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California Qualified Employers May Receive Tax Credit Boost for New Hires

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Qualified Employers May Receive Tax Credit Boost for New Hires Under California's Main Street Hiring Tax Credit

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California employers who hired new employees may now apply for tax relief following Governor Gavin Newsom's announcement of the Main Street Hiring Tax Credit. As part of the emergency relief provided in Senate Bill 1447 to assist businesses impacted by COVID-19, the Main Street Hiring Tax Credit may provide relief to those qualified employers who hired new employees despite facing unprecedented economic disruption during the COVID-19 pandemic.

The Main Street Hiring Tax Credit provides $100 million in hiring tax credits. Employers may reserve $1,000 for each new qualified employee hired, up to $100,000 per employer.

Eligibility for the tax credit is reserved for "qualified employers" who hired "qualified employees."

Employers qualify for the Main Street Hiring Tax Credit if the employer:

- Employed 100 or fewer employees as December 31, 2019;
- Experienced at least a 50 percent decrease in income tax gross receipts when comparing 2nd quarter 2019 (i.e., beginning on April 1, 2019 and ending June 30, 2019) 2019 to 2nd quarter 2020 (i.e., beginning on April 1, 2020 and ending June 30, 2020); and
- Is not required or authorized to be included in a combined report under Revenue and Taxation Code Sections 25101, 25101.15, or 25110.

Under Senate Bill 1447, a "qualified employee" is an employee who is:

- Paid wages by the employer, subject to the California Unemployment Insurance

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Code;
- Not receiving wages that are used in calculating any other income or franchise tax credits; and
- Not paid as an independent contractor.

The Main Street Hiring Tax Credit allows employers to use the credit against their California income taxes or to make an irrevocable election to apply the credit against sales and use taxes.

Employers with businesses structured as S corporations face additional limitations.

S corporation employers that elect to offset franchise and income tax are limited to using 1/3rd of the tentative hiring credit against the tax on net income at the S corporation level. The remaining 2/3rds of the hiring credit must be disregarded and cannot be used as a carryover. However, the full credit amount can be passed through to shareholders, who may then use the hiring credit to offset their personal income taxes. Employers may not use the hiring credit to offset the $800 minimum franchise tax. S corporation employers that elect to offset qualified sales and use tax are limited to using 1/3rd of the tentative hiring credit reservation amount. The remaining 2/3rds of the hiring credit must be disregarded and cannot be used as a carryover. The full credit amount cannot be passed through to shareholders.

With the Main Street Hiring Tax Credit, California employers who hired new employees despite facing COVID-19-related challenges may find tax relief. Qualified employers may apply with the California Department of Tax and Fee Administration for a credit reservation through January 15, 2021. As of January 4, 2021, approximately $46 million worth of credits remain unclaimed. Credits may be reserved by visiting: https://taxcredit.cdtfa.ca.gov/.