



# Tax Rebates For The Auto Industry

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Auto manufacturers and retailers are constantly providing consumers with rebates, discounts and favorable lease and loan terms. What most California auto businesses don't realize is that approximately 20 percent of such businesses are eligible for income tax refunds and future tax breaks – generally in excess of \$250,000 per taxpayer.

The California Enterprise Zone (EZ) program allows any business operating in designated geographic regions, including portions of Long Beach, Wilmington, San Pedro, Torrance, Southgate, Los Angeles, Pasadena, and Santa Ana (plus 35 other cities throughout the state) to tap into these lucrative state tax breaks. There are also a number of federal tax incentives available in limited geographic areas. Surprisingly, more than 90 percent of California businesses either ignore these tax benefits or significantly under-report their state and federal tax credits.

A tax credit is much more valuable than a tax deduction. For example, a \$10,000 state tax credit effectively can absorb more than \$100,000 of California taxable income. Each

employee meeting any one of 13 "qualification tests" can generate up to \$10,000 of credits for their employer in the first 12-month employment period.

Therefore, 10 qualified employees can generate up to \$100,000 of credits in just the first year, plus hundreds of thousands of dollars in future years. Due to the large credits generated, it is fairly common for highly profitable businesses operating in one or more EZ to pay only \$800 of California tax—the minimum tax paid for the priv-

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ilege of operating in California. There are four significant tax benefits available to businesses operating in designated areas, including:

**California EZ Hiring Credit** – Up to \$10,000 per "qualified" employee, per year. Generally 20-40 percent of employees working in an EZ meet the qualification test. Eligibility includes employees living in designated areas, military veterans, laid-off workers, employees who received unemployment or other government assistance prior to being hired, and other economically or physically challenged employees.

**California EZ Sales Tax Credit** – Up to 8.25 percent credit on "data collection" equipment, including computers, diagnostic equipment, manufacturing/pollution control equipment, scanners, telephones, security systems and other equipment that stores or retrieves information electronically.

**Reduced Interest Rates on EZ Loans** – Businesses borrowing funds for use exclusively in an EZ can obtain more favorable financing for "floor stock" and other business loans since the lender can exclude the net interest income from their California taxable income and therefore afford to offer more competitive rates.

**Federal Wage Credits** – From \$1,500 to \$8,500 per qualified employee working in a designated federal zone, or meeting certain economic requirements.

If you are not currently operating in a designated area, you may want to consider an EZ location for any new facilities, including, new dealerships, collision centers, maintenance facilities, etc. For more information on these credits, contact your CPA, or one of the following organizations: Franchise Tax Board, (800) 852-5711; Blake Christian, HCVT LLP, (562) 590-9535; or Dr. Charles Swenson, NTCG, LLC (800) 791-3589.

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