Duncan Kelm, Enrolled Agent
Arrow Point Tax Services
707.382.3905
www.arrowpointtaxes.com

Arrow Point TAX SERVICES

Top Tax Strategies

- **Section 1202 Qualified Small Business Stock –** Benefit; allows investors to place capital with Section 1202 qualified companies to avoid owing any capital gains tax if they hold for at least five years
  - Only certain businesses are eligible to qualify under Section 1202
    - It was issued by a domestic C-corporation other than a hotel, restaurant, financial institution, real estate company, farm, mining company, or business relating to law, engineering, or architecture
    - The issuer of the QSBS must remain a C corporation during substantially all the taxpayer's QSBS holding period
    - It was originally issued after August 10, 1993, in exchange for money, property not including stocks, or as compensation for a service rendered
    - On the date of stock issue and immediately after, the issuing corporation had $50 million or less in assets
    - The use of at least 80% of the corporation's assets is for the active conduct of one or more qualified businesses
    - QSBS can be preferred stock, convertible preferred stock or common stock
    - The issuing corporation does not purchase any of the stock from the taxpayer during a four-year period beginning two years before the issue date
    - The issuing corporation does not significantly redeem its stock within a two-year period beginning one year before the issue date. A significant stock redemption is redeeming an aggregate value of stocks that exceed 5% of the total value of the company's stock
  - Likely will still owe CA state capital gain tax
    - https://california-form-3565.pdffiller.com/
  - Capital gains from select small business stocks are excluded 100% from federal tax
    - The treatment of no portion of the excluded gain is a preference item for AMT purposes
    - The capital gains that are exempt from tax under this section are also exempt from the 3.8%
  - The amount of gain that any investor can exclude under Section 1202 is limited to a maximum of the greater of $10 million or 10 times the adjusted basis of the stock
  - https://www.qsbsexpert.com/
  - https://www.investopedia.com/terms/s/section-1202.asp
  - https://www.svb.com/blogs/ann-lucchesi/understanding-qualified-small-business-stock-the-capital-gains-exemption
  - https://www.alliancebernstein.com/library/when-it-comes-to-qsbs-timing-is-everything.htm
- **Section 1202 add on with Section 1045 Election: –** Benefit; allows investors who have been invested in Qualified Small Business Stock (QSBS) for more than six months, but less than five years to roll the stock into another QSBS to maintain the tax treatment

Duncan Kelm, Enrolled Agent
Arrow Point Tax Services
707.382.3905
www.arrowpointtaxes.com

- Same rules and restrictions apply for this strategy as it does for 1202
- Strategy allows an investor to defer capital gains by moving assets into another qualifying investment to reach the five year holding period
- https://www.law.cornell.edu/uscode/text/26/1045
- https://www.svb.com/blogs/ann-lucchesi/understanding-qualified-small-business-stock-the-capital-gains-exemption
- https://www.withum.com/resources/rollovers-of-qualified-small-business-stock/#:~:text=Qualified%20Rollovers%20(Section%201045),60%20days%20of%20the%20sale.&text=The%20taxpayer%20must%20reinvest%20the,60%20days%20of%20the%20sale.

- **Section 1244 Qualified Small Business Loss –** Benefit; allows investors who invested in qualified small business stock to offset up to $100,000 MFJ ($50,000 single) annual losses against ordinary income
  - Only certain business are eligible under Section 1244
    - The stock must come from a domestic corporation. Only stock (including preferred stock) of a domestic corporation can qualify as section 1244 stock. If the stock was issued prior to July 19, 1994, the stock must be common stock
    - The corporation's aggregate capital must not have exceeded $1 million when the stock was issued and the corporation must not derive more than 50% of its income from passive investments
    - The shareholder must have paid for the stock and not received it as compensation.
    - Only individual shareholders who purchase the stock directly from the company qualify for the special tax treatment
    - Most of the company's gross receipts must be from operations. For a period of the corporation's most recent five years ending before the date of the loss, gross receipts from royalties, rents, dividends, interest, annuities, and sales or exchanges of stock or securities must not exceed 50% of the receipts of the company. If the company has been in business less than five years, the testing period applies to all the years the company has been in existence. This gross receipts test does not apply, however, if during the applicable period, the aggregated amount of deductions exceeds the aggregate amount of gross income. To have this exception apply, the company must be an operating company; it can't be an investment company
    - The stock must come from a domestic corporation (C Corp). Only stock (including preferred stock) of a domestic corporation can qualify as section 1244 stock. If the stock was issued prior to July 19, 1994, the stock must be common stock.
    - The corporation's aggregate capital must not have exceeded $1 million when the stock was issued and the corporation must not derive more than 50% of its income from passive investments.
    - The shareholder must have paid for the stock and not received it as compensation.
    - Only individual shareholders who purchase the stock directly from the company qualify for the special tax treatment.

        - Most of the company's gross receipts must be from operations. For a period of the corporation's most recent five years ending before the date of the loss, gross receipts from royalties, rents, dividends, interest, annuities, and sales or exchanges of stock or securities must not exceed 50% of the receipts of the company. If the company has been in business less than five years, the testing period applies to all the years the company has been in existence. This gross receipts test does not apply, however, if during the applicable period, the aggregated amount of deductions exceeds the aggregate amount of gross income. To have this exception apply, the company must be an operating company; it can't be an investment company
    - Can offset against ordinary income in year loss is recognized
    - Sec. 1244 losses are allowed for NOL (Netted against business income) purposes without being limited by nonbusiness income
    - https://www.investopedia.com/terms/s/section-1244-stock.asp
- **Qualified Opportunity Zones (QOZs) –** Benefit; allows taxpayers three benefits. First, they may defer a capital gain until 2026. Second, they may reduce their capital gain tax owed by 10% if executed before 2022. Third, they may receive tax free benefit on the growth of their investment if it is held for 10 plus years and meets other requirements along the way
    - Passed with the TCJA, and piggybacks off the Empowerment Zone idea used through Clinton, Bush, and Obama administrations
    - 8,764 zones around the country were selected based on the 2012 census data. They are distressed communities that the government wanted to incent investment
        - https://opportunityzones.hud.gov/resources/map
    - Investment can enter two types of asset classes, QOZ Businesses or QOZ Properties
    - Can only apply capital gains to receive the triple tax benefits of the program. Cannot just contribute free cash
        - However, taxpayer is allowed to use debt to help fund the investment
    - Similar to a 1031 Exchange, have 180 days from sale of asset that created the capital gain to place proceeds into a QOZ Property or QOZ Business
    - “Significant” improvements must be completed on QOZ property to qualify for the tax benefits
        - The structure on how this is tracked varies depending on the investment, but a good rule of thumb is that 50% of the purchase price must go into improving the asset
            - So if you bought something for $1M, expect to have to add another $500K to improve that property
        - Some of the best investment options are real estate deals which are pivoting the use which would help drive additional dollars in revenue and justify the cost of improvement
    - Two year and a day rule makes this strategy really powerful. After time period, allowed to do a cash out refinance for all the equity contributed while still delaying the tax owed until 2026
        - Essentially this allows a QOZ investment to “wash” the funds and give the taxpayer a tax free float until 2026

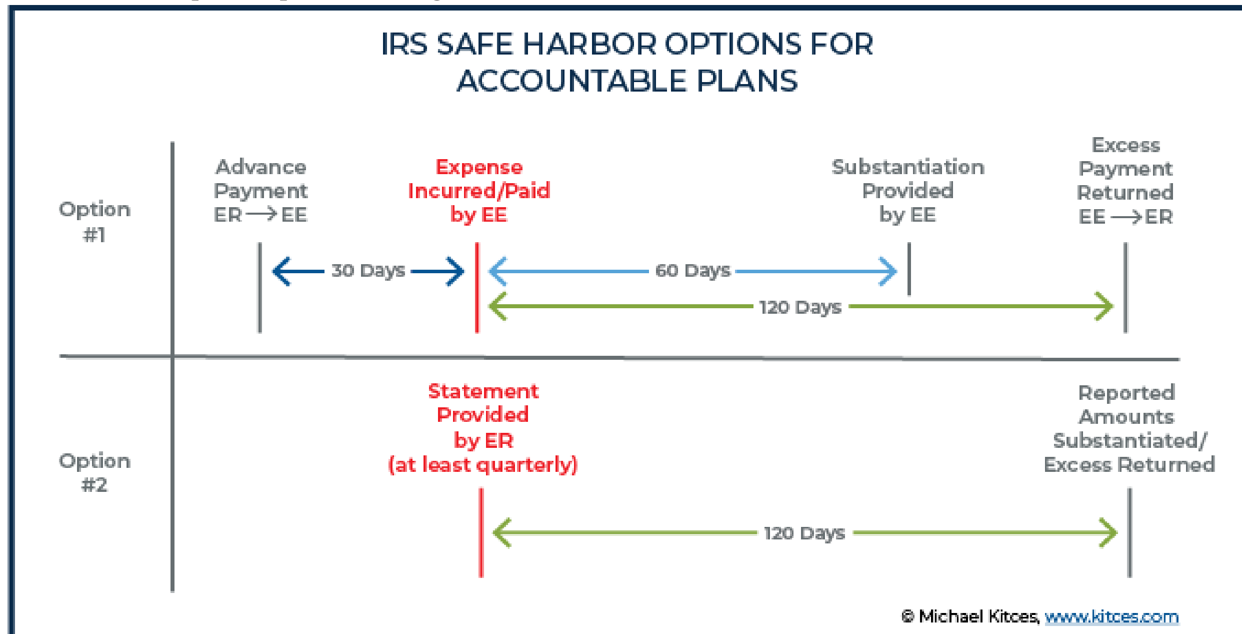
- Program is very complicated and difficult to navigate individually. There are many "funds" that have been created which offer to handle this for their clients for a reasonable fee
- QOZ Businesses may be the best part of all of this, and are rarely used
- https://opportunityzones.hud.gov/investors
- https://www.nar.realtor/qualified-opportunity-zones
- https://www.bisnow.com/feature/los-angeles-opportunity-zones/qualified-opportunity-zone-business-100559
- https://www.taxpolicycenter.org/briefing-book/what-are-opportunity-zones-and-how-do-they-work

- **Work Opportunity Tax Credit –** Benefit; allows business owners who hire certain people in economic categories to receive up to 40% tax credit on payroll wages
    - Only applies to small business owners
    - Tax credit available for those businesses that hire specified target groups from the following
        - Veterans
        - Temp Assistance for Needy Families (TANF)
        - Food stamp recipients (SNAP)
        - Community Residents in Empowerment Zones
        - Vocation rehabilitation referral
        - Ex-felons
        - Supplemental Security Income (SSI) recipients
        - Summer Youth Employee (living in Empowerment Zone)
        - Long-Term Family Assistance Recipients
        - Qualified LT Unemployment Recipients
            - Must be on unemployment for at least 24 weeks
    - Must file two/three forms during the hiring process
        - IRS Form 8850
            - File this with the state
        - DOL Form 9061
        - DOL Form 9062
    - Must file one form during tax return time
        - IRS Form 5884
    - Must submit files within 30 days of hire
    - Cannot offer benefit to family members, including uncles, aunts, cousins, and in-laws
    - The employee must have worked 120 hours or more during the year. Then, your business can earn 25% of the wages if the employee works at least 120 hours and 40% if the employee works at least 400 hours. There are maximum hours for each category
    - https://www.thebalancesmb.com/how-does-the-work-opportunity-tax-credit-work-4173250
- **Accountability Plan; S-Corp Deductions –** Benefit; allows owners of S-Corps who lost ability to deduct many thing through TCJA a work around to be able to push expenses through their business
    - TCJA took away the ability for business owners to file "unreimbursed employee business expense," however with an "Accountable Plan" there is a way to still receive the deduction

Duncan Kelm, Enrolled Agent
Arrow Point Tax Services
707.382.3905
www.arrowpointtaxes.com

ArrowPoint TAX SERVICES

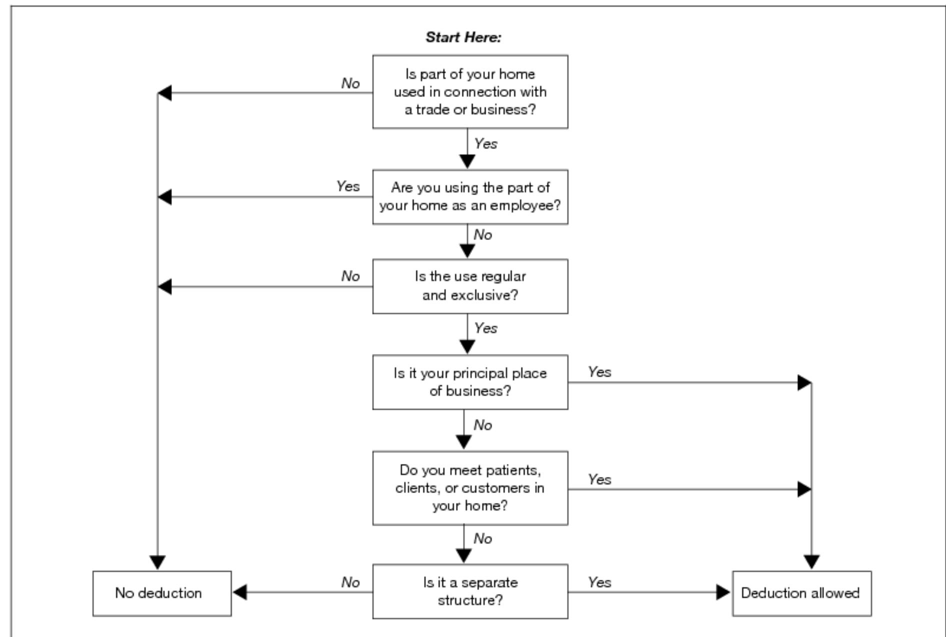
- An Accountable Plan is a simple way the IRS has approved for business owners to shift deductible expenses from an employee (or themselves personally) to their employer
  - The business reimburses the employee for this amount and then is able to receive a deduction itself
  - Same rules apply on these deductions, e.g 50% meals, etc.
  - Repayment to the employee is not considered compensation to them
- Rules for expenses to qualify under the "Accountable Plan"
  - Must have a business connection
  - Expenses must be timely substantiated
  - Receipts required if expense is over $75
  - Certain listed property, business travel, etc. must be substantiated with the following:
    - The amount of the expense
    - The time and place of the travel, or a description of the gift
    - The business purpose of the expense
    - The business relationship to the person receiving the benefit
  - Process within the 60 day safe-harbor window
  - Best to put the plan in writing



- Owners can be selective and design a plan that selects certain individuals and excludes others
  - For example only reimbursing owner-employees for home office expenses
- Can use the accountability plan for home office, expenses – assuming they meet normal rules listed below
  - BIG ONE IS REAL ESTATE TAXES IN EXCESS OF $10K
  - In post TCJA, this is the only way an S Corp may be reimbursed for home expenses
  - Must meet the requirements to get to deduction allowed on the work flow below:

Duncan Kelm, Enrolled Agent
Arrow Point Tax Services
707.382.3905
www.arrowpointtaxes.com

Figure A. **Can You Deduct Business Use of the Home Expenses?** Do not use this chart if you use your home for the storage of inventory or product samples, or to operate a daycare facility. See *Exceptions to Exclusive Use*, earlier, and *Daycare Facility*, later.

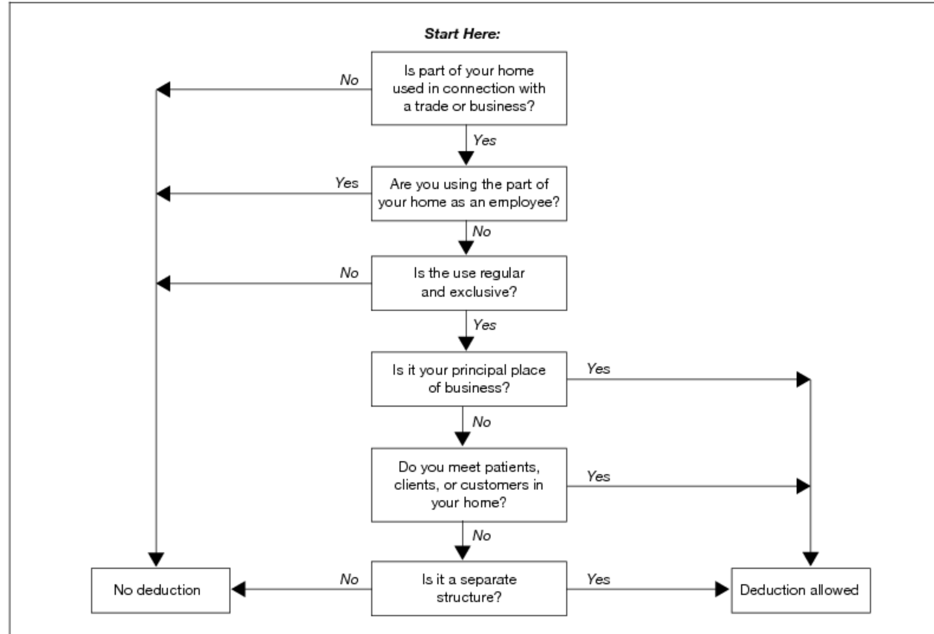


- https://www.kitces.com/blog/accountable-plan-s-corp-owner-employee-deduct-business-expenses/
- https://www.irs.gov/publications/p587#en_US_2018_publink1000226296
- https://www.kitces.com/blog/home-office-deduction-pandemic-work-from-home-exclusive-regular-use-employee-self-employed-business-owners/

- **Home Office Deduction Sole Prop –** Benefit; allows business owners to deduct certain expenses of their home as a business expense
  - The deduction is only available for self-employed people (If S-Corp see Accountability Plan)
  - Employees are not allowed to claim a home office deduction
  - There are two methods to calculate this deduction, regular method and the simplified method
    - Almost always it makes sense to use the regular method which looks at actual expenses versus the simplified method which allows taxpayers to deduct $5 for each square foot of their home office up to $1,500
  - Regular Method – generally pro rata based on the sq ft of the office to the home
    - Indirect expenses; pro rata method
      - Utilities
      - Rent
      - Mortgage Interest
      - Real Estate Taxes
      - Insurance
      - Security Systems
      - Depreciation

Arrow Point TAX SERVICES

- The regular method requires depreciation of the home
- Direct expense; can take 100% of cost if the expense is tied explicitly to the office room
  - HVAC install in the office
  - Painting the office
  - Repairing home office window
- To meet qualifications:
  - An exclusive use test must be completed
    - Basically, the space assigned as the home office must only be for those purposes
    - It is possible to divide a room in half if there is not an exclusive room in the home for an office
      - This space must be "separately identifiable"
  - Must be used on a regular basis
  - Must be a principal place of business or:
    - Home is regularly used for client meetings
    - Home office is a free standing structure
- Flow chart from IRS to determine qualification



- Sole Proprietors, have the easiest time of home office deduction
  - However home office deductions can only be taken to gross income of the business so no loss is possible
- For LLCs as partnerships and outright partnerships an Unreimbured Partner Expense (UPE) must be submitted on Schedule E

Duncan Kelm, Enrolled Agent
Arrow Point Tax Services
707.382.3905
www.arrowpointtaxes.com

- A very important piece for partnerships is that the partnership agreement should expressly state that the partner is "personally responsible for such expenses"
  - Example: Partners are expected to maintain a home office or similar workspace suitable for carrying out basic activities on behalf of the partnership. The expense for maintaining such a workspace shall be borne by the Partner
- With LLCs can take losses beyond gross income from the business, big difference between Sole Proprietorship and LLC

-
- https://www.kitces.com/blog/home-office-deduction-pandemic-work-from-home-exclusive-regular-use-employee-self-employed-business-owners/

- **Section 280A – Augusta Rule –** Benefit; allows homeowners to rent out their home for up to 14 days per year to either out of town guests or to themselves through a business without having to report rental income
  - Home must not be the primary place of business if you are a business owner renting to yourself
  - Must charge reasonable market rent in line with comps in the area
    - Having evidence as to how you arrived at a reasonable market rent is important and helps make this defensible
  - If the home is renting to the business, it must be used for business purposes
    - Most common rule is to have a monthly "Board Meeting" at a business owner's house and compensate for the rental
  - The benefit allows a business tax deduction while not having to report the income personally
  - Cannot exceed 14 days a year, or all income must be reported
  - Your business must be a separate legal entity (a sole prop is the same as you and you cannot rent the house to yourself)
  - https://hlbgrosscollins.com/news/the-augusta-rule-tax-free-rental-income
  - https://www.adminbooks.com/how-to-receive-tax-free-income-the-augusta-rule
  - https://www.cerebraltaxadvisors.com/blog/tax-tip-tuesday-the-augusta-rule/
- **Historic Building Tax Credit –** Benefit; allows remodelers or developers who improve real estate to take a 20% tax credit of dollars committed to the historical property
  - The 20% credit is actually a 4% credit spread out over 5 years
  - To qualify for the 20% percent credit, a building must be a certified historic structure
      - They can do this in few ways
        - Listed on the National Register of Historic Places
        - Listed as a contributing building in a National Register
        - Or designated a state or local historic district certified by the Secretary of the Interior
  - Tax credit is part of the General Business Tax Credit
    - To receive credit must file IRS Form 3468
  - To receive the credit, must own interest directly or through a passthrough
  - National Park Service oversees applications and approves structures to receive the credit

    - Part 1) Defining the valuation of significance
    - Part 2) Defining the rehabilitation being completed
      - Both Part 1 and 2 may be submitted separately or together
      - Best to receive approval before beginning construction
    - Part 3) Delivering certificate to completed work
  - Applications for the program can be found here: https://www.nps.gov/tps/tax-incentives/application.htm
  - California enacted a law conforming to the Federal law in 2019 with S.B. 451, but ultimately never funded the program
  - A building owner generates credits by completing a certified rehabilitation on a qualified rehabilitation building
  - Must be a qualified historical property
  - Must document the improvement
  - Syndicators who invest in value add rental properties that focus on historical locations offer strong tax and cash flow advantages
  - https://www.capitalimpact.org/how-to-use-historic-tax-credits/
  - California point of contact
    - Ms. Julianne Polanco, SHPO
    - Office of Historic Preservation
    - Department of Parks & Recreation
    - 1725 23rd Street, Suite 100
    - Sacramento CA 95816
    - Phone: 916-445-7000
    - Fax 916-445-7053
    - E-mail: julianne.polanco@parks.ca.gov
  - Santa Rosa Cultural Heritage Board meets twice a month
    - 1st and 3rd Wednesday of each month
    - City Hall, 100 Santa Rosa Ave, Santa Rosa, Calif.
      - Anyone can attend, or virtual
  - Eight historic districts in Santa Rosa
    - Burbank Gardens, Cherry Street, McDonald, Olive Park, Railroad Square, Ridgway, St. Rose, and West End. St. Rose

- https://www.novoco.com/historic-mapping-tool
- Other Sonoma areas designated as historic districts outside of Santa Rosa
    - https://sonomacounty.ca.gov/PRMD/Planning/Historic-Resources/Designation-of-Historic-Landmarks-and-Districts/

- **Research and Development Tax Credit –** Benefit; allows companies which can demonstrate an improvement of technology, product or process, large tax credit advantages that can be used to offset earnings
    - The amount of the tax credit depends on a number of factors and can be calculated here
        - Generally it is close to 20% of total spend that can be recovered as a credit
    - Governed by Internal Revenue Code (IRC) section 41
    - To calculate tax credit use IRS Form 6765
    - Needs to meet one of the below qualifications
        - Develops or designs new products or processes
        - Enhances existing products or processes (Performance improves)
        - Develops or improves reliability or quality
    - Research does not qualify if it meets one of the below:
        - Relates to style, taste, cosmetic, or seasonal design factors
        - Any research after commercial production
        - Adaptation to existing business product or process
        - Reproduction of an existing business product or process
        - Surveys and studies
        - Certain computer software developed for internal use (Consult tax pro)
        - Foreign research
        - Social science research (humanities)
        - Funded research
    - Will qualify if these products or processes remain internal to the business, or if they are to be sold, leased, or licensed
    - Okay if you pay a "consultant" to develop for you

- Must document the R&D appropriately through one or multiple methods
  - Payroll records
  - General ledger expense detail
  - Project lists
  - Project notes
  - Other documents a company produces throughout the regular course of business
- If business is under $50 million may use the credit to offset AMT
- There is a startup provision which allows for up to $1.25 million in tax credits to begin research
- https://www.law.cornell.edu/uscode/text/26/41
- https://www.irs.gov/pub/irs-regs/research_credit_basic_sec41.pdf
- https://www.alliantgroup.com/services/r-d-tax-credit-2/
- https://www.thetaxadviser.com/issues/2019/dec/research-development-tax-credit.html

- **Residential Energy Efficient Property Credit –** Benefit; Allows persons who improve their residence with qualified energy efficient property to receive a federal credit, major energy changes result in larger credits, smaller improvements are capped at a $500 credit
  - This credit changes every year, this is reflective of 2021
    - In the case of property placed in service after December 31, 2016, and before January 1, 2020, 30 percent.
    - In the case of property placed in service after December 31, 2019, and before January 1, 2021, 26 percent.
    - In the case of property placed in service after December 31, 2020, and before January 1, 2022, 22 percent.
  - Any kind of solar electric, water heater, geothermal heat pump
    - Equipment itself qualifies, as does the onsite labor, sales tax and permits to install
    - Utility rebates must be deducted
    - Ex: $18,000 cost, $1,000 rebate in 2021 = ($18,000-$1,000)*22% = $3,740
  - State tax credits do not impact the federal tax credit, however it may show as "other income" on your federal return
  - Governed through the Nonbusiness Energy Property Credit
  - Qualifying properties are:
    - Solar electric property
    - Solar water heaters
    - Geothermal heat pumps
    - Small wind turbines
    - Fuel cell property
      - Only fuel cell property is subject to a limitation, which is $500 with respect to each half kilowatt of capacity of the qualified fuel cell property
  - FOR HOMEOWNERS, treated as separate and capped at $500 over a lifetime
    - In 2020, can claim a credit for 10% of the cost of qualified energy efficiency improvements AND the amount spent during the taxable year capped at $500 for a lifetime – currently this has been extended via IRS Notice 2013-70 through 2020

            - Energy-efficient exterior windows, doors and skylights
            - Roofs (metal and asphalt) and roof products
            - Insulation
            - Energy-efficient exterior windows, doors and skylights
            - Roofs (metal and asphalt) and roof products
            - Insulation
        - Individual credit limitations for the specific property under the
            - $50 for any advanced main air circulating fan
            - $150 for any qualified natural gas, propane, or oil furnace or hot water boiler
            - $300 for any item of energy-efficient building property
    - https://www.irs.gov/newsroom/energy-incentives-for-individuals-residential-property-updated-questions-and-answers
    - https://www.irs.gov/pub/irs-prior/f5695--2019.pdf
- **Electric Vehicle Tax Credit –** Benefit; allows individuals who purchase an electric vehicle to receive between $2,500 and $7,500 in tax credits
    - The size of the tax credit depends on the size of the vehicle and its battery capacity
    - To find out specific tax credit amounts for individual vehicles go here: https://www.fueleconomy.gov/feg/taxevb.shtml
    - IRS Form 8936 applies
    - Leases do not work, and the EV credit will flow to the manufacturer

CALIFORNIA SPECIFIC

- **California SALT $10,000 Cap Workaround** – Benefit; allows businesses structured as S Corps or multi-member Partnerships (Non-Single Owner LLC also) to elect to pay a tax credit on passthrough profit distributions which would be a work around of the $10,000 SALT cap
    - SALT = State and Local Tax
    - Passed July 16th, 2021 with the California Budget and will be effective 2021 – 2025
        - If the SALT $10K limit is repealed by the Federal government, this option would cease to exist the January following this effective change
    - Each qualified owner may separately elect to opt in or opt out of their share of "Qualified Net Income"
        - The code is written at the ownership level and will not impact owners who choose not to elect
        - Qualified Net Income is defined as the sum of pro rata share of income subject to the elective tax
            - For example: four partners who each own 25% and net income is $100K. Three of the four elect to pay the tax. This means that $75K is eligible for the elective tax
    - For 2021 only, the election may be made no later than March 15th 2022, or the due date of passthrough tax returns and payment must be made in full

Duncan Kelm, Enrolled Agent
Arrow Point Tax Services
707.382.3905
www.arrowpointtaxes.com

- For 2022-2025 the entity must make two payments
  - First payment, due by June 15th for calendar year or the 15th day of the sixth month for fiscal year filers
    - This payment is either 50% of last year's elected tax paid or $1,000 whichever is greater
    - If this payment is missed, then owners may not participate in this election for the year
  - Second payment, due by the filing date deadline or by March 15th the following year for calendar year taxpayers
    - This payment is whatever the difference remaining is to meet the 9.3% elective tax rate on pro rata net income
- In 2021 Tentative Minimum Tax applies for California returns, reducing the benefit for business owners on the California tax return
- Election to opt in is made annually and is irrevocable
- Choice to opt in may only be made on an "originally and timely" filed return
- The California tax benefit will come to the taxpayer in the form of a California credit that is used on their individual return
  - This credit may be carried forward for up to five years
- On the back of IRS Rev Ruling 2020-75 which opened this opportunity for states, California is the tenth state to work to enact legislation that would create a SALT limit workaround for business owners
- The proposed change will only benefit business owners, and will only be allowed for net income or profit distributions from a Partnership or S Corp
  - Wages paid to owner-employee will not qualify effectively eliminating Sole Proprietorships
- California will allow business owners to "elect" to pay an elective tax at the beginning of the year tied to distributions
  - The tax rate is 9.3%
- Each owner must be defined as either an individual, fiduciary, estate or trust
  - A qualified entity does not include a taxpayer included or required to be included in a combined reporting group
- For California taxes, the "election" would receive a credit for 94.9% of the amount paid, essentially meaning, California would allow all passthrough income distributions to be ~95% offset at the entity level
  - For example, if the business has $1,000 of profit income, they would first pay $93 dollars in quarterlies as an elective tax and then receive a tax credit on the "elected tax" they in the amount of $88.26 ($93 x 94.9%), the business owner would have $4.74 that would not be offset. Therefore the business would have $911.74 of income that would passthrough to the business owner
- May not be a publicly traded partnership
  - Shareholders are not permitted to be other partnerships
- Under IRC Section 164(a), certain state taxes area allowed as a federal deduction

Duncan Kelm, Enrolled Agent
Arrow Point Tax Services
707.382.3905
www.arrowpointtaxes.com

ArrowPoint TAX SERVICES

- IRS Rev Ruling 2020-75 confirms that the "elective" tax paid by the business owner would then be allowed as a deductible expense at the entity level for federal taxes. Thus the net income of the business would be reduced by that amount paying for that portion of "income" and getting a full deduction on the federal return
- Same example as above, $1,000 on profit income, on the federal return the $93 of elective credit paid to California would become a deductible expense prior to distributions. Therefore the business would have $907 of income that would passthrough to the business owner

  - Allowed for residents and non-residents alike
  - Would have to make this election by March 15th and the election would be irrevocable for the year
    - Each year after it would be an optional for the business owner to choice to pay the elective tax or not
  - https://www.cohnreznick.com/insights/salt-cap-workaround-approved-in-california
  - https://www.venable.com/insights/publications/2021/07/california-passes-salt-cap-work-around

- **California New Employee Tax Credit –** Benefit; allows businesses who are located in a specific area and hire certain employees to receive large California tax credits – Very similar to Federal Work Opportunity Tax Credit
  - Employers qualify by meeting all five of the following requirements
    1. Hire full time qualified employees
       - See below list for what a qualified employee is defined as
    2. Receive a reservation for their employee (Reservation must be submitted within 30 days of hire), see below
    3. Pay wages for work performed by that employee in a Designated Geographic Area (DGA; See DGA map below to see if business in one of these areas)
    4. Cannot be an excluded business
       - The following are excluded UNLESS they have less than $2,000,000 in revenue the previous tax year
         - Temporary Help — NAICS 561320
         - Retail Trade Services — NAICS Sector 44-45
         - Primarily Theater Companies and Dinner Theater — NAICS 711110
         - Primarily Food Services — NAICS 722511, 722513, 722514, and 722515
         - Primarily Casinos and Casino Hotels — 713210, 721120
         - Primarily Drinking Places (Alcoholic Beverages) — NAICS 722410
       - All sexually orientated businesses
    5. Report the credit on current year (extended okay) tax return
       - Cannot amend previous years
  - Qualified Employees are defined as
    - Hired on or after the work location was made part of the DGA (impoverished zone)

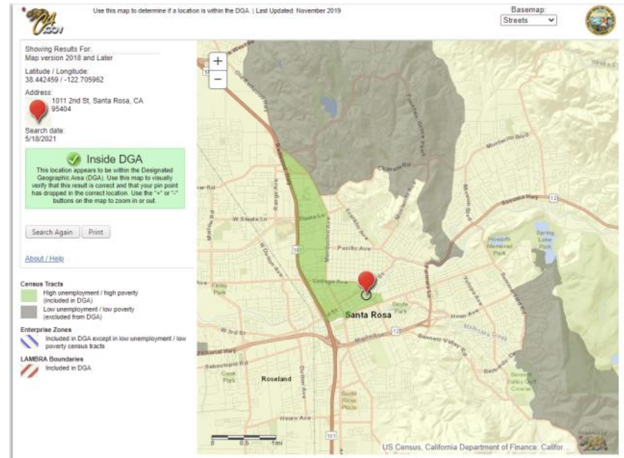
Duncan Kelm, Enrolled Agent
Arrow Point Tax Services
707.382.3905
www.arrowpointtaxes.com

- Can "rehire" and still qualify
- Performs at least 50% of his/her services in the DGA
- Receives starting wages that exceed 150% California minimum wage at the time of credit
- Hired for full time work (hourly for at least 35 hours)
- Meets one of the five following categories – *Again very similar to Work Opportunity Tax Credit on federal level – use DOL Form 9061 as a screener tool*
  - Unemployed for the previous 6 months or more
    - If a college graduate must be 12 months or more since completion of degree
  - Veteran separated from armed forces in previous 6 months
  - Received the federal Earned Income Credit in the previous taxable year
  - Ex-felon
  - Current recipient of CalWorks or County assistance
    - To be eligible for California CalWORKs, you must be a resident of California, and a U.S. citizen, legal alien or qualified alien.
    - You must be unemployed or underemployed and have low or very low income. You must also be one of the following:
      - Have a child 18 years of age or younger, or
      - Be pregnant, or
      - Be 18 years of age or younger and the head of your household.
- Must make a "reservation" within thirty days of hire of the employee
  - Reservation site: https://www.ftb.ca.gov/file/business/credits/new-employment-credit/reservation.asp
- Maximum credit per employee is $56,000 over five years (60 months), the credit will pay for the entire 60 months if the employee stays on
  - Wages that qualify are those between 150%, but do not exceed 350% of the minimum wage
    - $14/ hour in 2021
- Calculating the credit is somewhat complicated and impacted by a number of different pieces
  - The number of qualified employees the business has
  - Qualified wages paid to those employees
  - The total number of full-time employees during the base year of the business
    - The base year is tax year immediately before the first qualified employee (That meets the above criteria) was hired
  - Total number of employees during the current tax year
  - Actual Calculation process
    - Take the actual wages paid to your qualified employee(s) between 10%%-350% of California minimum wage
      - Employees can qualify for 60 months

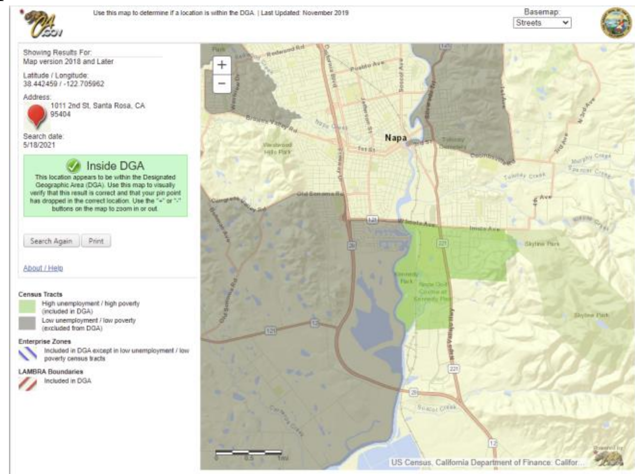
Duncan Kelm, Enrolled Agent
Arrow Point Tax Services
707.382.3905
www.arrowpointtaxes.com

Arrow Point TAX SERVICES

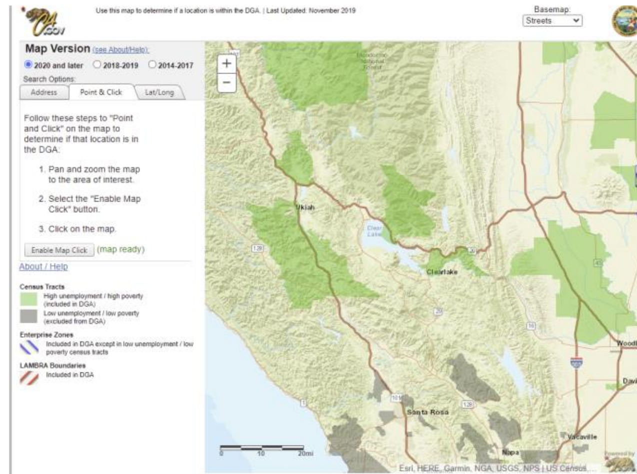
            - Multiply the qualified wages by 35%, this is the tentative credit
        -
    - To fully qualify, the businesses must be located in a California Designated Geographical Area
        - Use California DGA map below to search location
        - http://maps.gis.ca.gov/gobiz/dga/default.aspx
            - For Santa Rosa:



                -
            - For Napa:



                -
            - Other North Bay

- 

- https://www.ftb.ca.gov/file/business/credits/new-employment-credit/index.html

- **California Competes Tax Credit –** Benefit; allows businesses in California to apply for a grant which would incent them to hire in California, keep employees in California, or
  - The tax credit is available to businesses that want to "locate, stay, or grow" in California
  - No prejudice on industry or size
  - The annual amount available for grant depends on the governor and the state budget
    - In 2022 the grant available is $180M
  - Must submit a proposal for how if you receive the grant you will add full time jobs, or how it will keep jobs in California
    - Twelve different factors go into the application process
    - Must request a specific amount for a specific number of years
  - Application only open during certain periods – For 2022 the dates are as follows:
    - July 27, 2021, through August 17, 2021 ($80 million available)
    - 2. January 4, 2022, through January 25, 2022 ($80 million available)
    - 3. March 8, 2022, through March 29, 2022 (TBD Amount)
  - If awarded grant funds, the business must commit to adhere to their proposal in order to receive the benefits of the program
  - Details of the requirements, application, and program may be found in the below links
  - https://static.business.ca.gov/wp-content/uploads/2019/12/California-Competes-FAQ-12-9-20.pdf
  - https://static.business.ca.gov/wp-content/uploads/2020/06/Notice-California-Competes-Tax-Credit-Fiscal-Year-2020-21.pdf
- **California Electric Vehicle Rebate –** Benefit; allows individuals and business to receive a tax rebate for purchasing a new hybrid or electric vehicle
  - The rebates are applied specifically to certain vehicles
    - https://cleanvehiclerebate.org/eng/eligible-vehicles
  - The rebate ranges from $7,500 to $1,000
  - https://driveclean.ca.gov/search-incentives
    - List of all possible incentives in CA tied to any vehicle

Duncan Kelm, Enrolled Agent
Arrow Point Tax Services
707.382.3905
www.arrowpointtaxes.com

- Must be an individual, business*, nonprofit or government entity that is based in California or has a California-based affiliate at the time the rebated vehicle is purchased or leased
- Rebate is available with purchase or lease
- Must submit application within three months of purchase or lease
- There is an income phase out for the rebate
  - $150K Single as of 2020
  - $300K MFJ as of 2020

AB 544 - High Occupancy Vehicle Decals

For a vehicle purchased on or after January 1, 2018, an applicant's participation in both the Clean Air Vehicle Decal Program and CVRP is based upon both the applicant's gross annual income and the vehicle type:

Gross Annual Income	Battery or Plug-in Hybrid Vehicle	Fuel Cell Vehicle
AT or ABOVE: • $150,000 for single filers • $204,000 for head-of-household • $300,000 for joint filers	Clean Air Vehicle Program **ONLY**	Clean Air Vehicle Program **OR** Clean Vehicle Rebate Project **(New owner has 60 days from date of purchase to choose between the two programs)**
UNDER: • $150,000 for single filers • $204,000 for head-of-household • $300,000 for joint filers	Clean Air Vehicle Program **AND** Clean Vehicle Rebate Project	Clean Air Vehicle Program **AND** Clean Vehicle Rebate Project

- Only allowed one rebate over lifetime as of 2019
- CVRP is a pool of money where the rebates are drawn from, funds have to be available for the rebates to be paid out
- Must complete the following documents
  - CVRP Application
  - Complete copy of signed leased or purchase agreement
  - Proof of registration
  - IRS Form 4506-T

- **California Repurchase Indie Film Tax Credit –** Benefit; allows individuals to purchase qualified tax credits from motion picture company to offset against taxable state income
  - These are tax credits received by the state of California to small independent film makers; these film makers then sell the credits at a discount when they cannot be used themselves
  - **Generally purchase credits at a 5-15% discount from the credit received**
  - A filmmaker receives a credit of
    - 25% of the qualified expenditures attributable to the production of either a television series that relocated to California in its first year of receiving a tax credit allocation or an independent film
    - 20% of the qualified expenditures attributable to the production of a qualified motion picture in California or a television series that relocated to California that is in its second or subsequent year of receiving a tax credit allocation
  - Able to offset California Income tax owed
  - http://filmtaxcredits.com/16/public/default.aspx
  - https://www.mafilm.org/tax-credit-brokers-financiers-and-consultants/