

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

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

- 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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