

**REPORT ON INTERESTED PARTIES MEETING
REGULATION SECTION 25137-12
APPORTIONMENT OF INCOME FOR PRINT MEDIA BUSINESSES
JANUARY 8, 2008**

The interested parties' meeting (IPM) was held on January 8, 2008, at the Franchise Tax Board's Central Office in Sacramento. The facilitator was Marguerite Mosnier, Tax Counsel for the Franchise Tax Board (department).

Prior to the IPM, the department posted an overview and history of California Code of Regulations, title 18, section 25137-12, and a list of discussion topics. The discussion paper explained that staff was not proposing any specific changes to the regulation. Rather, the purpose of the meeting was to discuss whether the regulation needed to be amended to include formula and special apportionment rules for advertising revenue generated by the print media, including revenue from online advertising and other non-printed sources.

Representatives of a print media association, major corporations, law firms, accounting firms, and of the department attended the meeting. They expressed the following thoughts and concerns:

- Revenue from hard-copy advertising far exceeds revenue from online advertising.
- Revenue from online advertising is typically sourced by location of the end-user.
- Texas has a sourcing rule based on location of servers for online advertising revenue; that formula is generally disliked because the server location does not necessarily reflect the location of the end-user.
- There are companies that count and provide geographic location of computer mouse "clicks" for sourcing "click through" generated income.
- Most newspapers track who is reading their websites by requiring users to register on the website.
- The ABC (Audit Bureau of Circulations) verifies circulation of daily newspapers on a quarterly basis, but it does not measure electronic access.
- Taxpayers with websites have the ability to track the geographic locations of end-users; if not, the taxpayers would have a difficult time selling internet advertising.
- There is no sense that the newspaper industry is concerned with the ability to source income generated by online advertising.
- At this time, the current regulation works adequately well for the regulated community.
- Any future regulation should be based on the type of income rather than the type of industry (*i.e.*, it would be preferable to address online advertising revenue, regardless of the taxpayer's business, in a single regulation, than to address it in separate industry-specific regulations).

At the conclusion of the meeting, staff indicated a summary of the IPM would be prepared. This summary is being sent electronically to all who attended the IPM and will be posted on the department's website. Since the consensus was that no regulatory change to California Code of Regulations, title 18, section 25137-12 appears justified, the department will not pursue a regulatory project at this time.