



New Employment Credit (NEC)

Highlights:

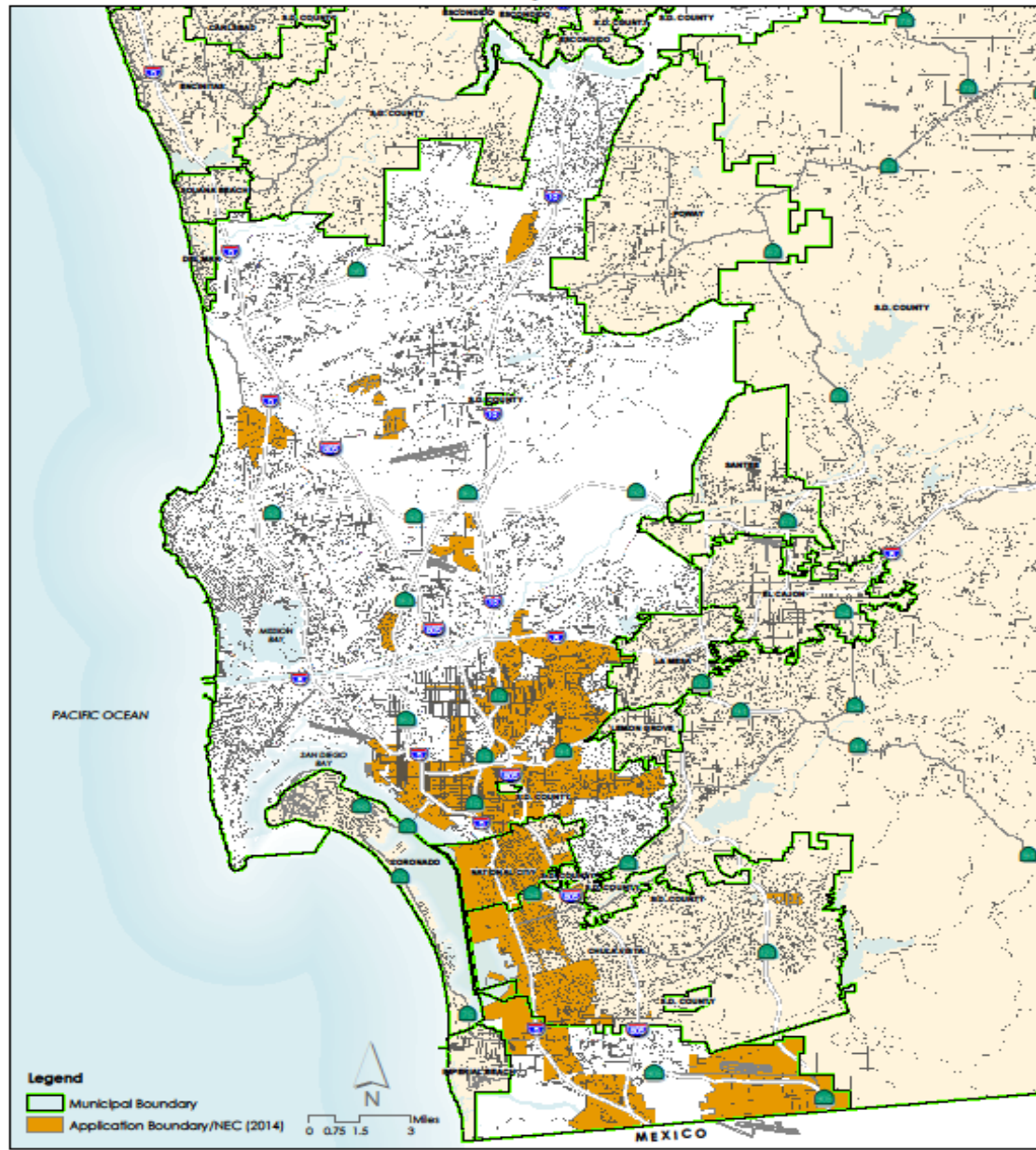
- ✓ ADMINISTERED BY: California Franchise Tax Board (FTB)
- ✓ WHEN: Applicable for any *eligible* employees hired after Jan. 1, 2014
- ✓ WHERE: Any employer located in areas with high unemployment or in a former EZ (excluding areas of low unemployment and high income)

New Employment Credit (NEC)

EXCLUDED INDUSTRIES:

- ✓ **Temp-employment services, general retail and food service industries, and drinking establishments with annual gross revenues in excess of \$2M.**
- ✓ **Sexually-oriented business (regardless of annual gross revenues).**

California New Employment Credit/Designated Geographic Area (DGA) January 2014



2010 Census Tracts (Eligible)

GIS
City of San Diego
2010 Census Tracts (Eligible)
January 2014



New Employment Credit

WHO IS ELIGIBLE

- ✓ **Recently discharged veterans (within 1 year of military separation)**
- ✓ **Unemployed individuals (for at least 6 months)**
- ✓ **Recipient of Federal Earned Income Tax Credit (EITC) for previous taxable year**
- ✓ **Ex-Offenders (felony conviction)**
- ✓ **Recipients of CalWorks or County general assistance (public assistance)**



New Employment Credit

FACTORS

- ✓ Qualified annual wages (between \$12.00 - \$28.00/hour) paid by employer per full time *eligible* employee
- ✓ Annual hours worked per full-time *eligible* employee (includes overtime)
- ✓ Annual wages captured for credit = 35% each year for up to 5 years (per eligible full-time employee)

New Employment Credit

“BASE YEAR” FACTOR

- ✓ Any qualified employer that hires eligible full-time employees during any taxable year must demonstrate to FTB that the company’s “total workforce” for that reportable tax year is equal to or greater than that of the company’s base year employee workforce.
- ✓ Base year is the reportable tax year immediately “preceding” the tax year in which the first new eligible employee was hired by the qualified employer.

New Employment Credit

BASE YEAR EXAMPLE

- ✓ A qualified employer (Hunter Enterprises) hires 1st full-time NEC eligible employee in taxable year 2014.
- ✓ Total full-time employee count for Hunter Enterprises at end of taxable year 2014 (including 1 new eligible NEC hire) is 20.
- ✓ Hunter Enterprises Base Year will be the “preceding” taxable year (i.e. 2013). Total employee count for Hunter Enterprises at close of taxable year 2013 was 19 employees.
- ✓ For purposes of future NEC employee eligibility, Hunter Enterprises Base Year employee count is, and will always be, 19.



New Employment Credit

BASE YEAR EXAMPLE

- ✓ Base year (2013) employee count for Hunter Enterprises (19) never changes.
- ✓ Each TCR submitted by Hunter Enterprises during any future taxable year must demonstrate total full-time employee count of at least 19 (i.e. Base Year 2013).
- ✓ Any TCR's submitted by Hunter Enterprises during a post-2013 taxable year that results in a total employee count of less than 19 employees will not be eligible for the credit.



Employment Credit Calc

Example 1: Credit Calculation value based on hourly wages of \$13.00 - \$17.00 for one eligible full-time employee over 5 year period

Year	Actual Hourly Wage	Deduct Minimum Hourly Wage (per new employment credit)	Net Hourly Wage (for credit calculation)	X	Annual Hours Worked	=	X	Year % of Wages Paid	=	Tax Credit Value
1	\$13.00	- \$12.00	\$1.00	X	2000	\$2,000	X	35%	=	\$700
2	\$14.00	- \$12.00	\$2.00	X	2000	\$4,000	X	35%	=	\$1,400
3	\$15.00	- \$12.00	\$3.00	X	2000	\$6,000	X	35%	=	\$2,100
4	\$16.00	- \$12.00	\$4.00	X	2000	\$8,000	X	35%	=	\$2,800
5	\$17.00	- \$12.00	\$5.00	X	2000	\$10,000	X	35%	=	\$3,500

Total Value of Credit

\$10,500



Employment Credit Calc

Example 2: Machinist earning \$18/hour for 5 consecutive years

Year	Actual Hourly Wage	Deduct Minimum Hourly Wage (per new employment credit)	Net Hourly Wage (for credit calculation)	X	Annual Hours Worked	=	X	Year % of Wages Paid	=	Tax Credit Value
1	\$18.00	- \$12.00	\$6.00	X	2000	\$12,000	X	35%	=	\$4,200
2	\$18.00	- \$12.00	\$6.00	X	2000	\$12,000	X	35%	=	\$4,200
3	\$18.00	- \$12.00	\$6.00	X	2000	\$12,000	X	35%	=	\$4,200
4	\$18.00	- \$12.00	\$6.00	X	2000	\$12,000	X	35%	=	\$4,200
5	\$18.00	- \$12.00	\$6.00	X	2000	\$12,000	X	35%	=	\$4,200

Total Value of Credit

\$21,000



Employment Credit Calc

Example 3: Journeyman welder earning \$24/hour for 5 consecutive years

Year	Actual Hourly Wage	Deduct Minimum Hourly Wage (per new employment credit)	Net Hourly Wage (for credit calculation)	X	Annual Hours Worked	=	X	Year % of Wages Paid	=	Tax Credit Value
1	\$24.00	- \$12.00	\$12.00	X	2000	\$24,000	X	35%	=	\$8,400
2	\$24.00	- \$12.00	\$12.00	X	2000	\$24,000	X	35%	=	\$8,400
3	\$24.00	- \$12.00	\$12.00	X	2000	\$24,000	X	35%	=	\$8,400
4	\$24.00	- \$12.00	\$12.00	X	2000	\$24,000	X	35%	=	\$8,400
5	\$24.00	- \$12.00	\$12.00	X	2000	\$24,000	X	35%	=	\$8,400

Total Value of Credit

\$42,000



Employment Credit Calc

Example 4: Master welder earning \$28/hour for 5 consecutive years

Year	Actual Hourly Wage	Deduct Minimum Hourly Wage (per new employment credit)	Net Hourly Wage (for credit calculation)	X	Annual Hours Worked	=	X	Year % of Wages Paid	=	Tax Credit Value
1	\$28.00	- \$12.00	\$16.00	X	2000	\$32,000	X	35%	=	\$11,200
2	\$28.00	- \$12.00	\$16.00	X	2000	\$32,000	X	35%	=	\$11,200
3	\$28.00	- \$12.00	\$16.00	X	2000	\$32,000	X	35%	=	\$11,200
4	\$28.00	- \$12.00	\$16.00	X	2000	\$32,000	X	35%	=	\$11,200
5	\$28.00	- \$12.00	\$16.00	X	2000	\$32,000	X	35%	=	\$11,200

Total Value of Credit

\$56,000



New Employment Credit

SUBMITTAL PROCESS

FTB has established an on-line Tentative Credit Reservation (TCR) system for qualified employers to submit for the new employment credit (FTB provides confirmation of TCR receipt-only).

Tentative Credit Reservation (TCR) on-line application link:
https://www.ftb.ca.gov/online/New_Employment_Credit_Reservation/New_Employment_Credit_Reservation.asp

The City of
San Diego
America's Finest City



Access MyFTB Account
[Login](#) | [Register](#)

File

- Filing information
- e-file
- File by mail
- Extension to file
- Tax law, legislation, and forms updates

Pay

- Pay online (Web Pay)
- Credit card
- Electronic Funds Transfer (EFT) for corporations
- Check, money order, or cash
- Installment agreement
- All payment options

Online Services

- View estimated tax payments

New Employment Credit Reservation

To be eligible for the New Employment Credit a qualified taxpayer must obtain a tentative credit reservation from FTB for each qualified employee. The employer must receive the credit reservation within 30 days of completing the [New Hire reporting requirement](#) with Employment Development Department.

Before you get started

- Review the [FAQs](#) to see if your business and employee meets the requirements.
- Use the [DGA Mapping Tool](#) to verify that the location where the employee works is in the DGA.
- Gather the [information you will need](#) to complete the reservation.
- Review the [instructions](#).



New Employment Credit

FTB's TCR on-line application portal will require the employer to input a variety of employer/employee data; including:

- ✓ Employer's estimated annual gross receipts for taxable year
- ✓ Business entity type - Federal Employer Tax ID # (FEIN)
- ✓ Employer information
(name, address, NAICS Code, contact info)
- ✓ Employee information
(name, hire date, starting hourly wage, last 4 digits of SS#)



New Employment Credit

SUBMITTAL PROCESS

- ✓ No limit to the number of full-time new hires an employer may submit a TCR for in any taxable year.
- ✓ No fee required to submit TCR's.
- ✓ TCR's must be submitted to FTB within 30 days from filing date with State EDD for "new hire" compliance requirement.



New Employment Credit

TAX CREDIT CALCULATION / VALUE

- ✓ FTB will not independently verify (in writing) tax credit validity for TCR submissions (subject to audit).
- ✓ NEC Tax credit calculation is responsibility of the employer, based on the number of TCR's submitted (for new eligible full-time hires) during any taxable year.
- ✓ Maximum tax credit "carry forward" period is 5 years from date credit is captured.




New Employment Credit

QUESTIONS TO ASK BEFORE SUBMITTING A TCR:

- ✓ What is my company's current State tax liability ?
- ✓ How many tax credits does my business actually need ?
- ✓ What is my company's projected State tax liability over the next several years ?
- ✓ How many tax credits will my company need to capture in order to leverage our future year State tax liability ?



The City of
San Diego
America's Finest City



**For More Information on New
Employment Tax Credit Program:**

California State Franchise Tax Board (FTB)

Phone: 800-852-5711

E-mail inquiries:

https://www.ftb.ca.gov/Contact_US/Email_FTb.asp?path=question

FTB Website:

<https://www.ftb.ca.gov/index.shtml?disabled=true>