

California Competes Tax Credit Frequently Asked Questions

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Table of Contents

General	1
Application Mechanics	6
Evaluation Factors	8
Evaluation Process.....	10
Tax Credit Mechanics	10
Employment Requirements.....	11
Privacy.....	12
Contact Information.....	12

General

1. What is the California Competes Tax Credit?

The California Competes Tax Credit is an income tax credit available to businesses that want to locate in California or stay and grow in California and create quality, full-time jobs in California that might not otherwise be created by the business or any other business.

Tax credit agreements will be negotiated by GO-Biz and approved by a statutorily created "California Competes Tax Credit Committee," consisting of the State Treasurer, the Director of the Department of Finance, the Director of GO-Biz, and one appointee each by the Speaker of the Assembly and Senate Committee on Rules.

2. How much in tax credits will be available each year?

The tentative amount of credits that can be allocated by GO-Biz is as follows:

- \$180 million in each fiscal year 2018-19 through 2032-33

3. Can any business apply for the California Competes Tax Credit? Is the credit restricted to only certain industries or locations in California?

Any business can apply for the California Competes Tax Credit. The credit is available statewide to all industries. However, while there are no geographic or sector-specific restrictions, the purpose of the California Competes Tax Credit is to attract and retain high-value employers in California in industries with high economic multipliers and that provide their employees good wages and benefits.

GO-Biz is required by statute to consider the extent to which the credit will influence the business's ability, willingness, or both, to create new, full-time jobs in this state that might not otherwise be created in the state by the applicant or any other California business.

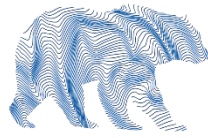
4. How much credit should I request?

A business should request the amount of credit that it needs to be able to commit to implementing its proposed project. In the Proposed Project narrative, you should explain not only why your business "needs" a credit, but specifically how the amount of credit you are requesting will enable or incentivize your business to create new full-time jobs that might not otherwise exist in California.

5. How does a business demonstrate the extent to which the credit it is requesting will impact its ability/willingness, to create jobs in California that might not otherwise be created by the business or any other business?

In Phase I, a business has the opportunity in the Proposed Project section of the application to explain the role this credit will play in its willingness/ability to commit to its proposed California expansion. This project narrative should address (but not be limited to) the following questions:

- What does the business do? What are its products or services?
- Where are its customers/clients located?
- Do the jobs it is proposing to create have to be in California?
- Are its competitors located in or outside of California?

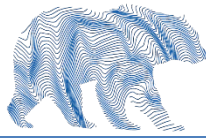


- If the applicant is awarded a credit, would it give the applicant an unfair advantage over other local businesses with whom it competes?
- Are these kinds of jobs reliant upon local market demand?
- How will the *amount* of credit the business is requesting over the 5-year period enable or incentivize its decision to proceed with the California expansion?
- Is the business considering expanding (or moving operations) outside of California? If so...
 - Has it identified a specific site or city?
 - Has it conducted a comprehensive cost comparison between the sites?

6. What is the maximum ratio that will move my application to the Phase II evaluation process?

Because the California Competes Tax Credit is based on a competitive application process, the maximum ratio for an application to move into Phase II is not set and can vary during each application period. For historical reference only, below are the cutoff ratios for the application periods to date:

FISCAL YEAR	RATIO
2013-14	.0184
2014-15 1 st period	.01383
2014-15 2 nd period	.01433
2014-15 3 rd period	.0134
2015-16 1 st period	.1449
2015-16 2 nd period	.0653
2015-16 3 rd period	.1242
2016-17 1 st period	.0475
2016-17 2 nd period	.0684
2016-17 3 rd period	.0389
2017-18 1 st period	.0366
2017-18 2 nd period	.1355
2017-18 3 rd period	.0316
2018-19 1 st period	.0588
2018-19 2 nd period	.1152
2018-19 3 rd period	.1171
2019-20 1 st period	.0439
2019-20 2 nd period	.2244
2019-20 3 rd period	.0860
2020-21 1 st period	.0366



2020-21 2 nd period	.0509
2020-21 3 rd period	.0345
2021-22 1 st period	.0769
2021-22 2 nd period	.3906
2021-22 3 rd period	.0601
2022-23 1 st period	.0380
2022-23 2 nd period	.0629
2022-23 3 rd period	.0779
2023-24 1 st period	.6812
2023-24 2 nd period	.1866
2023-24 3 rd period	.3190
2024-25 1 st period	.3464
2024-25 2 nd period	1.939
2024-25 3 rd period	.0881
2025-26 1 st period	.298
2025-26 2 nd period	.2775
2025-26 3 rd period	N/A

7. Are there exceptions to the cutoff ratios?

GO-Biz may move an application to Phase II, regardless of ratio, if the applicant certifies that:

- a. absent award of the credit, the applicant's project may/will occur in another state, or the applicant may/will terminate or relocate all or a portion of its employees to another state, or
- b. at least 75% of the applicant's net increase of full-time employees will work at least 75% of the time in an area of high unemployment or high poverty.

The definition for high poverty and high unemployment can be found [here](#) under Definitions.

8. Are small businesses able to apply for the credit?

Yes. Businesses of any size are eligible to apply for the California Competes Tax Credit.

9. Is there a fee to apply for the California Competes Tax Credit?

No, there is no fee to apply for the credit.

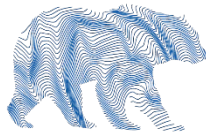
10. Are there any recent changes to the California Competes Tax Credit Program evaluation criteria?

Yes. For determinations made during the 2023-24 fiscal year and beyond, GO-Biz may consider the applicant's willingness to relocate jobs into California from a state that has enacted a law that does any of the following:

- Voids or repeals, or has the effect of voiding or repealing, existing state protections against discrimination on the basis of sexual orientation, gender identity, or gender expression.
- Authorizes or requires discrimination against same-sex couples or their families, or discrimination on the basis of sexual orientation, gender identity, or gender expression.
- Creates an exemption to antidiscrimination laws in order to permit discrimination against same-sex couples or their families, or permits discrimination on the basis of sexual orientation, gender identity, or gender expression.
- Denies or interferes with, or has the effect of denying or interfering with, a women's right to choose to bear a child or to choose and obtain an abortion, as provided by Article 2.5 (commencing with Section 123460) of Chapter 2 of Part 2 of Division 106 of the Health and Safety Code.

Additionally, GO-Biz may consider the applicant's commitment to treating their workforce fairly and creating quality, full-time, wage and salary jobs in the state, evidence of which may include, but not be limited to, the following:

- Training, career ladder, apprenticeship, or pre-apprenticeship programs for non-supervisory employees.
- Joint labor-management letter of support.
- A high percentage of full-time wage and salary employees compared to part-time, temporary, and independent contractors.
- Little to no history of a bad safety record, or resolved or pending litigation, violations, citations, fines, or penalties relating to any state or federal environmental and labor laws within the last 10 years.



Application Mechanics

1. When and how can businesses apply for the California Competes Tax Credit?

Applications for the California Competes Tax Credit are accepted at www.calcompetes.ca.gov during the application periods specified in the "Notice California Competes Tax Credit" located at <https://business.ca.gov/california-competes-tax-credit/>.

2. How long will the process take from application to award?

The process takes approximately 3 months which includes the period when applications will be reviewed and presented to the California Competes Tax Credit Committee for approval.

3. If not awarded a credit, can a business reapply?

Applicants not awarded a credit during an application period can update and resubmit their application in a subsequent application period.

4. How do I update and resubmit an application if I was not awarded a credit and I want to reapply?

Applicants may copy and resubmit applications after updating the Employees and Investment section and Current Tax Year.

Log in to your account at www.calcompetes.ca.gov and click on "My Applications". From the "My Applications" screen, click on the application you would like to update and resubmit; and then from the "Application Summary" screen, click on the "Options" button. From the "Application Options" screen click on "Copy," and then complete the "Create Application" screen. The application will then be pre-populated with most of the data from the previous application.

5. Can a business that receives an award apply and receive another award in a subsequent year if it creates more full-time jobs and competes well according to the evaluation criteria?

Yes, businesses are not limited to the number of times they can apply or the number of times they can be awarded tax credits for additional full-time job growth and investments.

6. If I receive reimbursements, rebates, tax credits or other incentives related to the compensation I pay my new full-time employees, must I make an adjustment when computing the “Aggregate Employee Compensation” for my California Competes Tax Credit application?

No, no adjustment is necessary. However, you will need to list and describe such incentives in the “Incentives and Programs” section of the California Competes Tax Credit application.

7. Is the “Aggregate Employee Compensation” the total wages for all existing employees and the employees projected to be hired?

No. In short, the Aggregate Employee Compensation is an estimate of the total projected W-2 wages (not including tips, overtime, bonuses, benefits, stock options, or other compensation of any kind) for the net increase of full-time employees to be employed in California by a business over a five tax-year period.

8. How do I determine if my proposed employee growth is in an area of High Poverty or High Unemployment when filling out the application?

You can find the list of cities and counties that fall within areas of high poverty or high unemployment [here](#) on our website. This list is updated prior to the start of each application period. Additionally, there is a link in the proposed project section of the application. If you indicate that at least 75% of your proposed net increase of new full-time employees will work at least 75% of the time in an area of high unemployment or high poverty, the application will automatically move into Phase II, regardless of your cost-benefit ratio.

9. What is the difference between real and personal property investments?

Real property is defined as any property located in this state that is attached directly to land, as well as the land itself. It includes, but is not limited to all, land, structures, firmly attached and integrated equipment, anything growing on the land, and all other “interests” in the property which may be the right to future ownership, right to occupy for a period of time, or an easement across another’s property. Real property also includes capitalized costs related to new construction, reconstruction, or expansion of buildings or structures which will be used in the applicant’s trade or business in connection with the project and are subject to depreciation.

Personal property is defined as property that is tangible, movable property, including, but not limited to, vehicles, movable fixtures, equipment, electronic devices, intangible

property, including, but not limited to, software licenses, intellectual property acquired in connection with the project that has a quantifiable value, and other business assets which are subject to depreciation.

10. What type of documents are needed to complete a California Competes Tax Credit Application?

Applicants must use actual numbers from the payroll records for the most recently completed tax year for its full-time employees that worked a full or partial year. It will also be helpful to have a 5-year business plan that includes projected number of new full-time employees, their job classifications, wages, and projected new investments.

Evaluation Factors

1. What factors will GO-Biz consider when reviewing applications for the credit?

Award of the credit will be based on the following factors:

- The number of jobs the business will create or retain in this state.
- The compensation paid or proposed to be paid by the business to its employees, including wages, benefits, and fringe benefits.
- The amount of investment in this state by the business.
- The extent of unemployment or poverty where the business is located.
- The incentives available to the business in this state, including incentives from the state, local government, and other entities.
- The incentives available to the business in other states.
- The duration of the business' proposed project and the duration the business commits to remain in this state.
- The overall economic impact in this state of the applicant's project or business.
- The strategic importance of the business to the state, region, or locality.
- The opportunity for future growth and expansion in this state by the business.
- The training opportunities provided to employees.
- The extent to which the anticipated benefit to the state exceeds the projected benefit to the business from the tax credit.
- The extent to which the credit will influence the applicant's ability, willingness, or both, to create new full-time jobs in this state that might not otherwise be created in the state by the applicant or any other business in California.

- Commitment to treating workforce fairly and creating, quality, full-time, wage, and salary jobs.
- The extent to which the tax credit influences the applicant's decision to relocate jobs into California from states that have enacted laws that:
 - Permit discrimination on the basis of sexual orientation, gender identity, or gender expression; or
 - Deny or interfere with women's reproductive rights.

2. Will new or emerging industry/sectors be considered during the evaluation?

Yes, this will be taken into consideration during the Phase II evaluation.

3. Are other grants/incentives included in the Phase I evaluation?

No, these are not taken into consideration until Phase II. However, including other grants/incentives does not necessarily negatively impact an applicant. It is a useful tool for GO-Biz to identify if the applicant may be able to take advantage of other grants/incentives. Applicants will also be asked as part of the application if they would like for a GO-Biz business specialist to contact them about other incentives of which they might not be aware that could benefit their project or business.

4. Will letters of support from local governments be a part of the process?

Yes, although not required, letters of support will be taken into consideration during Phase II of the application process. Applicants will be invited to upload supporting documents after being notified of their application being forwarded to Phase II.

5. Is a business required to have site control to be eligible for tax credits? For example, if a company is looking to start a business in California, must they have already signed a property lease or property purchase agreement?

Businesses that apply for the tax credit are not required to have an existing signed lease or purchase agreement; but, applicants should have an idea of the general location in California because this will be taken into account during the Phase II evaluation. The applicant should also be able to demonstrate the finance mechanism(s) it has secured or will use to procure its facility(ies).

Evaluation Process

1. Is the Phase I formula detailed in the California Competes Tax Credit regulations?

The Phase I formula in the California Competes Tax Credit regulations can be found [here](#) under Application Process for Tax Credit Allocation.

2. What is the difference between the Phase I evaluation and the Phase II evaluation?

The Phase I evaluation is a quantitative analysis in which the credit amount requested is compared to the hiring and investment commitments of each applicant. This “ratio” is automatically calculated based on the applicant’s credit request divided by the sum of its aggregate investment and aggregate employee compensation. Phase II brings into consideration a variety of quantitative and qualitative factors, including local unemployment and poverty, competing incentives, economic impact, strategic importance, industry outlook, and the extent to which the applicant demonstrates that the credit will play a significant role in its decision or ability to create new, quality, full-time jobs in California.

3. Are there any exemptions to the Phase I calculation which would allow an application to be considered in Phase II?

Yes, GO-Biz will move an application to Phase II if the owner, president, chief executive officer, chief financial officer or other equivalent representative of the applicant certifies to GO-Biz that absent award of the credit the applicant’s project may/will occur in another state or the applicant may/will terminate or relocate all or a portion of its employees to another state.

In addition, if a business indicates in the Proposed Project section that at least 75% of the applicant’s proposed net increase of new full-time employees will work at least 75% of the time in an area of high unemployment or high poverty, the application will automatically move into Phase II.

Tax Credit Mechanics

1. What types of taxes can the California Competes Tax Credit offset, and does the credit expire?

The California Competes Tax Credit only applies to income tax owed to the Franchise Tax Board. The credit is non-refundable. If the credit allowed exceeds the tax due, the excess



may be carried over to reduce the tax in the following year, and the succeeding five years if necessary, until exhausted.

2. Is there a minimum credit amount that a business may request?

Yes, the minimum amount a business can request is \$20,000.

3. If I am awarded a California Competes Tax Credit, when can I claim it on my tax return?

Each negotiated and approved tax credit agreement will specify the terms and conditions of when the tax credit may be claimed.

4. If I am awarded the California Competes Tax Credit, may I assign it to an affiliated corporation?

The normal credit assignment rules under Revenue and Taxation Code section 23663 apply.

5. What happens if an S-Corp is awarded the California Competes Tax Credit?

One-third of the California Competes Tax Credit may be utilized by an S-Corp to offset the tax on net income at the S-Corporation level. The remaining two-thirds of the credit is disregarded and may not be used as a carryover for the S-Corp. However, the full amount of the California Competes Tax Credit is also passed through to the S-Corp's shareholders.

Employment Requirements

1. Is there a minimum number of jobs that must be created?

There is no minimum number of jobs that must be created. However, the credit will be awarded on a competitive basis. Applicants should keep in mind that the primary goal of the California Competes Tax Credit program is to incentivize the creation of high-quality full-time jobs.

2. What is considered a full-time employee for the California Competes Tax Credit?

A full-time employee is defined as an individual that receives a W-2 from the applicant and is paid wages for services in this state of not less than an average of 35 hours per week.

3. Can new part-time employees be combined to fulfill the new full-time employee requirements?



No, new part-time employees do not qualify and will not be counted towards the employment requirement, even partially. For example, two new part-time hires do not equal one new full-time hire for the purpose of fulfilling the credit requirements. Likewise, part-time employees should not be included in the “base year” calculation either.

Privacy

1. Is a California Competes Tax Credit application and its related application materials subject to a California Public Records Act request?

GO-Biz, like all state agencies, is subject to the California Public Records Act (CPRA) found at Government Code section 6250 et. seq. However, a number of exemptions and prohibitions under both state and federal law apply to prevent disclosure of tax, proprietary, confidential, privileged, financial, and/or trade secret information. Additionally, Revenue and Taxation Code section 19542 specifically prohibits the release of the application and application materials submitted as part of the application process. For applicants awarded the credit, the law requires GO-Biz to post on its website the following information:

- (A) The name of each taxpayer allocated a credit
- (B) The estimated amount of the investment by each taxpayer
- (C) The estimated number of jobs created or retained
- (D) The amount of the credit allocated to the taxpayer
- (E) The amount of the credit recaptured from the taxpayer, if applicable
- (F) The primary location where the taxpayer has committed to increase the net number of jobs or make investments
- (G) Whether the taxpayer was given priority for being located in a high poverty or high unemployment area

Contact Information

If any additional assistance is needed, please email CalCompetes@gobiz.ca.gov or call 916-322-4051.