 plus range annually – providing them with valuable funds to increase hiring and expand operations.

By utilizing these existing tax programs, business and legislators can accelerate the process of getting their constituents back to work in a cost effective manner.

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