

Zone Cuts Will Scuttle Firms

SPECIALISTS: Brown plans would hurt professional services.

By Andrea Alegria

Monday, January 31, 2011

Significantly reducing or eliminating financial incentives, including tax breaks, fee waivers and utility bill discounts associated with California Enterprise Zones, could leave many accountants, enterprise zone specialists and consultants out of a job.

As enterprise zone incentive programs have gained traction over the last two decades – with government agencies pouring money and manpower into marketing and educational efforts to promote their benefits – demand for services that specialize in these credits has also grown.

Large accounting firms such as Deloitte & Touche have created entire divisions to focus on enterprise zone incentives; smaller local firms have assigned personnel specifically to the subject; and some consulting firms have made it the sole purpose of their practice.

Now, the future of California enterprise zones is uncertain as Governor Jerry Brown looks for ways to close the state's \$25 billion budget deficit.

Lauren Lee, a partner at Hutchinson and Bloodgood LLP in Glendale, who has spent the last six years building an enterprise zone division at her firm, said she would likely have to "move on to other things, and find new opportunities", if these credits were no longer available.

"I'm not excited about that idea, I've invested a lot of time developing this field and building my expertise and now that expertise would not be valuable to our clients. But all that is less important in the long run compared to the impact this would have on the businesses," she said.

Lee said this would represent a minor hiccup to her firm compared to what it would mean to some of her clients, "who stand to lose a lot", she said.

For example, Lee said one of her clients has \$4 million in tax credits generated through the enterprise zone program, which the company can use to offset taxes in future years. If the program is reduced or eliminated her client could stand to lose those \$4 million in what's called "carry-forward credits", she said.

"It's amazing how this state can be so anti-business," she said. "Many people have invested into the program, not just accountants like me; there are 42 cities that have set up agencies and invested into running the program, hired experts and investment professionals, and done marketing for the enterprise zones. For the state to establish this and then take it away, it makes no sense."

Gov. Brown has said the program costs the state nearly a billion dollars a year in revenue and is a moving target that does not add to the general economy.

"Consulting companies or accounting firms dedicated to providing services in this field will either have to consolidate, refocus their business to other practice areas or lay off

employees," said Javier Ramirez, a partner at accounting firm SingerLewak, who heads the firm's state and local tax department.

At SingerLewak, enterprise zone credits constitute a significant revenue stream, and the elimination of these credits would probably require Ramirez to move resources now devoted to enterprise zone work to other practice areas such as R&D, and federal tax credits, he said.

Largest program

The enterprise zones constitute the state's largest economic development program, which was established in 1986 to spur the creation of businesses in economically disadvantaged areas.

Several statewide studies have indicated that the overall positive impact of the enterprise zones on the state's economy and job creation is neither effective nor efficient.

A 2009 Public Policy Institute of California report concluded that "enterprise zones have no statistically significant effect on either employment levels or employment growth rates."

Yet, according to enterprise zone credit experts like Jon Collard, who started his consulting company four years ago specializing in these credits, the program has given an unequivocal boost to businesses during a difficult economy.

His company, American Tax Incentives, based in Santa Clarita, has grown steadily through the years, helping clients mostly in the manufacturing industry, use the tax credits to hire new employees, purchase new equipment and expand their businesses, he said.

The elimination of enterprise zones would have a devastating impact both on his business and the clients he serves, he said.

"It would certainly inhibit our ability to help California business owners, but what this could do to small businesses is far more important than a small consulting firm going out of business," Collard said.

Growth in demand

Demand for American Tax Incentive services has grown as there's been a greater need to utilize the enterprise zone tax credits in the down economy, and many businesses are still open because of it, he said.

"Ten years ago the Enterprise Zone was seen as a way for a business to get an edge over a company out of state; today the enterprise zone might be the only way that a company is still in business."

Andrea McAfee, controller for Bayless Engineering Manufacturing and Powder Coating Plus, a company that has benefited from the enterprise zone credits and one of Collard's clients, agreed.

“This is one of the few things that the state of California provides to its businesses,” she said. “As of the last three years since it became available to us we’ve been able to realize \$25,000 in used tax credits and almost \$300,000 in hiring credits, which helped us tremendously with cash flow as well as realizing more net income,” she said.

If the program was eliminated or reduced, McAfee said the company would have to rethink \$1.5 million in equipment purchases.

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