

LOCAL AGENCY MILITARY BASE RECOVER AREA (LAMBRA)

Local Agency Military Base Recovery Area (LAMBRA) Designation – This designation creates a zone that allows our project to extend California tax credits to companies who locate within the boundaries of the project. The credits include a 15-year net operating loss carryover; tax credits for sales and use taxes paid (see below); hiring credits for wages paid (see below); and various business expense deductions. LAMBRA designations are aimed at helping communities with closed military installations to attract new business and private investment to compensate for lost jobs and revenue. LAMBRA designation also allows tenants to carryover tax credits that they could not use in a tax year.

- **Net Operating Loss Carryover** - NOLs of corporations doing business in a LAMBRA may be carried over to future years to reduce the amount of taxable LAMBRA income for those years. To qualify, a company must provide financial data indicating that the income offset by the carryover is the product of business activity in the LAMBRA

Example: For 2003 income year, a company's activities in the LAMBRA show a \$100,000 NOL that is the exclusive result of a LAMBRA activity. As a result of that loss, the company owes no tax on LAMBRA income. In 2004, a net profit of \$1.5M is shown. Taxable income for 2004 may be reduced to \$1.4M.

- **LAMBRA Hiring Credit** - Probably the most important advantage of locating within a LAMBRA is the hiring credit a company becomes eligible to receive. A qualified business may reduce tax by a percentage (up to 50%) of wages paid (up to \$2 million total per year) to one or more qualified employees. Typical "qualified" employees include former base employees, workers who are unemployed or simply underemployed. This can make a company eligible for a tax credit of up to \$1 million each year the business is located within the LAMBRA. Wage eligibility is capped at 150% of minimum wage as established by the Industrial Welfare Commission.

A qualified employee is one of the following (please refer to FTB Pub. 1102 for more detail of what constitutes a "qualified employee"):

- an ex employee of Norton Air Force Base
- Eligible for the Job Training Partnership Act or the Greater Avenues for Independence Program
- An economically disadvantaged individual 14 years of age or older
- a disabled individual
- an ex-offender
- a Native American
- eligible for or recipient of
- Federal Supplemental Security Income
- Aid to Families with Dependent Children
- Food Stamps

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(LAMBRA – continued)

- General Assistance
 - a displaced worker
 - a resident of a TEA
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- **LAMBRA Sales or Use Tax Credit** - Corporations can earn sales tax credits on purchases of \$20 million per year of qualified machinery and machinery parts (anything listed as Section 1245 property in the Internal Revenue Code) that are used within the LAMBRA. Such property includes high technology equipment including, but not limited to computers and electronic processing equipment. It is estimated that any and all “electronic processing” equipment could qualify. Assuming all of the tenants \$9.75M equipment was purchased in California and subject to California sales tax.

Example: A company spends \$9.75M to purchase computers for use in the facility. The sales tax paid for the purchase is \$731,250. The company may reduce the amount of its tax imposed on income by up to \$731,250.

- **LAMBRA Business Expense Deduction** – The cost of qualified property purchased for exclusive use on the project site may be deducted as a business expense in the first year it is placed in service. The type of property that qualifies for this special treatment is tangible personal property that is used for business purposes and is eligible for depreciation. Currently set at up to \$40,000 annually.