



CALIFORNIA SMALL BUSINESS HIRING TAX CREDIT

California passed Senate Bill 1447 on September 9, 2020 which created the *California Main Street Small Business Tax Credit*. The credit can be used towards California state income taxes or sales and use taxes for qualifying businesses. **Only a limited amount of money is available for the credit.** The eligible taxpayers must reserve the credit. The California Department of Tax and Fee Administration (CDTFA) is accepting these applications starting December 1, 2020 through January 15, 2021 on a first come, first serve basis.

Who will be eligible?

You must be a California small business that:

1. Employed 100 or fewer employees as of December 31, 2019 AND
2. Had a decrease in revenue of at least 50% in Q2 2020 as compared to Q2 2019

For these purposes, revenue is defined as gross revenue less discounts and refunds on the same basis of accounting as your tax return.

Example: You had \$250,000 in gross receipts for second quarter 2019 and \$100,000 in gross receipts for second quarter 2020. The percent of decrease in gross receipts is 60 percent. ($\$250,000 - \$100,000 = \$150,000$. $\$150,000 \div \$250,000 = 0.6 \times 100 = 60\%$)

How Much Is the Credit?

If your business is eligible for the tax credit, you will receive \$1,000 per net employee hired from April 1, 2020 through June 30, 2020, compared to July 1, 2020 through November 30, 2020.

How Do You Apply?

An eligible taxpayer must apply with the California Department of Tax and Fee Administration (CDTFA) for a credit reservation. <https://www.cdtfa.ca.gov/taxes-and-fees/SB1447-tax-credit.htm> You will be notified by the CDTFA within 30 days of your application as to whether a tentative credit reservation has been allocated to your business.

If you're using your *Credit* for income taxes, you can use it to pay personal California state income tax and/or corporate franchise tax for tax year 2020. You must reduce your salaries and wages deduction by the amount of the tax credit. If you can't use the entire credit in 2020, you'll be able to use the remaining credit for the next 4 years.

If you're using your credit for sales and use taxes, you'll first utilize the credit on the following tax returns:

- Monthly & Quarterly Filers: The period ending March 31, 2021 (due on April 30, 2021)
Annual Filers: first return due on or after April 30, 2021
- Any unused tax credits will carry forward to all future returns until April 30, 2026.

Please feel free to contact us if you have any question about this tax credit.

Thank you,

Prospera Accountancy Group