

Firms See Opportunity in Enterprise Zone Specialization

DEVELOP: Business brings in new accounting clients as word gets out about program.



Mandel: Says knowledge valuable.

By Andrea Alegria

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With the expansion of the enterprise zone in the Valley announced earlier this year, CPA firm Smith Mandel & Associates has started remarketing itself as the go-to firm for businesses that want to benefit from tax breaks and financial incentives offered in the area.

“We’re really excited about this expansion in the Valley, now there are thousands of businesses that stand to benefit,” said partner Steve Mandel, who explained that the firm is now more aggressively promoting its pool of knowledge, sophistication and expertise in this specialized practice area.

The enterprise zone – a geographic area targeted by the government for economic revitalization – was expanded by some 5,444 acres, zigzagging across business clusters from the industrial Northeast Valley to corporate Warner Center.

The zone will offer a range of financial incentives, including tax breaks, fee waivers and utility bill discounts.

“In the down economy a lot of businesses are hurting, but now there’s money on the table and we’re here to help them get that money,” said Mandel.

Although enterprise zone incentive programs have existed in California for more than 20 years, it has only been in the past decade that accounting firms have begun to see value in specialization, said Lauren Lee director at Hutchinson and Bloodgood LLP.

“It was back in 2003 when Deloitte was at the forefront among the big four when it came to focusing on enterprise zone and hiring credits, and then a lot of firms started to jump in and boutique firms specializing in enterprise credits started springing up,” she said.

Lucrative business

It was in 2008 when Lee started the enterprise zone hiring credits niche at Hutchinson and Bloodgood.

“We felt that there was an opportunity there that we were missing out of,” she said. “This area has turned out to be incredibly beneficial to our firm, it has generated revenue for us we had never generated before and has brought in many new clients.”

Not only is there a growing demand for accountants that are experts on these credits, having those specialized services gives firms a significant competitive edge, said Javier Ramirez, a partner at SingerLewak.

“There’s a big need for this expertise and most smaller CPA firms don’t have the bandwidth to hire experts to deal with these issues, and so they tend to be inefficient in how they do it; they don’t recognize a lot of opportunities.”

Ramirez leads his firm’s state and local tax department, which has a focus on specialty tax issues including enterprise zone hiring credits.

“As our clients grow their business and expand they are looking for direction and consultation to guide them through the complicated regulations on how to best get credits and money back for their businesses,” he said.

Under the Enterprise zone program businesses stand to receive a hiring credit of up to \$13,000 per employee per year; and sales and use tax credits of up to 10.25 percent of manufacturing/ processing/ technology/ pollution and energy control equipment, among other things.

However, despite the recent PR and marketing push by government and community entities to promote enterprise zones, many businesses are still not reaping the benefits.

Having the expertise

“There are still tons of businesses that are with firms that don’t have this expertise and CPAs without this expertise may sweep it under the rug or tell you there’s not much benefit there, but there’s a lot of benefit, and a lot of businesses are still leaving money at the table,” Lee said.

Seeing a big opportunity to fill the gap, Smith Mandel & Associates has developed a 15-page PowerPoint presentation to help clients better understand the enterprise zone program, and is actively engaging the business and banking community in Woodland Hills and the new areas included in the expansion, to promote its services, said Mandel.

“It’s definitely an advantage over our competition,” he said. “When nobody else is offering the services I’m offering, the logic is they’re going to switch to me.”

Already the firm has helped clients reap the benefits of this new expansion.

For example Mandel said when the premises of a wholesaler in the San Fernando Valley became a part of the enterprise zone, the wholesaler was able to generate \$100,000 worth of credits from new hires. The owners of the business were able to use \$25,000 of the credit on their 2008 state tax returns, and carry forward \$75,000 of the credit for use on their future state tax returns.

Into The Zone

California’s Enterprise Zone Program was established in 1986 to spur the creation of businesses in economically distressed areas and to create job opportunities for economically disadvantaged workers. Accounting firms are making local businesses aware of the significant breaks they can find if they take advantage of the state’s largest economic development program. It has become a big business for some accountants.

Tax Benefits

Enterprise Zone companies are eligible for substantial tax credits and benefits including:

- Hiring Credits - Firms can earn \$37,440 or more in state tax credits for each qualified employee hired
- 100% Net Operating Loss carry-forward. NOL may be carried forward 15 years (suspended for tax years 2002 and 2003)
- Corporations can earn sales tax credits on purchases of \$20 million per year of qualified machinery and machinery parts
- Upfront expensing of certain depreciable property. Lenders to Zone businesses may receive a net interest deduction;
- Unused tax credits can be applied to future tax years, stretching out the benefit of the initial investment
- Enterprise Zone companies can earn preference points on state contracts.

Source: California Department of Housing and Community Development