



ARE YOU MISSING POTENTIAL SAVINGS?

WHAT IT IS

California’s Enterprise Zone program can generate significant tax savings opportunities for businesses in designated areas. Established in 1984, the program was designed to stimulate business investment and growth in certain areas of the State by providing tax incentives to businesses.

NET INTEREST DEDUCTION

In order to encourage banks (lenders) to invest in the businesses located in the Enterprise Zone, California tax law provides a tax exemption for the net interest income earned from the customers who are located in any one of the 42 enterprise zones. The bank does not have to be located in an enterprise zone to take advantage of this tax benefit. The “net interest” received from all enterprise zone borrowers are claimed as a deduction on the California income/franchise tax return - it is a permanent tax saving, not a deferral.

NET INTEREST DEDUCTION EXAMPLE

Income Tax Savings On California
Corporate Tax Return

Enterprise Zone Loan Amount	10,000,000
Interest Income Reported	800,000
Less: Commission Expense	(10,000)
Less: Interest Expense	<u>(200,000)</u>
Net Interest Income Deduction	590,000
Tax Savings on CA Tax Return	63,956
NII spread with CA tax	5.26%
NII spread without CA tax -utilizing EZ	5.90%

THE PROCESS

HBLLP will review the bank’s loan list and quickly identify the loans qualifying for this deduction. We customize every project to the needs of each unique client and their business.

TAX SAVINGS

The net interest deducted on the bank’s California tax return will reduce the bank’s taxable income and ultimately reduce California income tax. Net interest deduction analysis can be done not only on the current year tax return, but also on the past year tax returns. California issues refund checks for the overpaid taxes when the prior year return is amended to claim the net interest deduction.

California Enterprise Zone is one of the best tax incentive programs in the nation. At Hutchinson and Bloodgood LLP, we realize the maximum available tax benefit for your business with our knowledge and expertise.

