



Senators Steven Bradford & Anna M. Caballero & Assemblymember Sabrina Cervantes

SB 1447 (Bradford / Caballero / Cervantes) – Small Business Hiring Tax Credit

SUMMARY

SB 1447 further expands California's assistance programs for small businesses during the COVID-19 pandemic by establishing a hiring tax credit for eligible small businesses that can be applied against income tax liabilities (personal or corporate), or sales and use taxes liabilities.

BACKGROUND

COVID-19 and the necessary public health response to it have disrupted many of California's small businesses. In May, McKinsey reported that more than a third of vulnerable private-sector employees worked for small businesses with 100 or fewer employees. Vulnerable employees include not only those facing termination, but also those on unpaid leave, those forced to reduce their wages or hours worked, and those forced to leave the workforce.

Small businesses are not only a leading engine of net job growth, they are also a means by which many hardworking individuals and their families build wealth. This is especially true of minority- and women-owned businesses, as well as other diverse businesses enterprises such as those owned by veterans and LGBT individuals. Intergenerational wealth in disadvantaged segments of the population is consistently less on average when compared to white households. The average Black family in the U.S. has one-tenth of the wealth of the average white family. Small business ownership has historically been a means of countering that inequity.

During unprecedented public health and economic crises, the State has prioritized supporting small businesses and the individuals that those businesses employ. This includes a one-year, zero-interest extension on sales and use tax liabilities of up to \$50,000. This is effectively a zero-interest loan that

can assist small businesses with cash flow or other financial needs.

The California Infrastructure & Economic Development Bank, or I-Bank, also announced in August a \$25 million loan program in partnership with Community Development Financial Institutions (CDFIs) — which the Legislature approved in the 2020 Budget Act.

However, given the severity of the current economic downturn, more action is needed.

SOLUTION

SB 1447 builds upon existing state programs to assist small businesses by providing tax credits for net new hires.

SB 1447 allows small businesses to receive a tax credit of \$1,000 against personal and corporate income taxes *or* sales and use taxes for the 2020 tax year for each net new employee hired by that business, so long as all of the following applies:

- The small business employed 100 or fewer employees as of December 31, 2019;
- The small business had a 50% *decrease* in gross receipts in the second quarter of 2020 (April 1, 2020 to June 30, 2020) compared to the second quarter of 2019;
- The small business had a net *increase* in employment between July 1, 2020 through November 30, 2020, as compared to the second quarter of 2020 (April 1, 2020 to June 30, 2020);
- The small businesses applied for a tentative credit registration between December 1, 2020 and January 15, 2021 with the California Department of Tax & Fee Administration, which was accepted by the Department.



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An individual small business can receive no more than \$100,000 in tax credits and the total value of this tax credit program is \$100,000,000.

SUPPORT

California Chamber of Commerce

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