Labhart Miles
consulting group, inc.

States of Affair

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Dear Monika,

In this month's States of Affair, we take a look at the California Competes Tax Credit Program and how it's helping fight back against states trying to woo California businesses to their states.

We are also reminding our readers that qualified taxpayers may file applications for the California EZ Hiring Credit tax credit vouchers during 2014. Keep reading to find out all the details.

Also learn why we in the multi-state tax world are picking up the phrase "Market."

I'm also excited to announce Labhart Miles is celebrating its 12th anniversary! Continue reading to learn what we have planned in the upcoming months.

If you want to know more about any of the items in this month's e-newsletter or what we do at Labhart Miles, please contact us at 408.266.2259 or email us today.

All the best,
Monika Miles
Labhart Miles Consulting Group, Inc.

Hot News

California Competes Credits

The Governor's Office of Business and Economic Development (GO-Biz) is administering the new California Compete Tax Credit Program (CCC) to fight back against states trying to woo California businesses. The program technically started January 1, 2014 to reward businesses that add or move jobs to California and is effective through January 1, 2025. So far $30 million tax credits are available this year to reduce business income and franchise taxes for eligible companies. That number will grow to $150 million in the fiscal year 2014-15, and $200 million between 2016 and 2017. GO-Biz anticipates accepting the first set of applications within the next month or two.

The program is somewhat subjective as it was designed to give GO-Biz flexibility so the credits can be allocated to best meet a regional or statewide need. Unused CCC may be carried over to reduce the net tax in the following taxable year and succeeding five taxable years, but may not be used to reduce tax below the tentative minimum tax. However, GO-Biz has the ability to negotiate the amount of tax credits a business can receive based on the overall economic impact for California. This means they will consider factors such as

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the number of jobs, employee wages, unemployment rate where the business is located and the opportunity for growth.

In order to qualify, a business must enter into a written agreement with GO-Biz, which sets forth the amount of CCC that will be allocated to that business. The amount of the CCC is based on several factors including:

- The number of jobs the business will create or retain in California.
- The overall economic impact the proposed business will have in the area.
- The opportunity for future growth and expansion of the business in California.

The tax credit isn't just for big businesses and the state recognizes that most new jobs come from small businesses. Because of this the state has allocated 25% of the credits available in any year for smaller companies.

To learn more about the new California Competes Credits program click here and stay tuned to our newsletter for future updates. If you have any questions about whether your business might qualify, give us a call at 408.266.2259.

CA EZ Hiring Credit Expiration

In our January State of Affairs newsletter, we reminded readers that qualified taxpayers claiming the CA EZ Hiring Credit who hired eligible employees on or before December 31, 2013 may file applications for tax credit vouchers during 2014. As a reminder, all vouchers must be issued on or before December 31, 2014.

Taxpayers operating in a formerly designated enterprise zone can continue to claim carryover amounts and hiring credits generated (up to five years) for employees hired on or before December 31, 2013. For taxable years beginning on or after January 1, 2014, Enterprise Zone credit carryovers are limited to 10 years. The credits and any carryovers are also subject to the Enterprise Zone business income limitation.

Although the law allows for issuance of vouchers through December 31, 2014, local zone administrators in San Francisco and San Jose have announced that they will only accept applications for vouchers until **June 30, 2014**. With the sunset of the program, and the change of focus for these EZ communities, other zone administrators may also be limiting their acceptance of applications to dates prior to December 31, 2014. Therefore, we are encouraging all of our clients to get vouchers in during Q1 and Q2 regardless of the particular zone because we want to make sure our clients don't get stuck in the backlog of voucher requests.

If you are a company in one of California's formerly designated EZ's (click here for map), now is the time to review your eligibility and take advantage of these benefits. Companies must be in receipt of signed EZ hiring credit vouchers in order to claim this valuable credit.

Please check in with us directly if you have any questions relating to Enterprise Zone vouchers as well as to check deadline dates in your area. Labhart Miles always offers a free, no obligation analysis of your potential EZ benefits. (For our fellow services providers - CPAs, bookkeepers and attorneys, we also offer this service for your clients.) Contact us today.

Multi-State Tax is Going to "Market"

In the multi-state tax world, we have picked up the phrase "market" whether we're talking about sales tax, such as the "Marketplace Fairness Act," or income tax, such as "Market-Based" income sourcing, and while neither of these concepts are brand new, they're *new enough* that we wanted to touch on them here, and then expand further in future editions.

The Marketplace Fairness Act, otherwise known as "MFA," "Internet Sales Tax" and "Amazon Tax," is the federal government's proposed solution to the collection of sales tax on Internet sales. Currently Internet retailers are not required to collect and remit sales tax on sales of merchandise delivered to states in which they do not have nexus or taxable presence. However, if the MFA passes in its currently drafted form, Internet retailers with gross revenues in excess of $1 million will be required to collect and remit sales tax in all states in which they sell. Obviously this is a huge shift in the status quo and would significantly impact middle market Internet retailers. The MFA passed the US Senate in May 2013, but has stalled in the US House of Representatives. At a Congressional Hearing on March 12, 2014, Rep. Bob Goodlatte (R - VA), chair of the House Judiciary Committee, held a hearing to examine alternatives to the current version of the MFA. According to Goodlatte, the MFA, "suffers from fundamental defects in three categories." They are:

1. The tax is already owed, but the public views the bill as Congress taxing the Internet.
2. Compliance proposals in the bill are not simple enough and in fact ignore some remote seller issues.
3. The bill exposes remote sellers to multiple audits in jurisdictions in which they have no voice. Remote sellers have no direct recourse to protest unfair or unwise enforcement, making them prime audit targets.

"There have been more than 30 Congressional hearings on this issue since 1994," noted Goodlatte. "New approaches are needed and these witnesses will present some today. I look forward to their testimony, ask everyone to keep an open mind and hope no one finds today's proceedings **too taxing**."

Badum bum!

On the income tax side, companies are finding that several states have adopted a **"market-based" approach for the sourcing of revenues** for service-based companies. For example, a company that provides accounting services to a client with several locations may now be required to take a different approach in determining where those revenues should be sourced. Until recently, almost all states adopted the "cost of performance" method of sourcing revenues, which essentially sourced the revenue to the state in which the company had the most costs of performing that service. For example, in the instance of an accounting firm, firm personnel likely performed most of the audit and tax services in their "home state" and, as such, revenue followed those costs.

Now, states that adopt a market-based approach would look to the customer that received benefit of those services and require sourcing of the revenue to where that benefit was received - likely a much different answer! Of course, not all states have adopted this approach, so it can make a company's overall apportionment calculation very interesting! Some of the larger states adopting market based sourcing include AZ, CA, GA, IL, MA, MI, MN, and PA, to name a few. Within these states, the rules for determining where benefit was received and thus, where revenue should be sourced, can vary.

As you work through some of these questions while preparing your returns this year, don't hesitate to contact us to help you through the maze!

What's Up at Labhart Miles?

This is a very exciting month for us here at Labhart Miles. We are celebrating our 12 year anniversary, and after 12 years we're ready to change things up just a bit. We will be making some exciting changes to our brand's look, feel and website in the next quarter.

But that's not all! I've also been booked for some speaking engagements:

- March 11 - The AFWA Sacramento student night as part of a panel discussion on accounting careers.
- March 19 - Customized program on multistate hot topics at a local accounting/consulting firm.
- April 27 - I will be the keynote speaker at SJSU's Beta Gamma Sigma annual banquet to discuss my experience on the "Road to Success."

And don't forget we do customized multistate tax presentations for local accounting firms; invite us to do one at your firm!

For more information, please contact us at 408.266.2259.

About Labhart Miles

Labhart Miles Consulting Group is a professional services firm specializing in multi-state tax solutions. We address state and local tax issues for our clients, including general state tax consulting, nexus reviews, credits and incentives maximization, income tax and sales/use tax planning, and other special projects. We also specialize in California Enterprise Zone projects, including the EZ Hiring and Sales/Use Tax Credits, and the EZ Net Interest Deduction for Lenders. For more information visit, www.LabhartMiles.com.

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