

## California's New Jobs Credit

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### **New Jobs Credit**

- Began January 1, 2009
- Up to \$3000 tax credit for each additional full-time employee hired
- Based on net change in jobs from prior year
- Only for small businesses with less than 20 employees
- Prorated on an annual full-time equivalent basis for employees employed less than a full year

■ Source: Franchise Tax Board

### **Caveats**

- Total credit available to be claimed by all taxpayers is capped at \$400 million
- The credit must be claimed on a timely filed original return received by the Franchise Tax Board on or before the cut-off date
- The cut-off date is the last day of the quarter when claims cumulatively total \$400 million

■ Source: Franchise Tax Board

### **Usage of the New Jobs Credit**

- 2009 through 2011
- Credits claimed            12,914
- Total value                    \$76,106,961

## **Issues for Policy Makers**

- Is the New Jobs Credit underused?
- Does the New Jobs Credit encourage job creation?

## **Is the New Jobs Credit Underused?**

- Are small businesses aware of the credit?
  - It received some press coverage in 2009, but very little since.
  - Information is accessible from the FTB and on accountants' websites
- It began years ago, when small businesses were struggling to hold on
  - At the time, many could not consider expanding, so they may have not given it full attention
  - They may have forgotten or now believe the credit has been 'used up'

### How Many Claims would we Expect?

- 1991-2007
  - 20.6% of jobs in California were at firms with less than 20 workers
- 2008
  - 18.5% of jobs in California were at firms with less than 20 workers
- Jobs in California
  - I assume approximately 20% of new jobs occur in small firms

### How many claims would we expect?

- Jobs Created and Lost in California
  - Assume 20% of job creation and job loss occurs at small businesses

	<b>Dec 09 – Dec 10</b>	<b>Dec 10 – Dec 11</b>
<b>Net Employment</b>	<b>47,400 lost</b>	<b>320,000 gained</b>
<b>20% Small Business</b>	<b>9,480 lost</b>	<b>64,000 gained</b>
<b>Credits Claimed</b>	<b>4,806 claims</b>	<b>7,677 claims</b>

- While some employers cut jobs, other employers expand, so we would expect more claims

## Some Possible Explanations

- Time lag in hiring and applying for tax credit
  - New worker (net increase in full time employees) must be hired, then wait for next tax filing before making claim
- 20% of job creation may not occur at small businesses
  - Small businesses may be hardest hit by recession
- The credit can not be claimed for workers who qualify for another tax credit
  - Enterprise Zone, Manufacturing Enhancement Area, or LAMBRA

## Does the New Jobs Credit encourage job creation?

- Any new full-time hire costs employer at least \$21,000 per year
    - Assuming \$8 minimum wage + \$2.50 legally required benefits, the lowest possible cost to the employer for a full time worker is about \$21,000 a year (2000 hours \* \$10.50)
    - A \$3000 credit represents at most, 14% of the cost of hiring the worker
  - On the margin, an employer may consider this, but it will only tip the scale in favor of hiring for relatively few small businesses
- Source: Bureau of Labor Statistics

## **Even larger wage subsidies have a small impact on employment**

- Enterprise Zones
  - Offer 50% wage subsidy first year, 40% second year, etc, for 5 years
  - Small or no employment effect found even for this relatively large wage subsidy
    - O'Keefe (2004)
    - Kolko & Neumark (2009)

## **Additional Risks for Small Business**

- The \$400 million credit cap may be reached before they claim their credit
  - This may prevent them from viewing the credit as a sure benefit from hiring a worker
  - The FTB website with monthly updates on usage should allay those fears
- Credits only create value in one year, while the business should foresee keeping that worker on the payroll many years
- Employers may be waiting to grow when the economy is more stable

## References

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