

LA City Business Tax Workshop

Presented By:

The Office of Finance

Marvin Braude Building

Van Nuys, CA

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Recap of Tax Reform Measures for 2006

- Rate Reduction
- Sec. 21.29(a) Small Business Exemption
Sec. 21.29(b) Creative Talent
- Sec. 21.109 Motion Pictures Television &
Radio Producers
- Green Energy Proposal
- Reminders

Rate Reduction

- Rate Reduction will be 3.1% on January 1, 2006
- Only affects Gross Receipt Classifications
 - Also on our website in the “Tell me about”
 - » Click on New Business Tax Rates
- Backtax will be calculated at the new rate
 - For that reporting period (will vary depending on rate reduction)

Sec. 21.29 (a) Small Business

- The Small Business Exemption threshold increases to \$50,000 on January 1, 2006
- Renewals must be filed by February 28, 2006 to qualify
- Exemption threshold will increase to \$100,000 starting January 1, 2007

21. 29 (b) Creative Artist Exemption

- Requirements
 - Sole Proprietor, LLC or Corporation (only one officer)
 - \$300,000 or less in Worldwide Gross Receipts in Creative Activities
 - Must file timely to qualify for exemption

Creative Artist Professions

- Actor or announcer
- Art director, costume designer, production designer, scenery or set designer
- Choreographer
- Cinematographer
- Conductor of bands, chorales, orchestras, and other musical groups
- Director
- Motion picture editor, sound dubbing, special effects, or titling artist
- Writer (writing is the writer's own creative work)
- Music or lyrics arranger, composer or music writer
- Author of books, essays, poems or short stories
- Cartoon artist, including animated media

Creative Artist Professions (continued)

- Creator of visual fine arts, using artist's materials
- Drawing, graphic, illustration or sketch artist
- Performing artist, including comedian, dancer, impersonator, juggler, magician, mime, musician, or singer
- Photographer, where photography is primarily artistic in nature and not primarily journalistic or commercial

21.109 Production Cap Change

- Starting July 1, 2005, the minimum tax is \$145.00 for the first \$2,500,000
- Additional \$1.30/1,000 for measures over \$2,500,000
- Maximum tax of \$12,495.00 for measures greater than \$12,000,000
- Removes 44 tax ranges

Green Energy Proposal

- Proposal in process for Contractors to deduct up to \$1,000,000 in gross receipts from installation of electrical generation facilities powered by renewable fuels (green energy) within the City of Los Angeles.
- Green energy sources include:
 - Wind energy
 - Hydropower
 - Geothermal
 - Solar power
 - Biomass

Green Energy Proposal (Continued)

- Amended renewals can be filed if retroactive date is provided in the proposal.
- Visit the Office of Finance website for updates at: **www.lacity.org/finance**

Reminders

- New Interest Rate 0.6% for 2006
- Electronic Fund Transfers via ACH
 - Required for payments of \$50,000 or more
 - ACH Application on Finance website
 - Deadline for ACH set up is February 14, 2006 (for 2006 Renewal)
- Vendor/Subcontractor List
- Commercial Tenant Listing

Annual Reporting

- Measures can be reported based on a business' Calendar or Fiscal Year
- Cash or Accrual Basis of Reporting effective January 1, 2005
- Bad Debt Deduction
 - Apportioned to the City
 - Report in accordance with IRS guidelines
 - If later collected, must be reported in year collected

Annual Reporting (Continued)

- Single Category Filing
 - Effective January 1, 2004, multiple classifications based on annual gross receipts can file in one category if that category constitutes 80% of entire gross receipts after apportionments.
 - Classifications taxed on a basis other than gross receipts must continue to report separately.

Annual Reporting (Continued)

- Exemptions for intercompany transfers
 - For amounts received from or charged to closely held related entities
 - Ownership of related entities must be 80% in common both in value and voting power
 - Ownership interests held directly or indirectly

Refunds and Offsets

- Refunds (Section 21.07 L.A.M.C.)
 - Claims allowed within one year from the date of overpayment
- Offsets (Section 21.05 L.A.M.C.)
 - Overpayment(s) offset against underpayment(s) within three years of date(s) of overpayment(s)

Reimbursed Expenses And Pass Throughs

- Reimbursed Expenses
 - Most reimbursed expenses are taxed as gross receipts
 - Exceptions
- Pass Throughs
 - What are pass throughs (examples)
 - Taxed as gross receipts

Insurance Agents/Brokers

- Notice of Appointment from Insurer or Certification Letter from Insurance Commissioner
 - Authority to bind and execute insurance policies
 - Forms available at: **www.insurance.ca.gov**

Apportionments

- Ruling 13
- Ruling 14
- Ruling 15
- Special Apportionments

Apportionment

Ruling 13:

Persons selling goods, wares and merchandise in Los Angeles, with no fixed place of business in Los Angeles who through physical presence of themselves, their employees or equipment solicit, promote, stimulate, or otherwise encourage the sale of goods, wares or merchandise.

Ruling 13 (Continued)

- **35%** - delivery or shipment is made to customers within the City by vehicles operated by the taxpayer;
- **30%** - delivery or shipment is made to customers within the City by means other than the vehicles mentioned above;
- **30%** - Sales to customers within the City where delivery or shipment is made to points Outside the City.

Apportionment (Continued)

Ruling 14:

Persons selling goods, wares and merchandise, who have a fixed place of business in Los Angeles.

Ruling 14 (Continued)

For sales performed Outside the City...

- up to **30%** - for the location where the sale is negotiated or solicited by the taxpayer physically;
- up to **20%** - for the sales office which serves as the base of operations for sales;
- up to **10%** - for the location where orders or contracts are accepted or approved;
- up to **20%** - for a facility operated by the taxpayer where the goods are stored;

Ruling 14 (Continued)

- up to **5%** - for the location which orders the shipment or delivery;
- up to **5%** - for the place where billing is performed;
- up to **5%** - for the place where the collection of receipts is performed;
- up to **5%** - for the place to which merchandise is delivered by vehicles.

Apportionment (Continued)

Ruling 15:

Gross Receipts attributable to entities engaged in business within the City.

Ruling 15 (Continued)

- **20%** - a person who maintains an office on City premises, the gross receipts from work performed outside the City shall be deemed subject to tax.
 - 5% Billing
 - 5% Collecting
 - 5% Accounting
 - 5% General Administration

Ruling 15 (Continued)

- In some instances, no apportionment is allowed
 - *Programming Enterprises, Inc. vs. City of Los Angeles (1989) 215 Cal. App. 3d 281*

Ruling 15 Deviation Methods

- Total Expense Method
- Payroll Method
- Cost of Maintaining Method

Special Apportionments

- Architects
- Stockbrokers
- Commodity Brokers
- Real Estate Agents/Brokers

Architects

1. **Job location** in or out of the City – all work done in City..... 100%
2. ... outside the City – all work done in City except for supervision..... 85%
3. ... outside the City – schematics and some other work in City; rest of work done outside..... 60%
4. ... outside the City – schematics and preliminary drawings in City, rest of work done outside..... 40%
5. ... outside the City – sketching and part of working drawings in City; rest of work done outside..... 60%
6. ... outside the City – all actual work done outside; top supervision, checking, bookkeeping, etc. done in City..... 20%
7. Interior decorating job out of City..... 60%
8. **Job location** outside the City – schematics, preliminaries, and most working drawings done in City..... 60%

Architects (Continued)

9. Job location outside the City – combination of architectural fees and interior decoration..... 60%
10. ... outside the City – schematics done in the City; all other work done OUTSIDE the City..... 20%
11. Job location outside the City – interior decoration schematics only done in the City..... 20%
12. ... outside the City – schematics and preliminary drawings done in the City; all other work OUTSIDE the City..... 60%

Stockbrokers

Sale of Securities

Performance Out of City

- Origination	60%
- Execution	20%
- Clearing	20%

Commodity Brokers

- Originating Office 50%
- Executing and Clearing Office 50%

Real Estate Agents/Brokers

- Entire gross commissions including those of agents
- If located in the City and sell property outside the City, 50% of commissions earned are taxable
- If located outside the City and sell property inside the City, 50% of commissions earned are taxable

Administrative Remedies

(Section 21.16 L.A.M.C.)

- Assessment Review process
- Board of Review process
- Settlement Bureau

Assessment Review Process

- Request for hearing
- Submission of position papers
- Hearing
- Decision of Assessment Review Officer
- Appeal to the Board of Review

Board of Review Process

- Objectives
- Composition of the Board
- Request for hearing
- Submission of position papers
- Hearing
- Decision of the Board

Settlement Bureau

- Objective
- Not part of the formal tax appeals process
- Offer is separate and shall not affect the timing and disposition of any administrative proceedings under Section 21.16

Office of Finance Website **www.lacity.org/finance**

- Website redesign
 - Easier to navigate
 - Added information including tax reforms
 - Allows for electronic renewal filing