



STATE OF CALIFORNIA
Franchise Tax Board



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Market Based Rules Task Force

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Law Changes that Caused the Creation of the Task Force

1. **Nexus** – California Revenue and Taxation Code (R&TC) Section 23101
2. **Sales of Other Than Tangible Personal Property** – R&TC Section 25136 and California Code of Regulations (CCR) Section 25136-2

Nexus – Law Changes

Old vs. New Rules

Old

- Prior to 2011, physical presence was required
Economic nexus did not exist

New

- 2011 forward, physical presence or economic nexus
is required

Sales Factor – Law Changes

Old vs. New Rules

Old

- Prior to the existence of market based sourcing rules, costs of performance (COP) was the rule for assignment of sales of services and intangibles

New

- 2013 forward, the single sales factor formula is mandatory for most taxpayers
- Market based rules are the only rules used for assigning sales of services and intangibles in the single sales factor formula

Considerations

1. Determine where the benefit of service is being received
2. Determine where the intangible is being used
3. Agree on what is a reasonable approximation of the location of where the benefit of the services is received or where the intangible is being used

Solutions

- Market Based Rules Task Force
- Regulation process
- Education and outreach
- Closing agreements

Questions?