CONTACT: **Blake E. Christian**
Partner
Holthouse Carlin & Van Trigt LLP, CPA's
(562) 590-9535

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Countrywide Sub-Prime Lay-Offs Offer Prime Tax Benefits

After month's of speculation, Bank of America's other shoe has dropped and confirmed that they will be acquiring beleaguered Countrywide Financial Corp. This acquisition of a major Southern California employer by an East Coast parent company, combined with the 2007 melt-down of the numerous local lenders, will result in cumulative lay-offs of thousands of employees throughout Southern California—as well as tens of thousands throughout the country.

While this industry crisis is bad news for many borrowers and shareholders—as well as for the unfortunate unemployed staff and management, this newly formed pool of candidates can offer both the laid-off employees and prospective employers with very significant economic and tax advantages. As discussed below, this group of skilled employees from the financial services industry can be a perfect match for business throughout the Southland.

California taxpayers operating businesses in any one the state's 42 distinct Enterprise Zones ("EZ"), covering over 15% of the state, and approximately 1 in 5 businesses, can obtain California hiring tax credits of up to $12,500 per year for every "qualified" employee they hire. The vast majority of the employees laid off by Countrywide, or otherwise ending up unemployed as a result of the lending crisis, will automatically qualify a future employer located in an EZ for valuable tax credits. There is a wide swatch of Southern California cities with EZ's and/ or federal hiring credit programs, which include:

- The majority of Downtown Los Angeles,
- The entire Los Angeles and Long Beach port complexes,
- 72% of Long Beach's business districts,
- The entire city of Compton,
- The majority of Santa Clarita,
- The majority of Wilmington,
- The majority of San Pedro's business districts,
- Portions of Northeast Los Angeles Valley,

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- Portions of Pasadena/ Altadena,
- Portions of South Gate,
- Portions of Torrance,
- Portions of Gardena,
- Portions of East Los Angeles, Hollywood and Northern L.A. County,
- The majority of Santa Ana and
- Several regions in San Diego County

Since these benefits come primarily in the form of tax credits, rather than tax deductions, just one qualified employee can effectively shelter the tax on over $100,000 of California taxable income associated with the business operations in an EZ. Therefore, in the majority of cases, businesses operating in an EZ pay only the $800 minimum tax.

If the business operates as an LLC, Partnership or S Corporation, these credits also flow through to the owners, and the credits can be used to offset the owners' W-2 income, rental income and business profits associated with EZ operations.

Fortunately, Southern California is blessed with a tremendously diverse economic base, and finding qualified employees has always been a challenge for the majority of industries. Now employers in other industries can tap into this new pool of talent and not only help an unemployed person, but also save significant taxes at the same time.

Although used by less than 10% of eligible businesses, the California EZ program has been part of the California tax structure since the 1980's.

The California EZ program, as well as the other 40 state EZ programs, is designed to encourage businesses to move into, operate and expand operations within economically challenged areas. The long-term goal of these programs is to revitalize business districts, as well as the surrounding communities. Detailed studies of the long-range impact of these types of incentive programs do show long-term improvement in business and residential property values, increased wages, and decreased poverty and unemployment levels.

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In addition to allowing hiring credits for laid-off employees that will likely not return to their particular industry, there are at least 18 other employee categories, which can result in "qualifying" for these credits. Other categories include: 1) employees living in designated Targeted Employment Areas surrounding any EZ, 2) employees who have received government assistance (e.g., unemployment benefits, food stamps, welfare, etc.) prior to being hired, 3) military veterans, 4) Native Americans, American Samoans, and Native Hawaiians, 5) Ex-Offenders, as well as numerous other categories. Generally, 20% to 40% of an employer's workforce/candidates will qualify for these credits.

Under the California EZ program, we generally find at least 20% of employees meet at least one of the qualification tests. Once it is determined that an employee is eligible, the employer simply contacts the EZ program coordinator for their city and obtains a "voucher" certifying the employee's eligibility. The employer then calculates the hiring credit. The credit is earned over a 60-month period from the date of hire. Fifty percent of the first $24,000 of W-2 wages ($12,000) is allowed as a tax credit during the first 12-month employment period. If the employee's wages are less than this maximum, the credit is reduced proportionately. If the employee makes more than this amount per year, the credit can still be earned, but it is generally capped at the $12,000 amount. Provided the employee continues employment, a 40%, 30%, 20% and 10% credit are allowed for years two through five, resulting in a cumulative credit of over $37,000 over the five-year employment period.

While the programs vary from state to state, most of these credit programs also allow employer-level credits for employees that live in specified census tracts with higher than average poverty rates, were unemployed at some point prior to being hired, or if they were receiving some form of government assistance (e.g., food stamps, welfare, etc.).

Other federal and state benefits include training funds, tuition reductions, and military pay exemptions are also available in certain states.

Specific federal incentives available to many Southland businesses include:

- ***Federal Welfare-to-Work (WtW) Hiring Credit***—up to $8,500 over a two-year employment period if the employee was receiving welfare benefits prior to employment.

- ***Federal Work Opportunity Tax Credit (WOTC)***—up to $4,800 per qualified employee receiving certain government assistance, living in certain economically depressed areas, many veterans, and candidates with criminal records.
- ***Federal Empowerment Zone Credit***—up to $3,000/yr. per qualified employee living in these designated regions.
- ***Federal Renewal Community Credit***—up to $1,500/yr. per qualified employee living in these designated regions.

Ex-Offenders, a euphemism for those men and women who have had some brush with the law are also generally given hiring priority via employer credits under state programs. Parolees represent a growing segment of the potential workforce, and the state and federal cost of incarcerating repeat offenders runs $80,000 per year. Therefore, giving employers a tax credit equal to a fraction of such costs produces a pretty good return on investment for the government and taxpayer—provided the Ex-Offender successfully transitions back into society.

Despite perceptions in the business community, the process for documenting these benefits is fairly straightforward. Generally the CPA or taxpayer simply:

1) Confirms that their business location is located in a specified federal or state incentive Zone.
2) Confirms that certain employees working at the location either live in specified areas or meet other “qualification” criteria (e.g., veteran, ex-offender, previously unemployed, etc.).
3) The CPA or taxpayer then calculates the credit, which is generally a percentage of W-2 wages (with an overall cap), a per-capita credit, or based on the number of months worked.
4) The federal or state tax forms are then completed—generally one or two pages.

Systems can be set up to allow the employer to screen the employees before they are hired in order to streamline the documentation process and maximize the hiring credits.

All of the above-referenced credits result in permanent tax benefits and can have a dramatic impact on a taxpayer’s effective tax rate.

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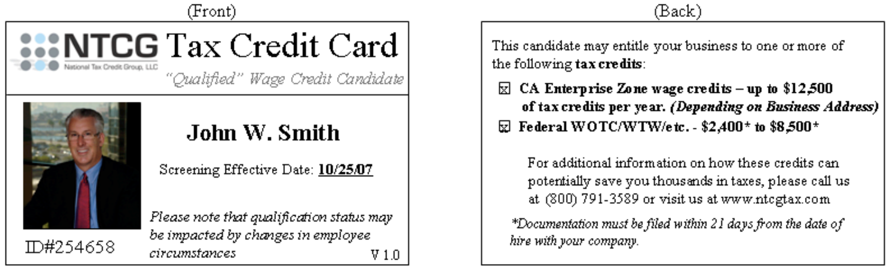
While certain credits cannot generally reduce Alternative Minimum Tax (AMT), certain states (including California) allow full AMT offset, and unused credits can generally be carried over for years for federal purposes and in some states, the credits never expire. This tax rate reduction results in enhanced cash flow, lower labor costs, lower after-tax capital expenditures, and enhanced business valuations. Amended returns for three years or more are allowed for federal purposes, and certain states (including California) also allow amended return refunds.

Ultimately, these programs throughout the state can improve an employee candidate's employment opportunities, and by claiming these tax incentives, the business owners are rewarded for their hiring practices and are often much more competitive in terms of operating cost reductions. The long-term impact of the business owners' action also generally improves the lives of the employees, as well as the communities in which the business operates.

Below is a sample "Tax Credit Card" developed by National Tax Credit Group, LLC, which allows businesses and city Workforce Development departments to pre-screen pools of employee candidates and issue cards summarizing the benefits available to future employers.

(Front) (Back)



Once business owners and their CPAs understand the financial and social impact of these programs, they do tend to alter their hiring practices and also tend to expand their facilities and workforce within these Zones.

More information on the California EZ program can be obtained by logging on to www.CAEZ.org, www.hcvt.com, or www.ntcg.com.

Blake Christian, CPA, MBT is a Tax Partner in the Long Beach office of HCVT LLP and is Co-Founder of National Tax Credit Group, LLC, a software development firm focused on location based federal and state tax incentives. Blake can be reached at 562-216-1800 or blakec@hcvt.com.

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