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What's Up at Labhart Miles

Dear Monika,

Happy Thanksgiving! I hope you have wonderful plans for the upcoming holidays.

In this month's States of Affair, we take a look at some of the changes to California's Enterprise Zones program and how they will affect your business. Over in Washington D.C., the debate over the Marketplace Fairness Act of 2013 continues to heat up even though Congress has stalled on signing any legislation. We will tell you the latest.

Quick Links

And if your company is in San Francisco, get ready for some big changes to payroll taxes beginning January 1, 2014. I'll tell

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you what you should know about Proposition E.

There have also been many exciting things happening at Labhart Miles. I'll tell you about an award I was honored with as well as this year's "Making Strides Against Breast Cancer" event. Continue reading because you won't want to miss it!

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.

Happy Holidays!

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



Hot News

The Latest on California's Enterprise Zones

Recently, the California Association of Enterprise Zones (CAEZ), in conjunction with "interested parties," held two enterprise zone program ending workshops to clarify the landscape for securing EZ benefits in 2013 and into 2014. We attended the session on November 6th in Sacramento.



Some items of note:

- Follow-up legislation (AB106) clarified the question of whether the state's enterprise zones should/could still issue vouchers into 2014. The answer - a resounding yes! The zones are required to issue vouchers into 2014, so the taxpayers that have qualified employees (including retroactively into still open tax years) can obtain the necessary vouchers to support the credits. The reality is that some zones are likely to shut down their operations prior to 12/31/14 (the date by which a voucher must be issued for any qualified employee),

due to budget constraints. The zone coordinators in attendance all agreed that they would be issuing vouchers well into the fourth quarter of 2014, but were unlikely to issue vouchers until the very last day of the year.

- Under the new legislation, enterprise zone hiring credits no longer carry forward indefinitely - they are limited to a 10 year carry forward. There was some clarification on what that means exactly. For example, because of the 5 year nature of the credit, if a qualified employee is hired in 2013, he/she can technically generate credits into 2018 even though the program has ended for new hires. The credit generated in 2018 would carry forward until 2029. So, these EZ credits will still be hanging around with us for a while!
- When the Franchise Tax Board audits taxpayers' enterprise zone credits, they rely on the EZ address ranges that are listed on the Housing & Community Development (HCD's) website. Alas, there are several on the website today that are already out of date. HCD representative John Nunn assured the audience that HCD would continue to be in existence for many years and that they would maintain the address ranges.
Maintain? As in, update the information to include the correct street ranges?

As a reminder, while employees hired after 12/31/13 no longer qualify for the hiring credit, qualified employees not yet issued vouchers can still be issued vouchers into 2014.

If your business is in the zone, please talk to us SOON about a free scoping analysis to determine if there are benefits to which you are entitled!

Marketplace Fairness Act Latest

The debate over the Marketplace Fairness Act (MFA) of 2013 continues to brew, even though Congress has stalled on signing any legislation. The [Marketplace Fairness Act](#) grants states the authority to compel online and catalog retailers or remote sellers, no matter



where they are located, to collect sales tax at the time of a transaction. This is what local (brick and mortar) retailers are already required to do. The MFA's central aim is to level the playing field for all businesses, irrespective of size or location.

Advocates of the law argue that out-of-state and online vendors should have to remit the same sales-and-use taxes as brick and mortar businesses. States already have the authority to require retailers to collect sales tax from their

customers, but only if those retailers have a physical presence, or nexus, in their state. The proposed bill allows a state to require out-of-state sellers to collect sales taxes on state residents' purchases, even if the seller has no physical presence in that state.

The MFA has already cleared the Senate hurdle and has made its way to the House of Representatives, where it has stalled. According to a 2012 estimate from the National Conference of State Legislatures, the MFA will change the legal standards in all states and provide authorities with a means to collect more than \$23 billion in annual sales-and-use taxes from residents that have previously gone unpaid. If the bill passes, states get the option of making businesses that aren't physically located within their borders collect sales tax.

The MFA does exempt businesses with less than \$1 million in annual remote sales from collecting sales tax in states where they don't have nexus. However, many small business advocates feel that number is too low, and that the proposed law might be more fair to small business if the threshold were higher, perhaps around \$10 million. (This type of threshold is favored by companies such as O.co and Ebay.) Opponents also argue that the MFA would give mega-retailers such as Amazon and Walmart a bigger advantage than they already have. Those businesses have the revenue and staff to absorb the compliance cost of collecting the taxes and still remain profitable.. However, larger retailers might argue that the playing field should be leveled the other way, given that they are the ones already collecting the taxes.

If legislation passed that required retailers to collect sales tax in all states, some opponents say there's a good chance that it would face constitutional hurdles. That's because the U.S. Constitution bans state tax authorities from reaching across their borders and demanding sales tax collection from out-of-state businesses. However, businesses may not have anything to worry about for some time since the House of Representatives hasn't set a timeline on the matter. Our crystal ball doesn't show when the House might revisit this issue, but our guess is that it won't happen before 2014, if at all.

To learn more about the Marketplace Fairness Act of 2013, visit www.MarketplaceFairnessNow.org.

San Francisco's New Gross Receipts Tax Starts January 1, 2014

Beginning January 1, 2014, payroll taxes in San Francisco will be changing because of a proposition passed by voters last November. [Proposition E](#), or the



"Gross Receipts Tax Ordinance,"

is a gross receipts tax or

"privilege tax" imposed

upon persons engaging in business within the city. It is for the privilege of engaging in a business or occupation in the city of San Francisco. The old law required businesses to pay a flat 1.5% tax on payroll costs for all business activities attributable to the city of San Francisco and small businesses with less than \$250,000 in payroll costs were exempt from the tax. The City of San Francisco also required businesses to pay an annual registration fee ranging from \$25 to \$500.

The new gross receipts tax replaces the city's annual 1.5% payroll tax. Businesses with gross receipts of less than \$1 million annually will be exempt from the gross receipts tax. The \$1 million threshold will be adjusted based on the consumer price index (CPI) each year. The gross receipts tax will also vary depending on the amount of annual gross receipts from the city.

Proposition E will gradually eliminate the annual San Francisco Business and Payroll Tax assessment over a 5-year span, beginning in 2014 through 2018, in favor of the gross tax. This period will give businesses time to adjust to the change. The new tax is intended to help start-ups ease the burden of trying to meet the San Francisco Payroll Tax obligation in the early years of their operations. However, have we ever really met a tax that "eases" anyone's burden? Overall, it is estimated that the new gross receipts tax will ultimately increase the City's revenue by over \$28.5 Million per year. Feel that easing?

Proposition E also increases the annual registration fee for businesses in San Francisco and establishes penalties for failure to properly register a business. The tax and fees from the new system are expected to generate approximately \$450 million at the end of the 2014 fiscal year. That money will be contributed to San Francisco's General Fund. According to the controller's office, this makes it the city's second largest contribution to the general fund; property taxes are the first.

For more information on the upcoming changes, please visit www.SFTreasurer.org/index.aspx?page=231.

If your business needs help navigating its way through the tax changes, contact us at 408.266.2259.

What's Up at Labhart Miles?

There is more exciting news happening at Labhart Miles this month: I have been named one of "The Most Powerful Women in Accounting" by CPA Practice Advisor, for the second year in a row! This award recognizes women who are making the greatest impact on the tax and accounting profession. I am honored to be included on this list of successful women again this year.

CPA Practice Advisor also interviewed me as part of the award process. [Click here](#) to check out the article.

Once again Labhart Miles participated in the annual CalCPA Silicon Valley charity golf tournament. The firm was well represented by golfers Bill Labhart and Les Miles (pictured). Thanks Gentlemen, for taking one for the team. While they didn't "place," the proceeds supported scholarships for future accountants, which we always support.



Also, for the 16th year in a row, I have participated in the annual American Cancer Society's "Making Strides Against Breast Cancer" walk. This year I was able to raise over \$12,000 for the cause, and am grateful to the many friends, family members, colleagues, and clients that contributed and helped me reach my goal. If you are interested in learning more about ACS or "Making Strides Against Breast Cancer", please [click here](#).

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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