

Memorandum

To : Ms. Cynthia Bridges
Executive Director (MIC 73)

Date: June 26, 2015

From : Mr. Jeffrey L. McGuire, Deputy Director
Sales and Use Tax Department (MIC 43)

Susanne Buehler for Jeffrey L. McGuire

Subject : **Board Meeting July 28-30, 2015**
Item N: Administrative Agenda
Proposed Revision to Compliance Policy and Procedures Manual
Section 230.020

I am requesting approval to forward the attached revision to CPPM Chapter 2, *Registration*, to the Board Proceedings Division to be placed as a consent item on the Administrative Agenda at the July 2015 meeting.

Section 230.020 is being revised to clarify that the North American Industry Classification System (NAICS) code assigned to an account identifies the taxpayer's primary business activity, and provides guidelines to determine the proper code. This revision has been reviewed and approved by SUTD management, provided to Board Members, and posted on the Board's website at <http://www.boe.ca.gov/sutax/pmr.htm> to solicit comments from interested parties. No comments were received from Board Members or other interested parties.

If you have any questions, please let me know, or contact Ms. Susanne Buehler at (916) 324-1825.

JLM:rs
Attachment

Approved

Cynthia Bridges

Ms. Cynthia Bridges
Executive Director

STATE BOARD OF EQUALIZATION

BOARD APPROVED

At the July 28, 2015 Board Meeting

Joann Richmond
Joann Richmond, Chief
Board Proceedings Division



cc: (all with attachment)

Mr. David Gau (MIC 101)
Mr. Wayne Mashihara (MIC 47)
Ms. Susanne Buehler (MIC 92)
Ms. Lynn Bartolo (MIC 57)
Mr. Richard Parrott (MIC 88)
Mr. Kevin Hanks (MIC 49)
Mr. John Thiella (MIC 73)
Mr. Marc Alviso (MIC 101)
Mr. Chris Lee (MIC 101)
Mr. Gary Lambert (MIC 43)

CODING FOR THE TYPE OF BUSINESS

230.020

BOE uses North American Industrial Classification System (NAICS) codes to accurately identify the principal activity of a business within the various retail, wholesale, and service categories such as retail, wholesale, manufacturing/mining/farming, repair, service, construction, or leasing/rental. When manually registering a permit, a NAICS code is ~~selected~~ entered, which automatically selects the corresponding “business code” in IRIS. The two-digit business codes ~~is~~ are used primarily for audit and administrative purposes. ~~Business codes and~~ are listed in section 203.028 of the Business Taxes Code Book. When a taxpayer registers electronically online, the codes are selected by the system automatically. For the purposes of manual registration, however, staff will need to locate and enter the correct NAICS code.

NAICS is a hierarchical classification system. A complete NAICS code contains six digits and five distinct levels of detail. The first two digits designate the largest business sector, the third digit designates the subsector, the fourth digit designates the industry group, the fifth digit designates a specific industry, and the last digit contains country-specific details by designating the national industry across the three countries participating in NAICS (i.e. United States, Canada, and Mexico).

~~The NAICS code is a six-digit code consisting of two separate parts:~~

- ~~1. The first two digits represent a general category of economic activity—i.e., Food Services.~~
- ~~2. The remaining four digits narrow the focus to the specific industry within the general category—i.e. Full Service Restaurants.~~

~~Because NAICS codes are industry specific, it is important to find out from the taxpayer what the majority of the business activity encompasses. Although a company may be conducting several types of businesses from one location, the NAICS code chosen should identify the main scope of the business. For example, a styling salon that also sells beauty products would have a NAICS code for the main scope of the business, hair care, not for the minimal sales of hair products. The NAICS code would be 812112 for the service enterprise.~~

A NAICS code helps identify a taxpayer’s primary business activity. The primary business activity is considered the main activity from which the business generates the majority of its revenue and incurs most of its costs. The primary business activity may, or may not, be directly related to a taxable activity.

To determine the taxpayer’s primary business activity, the following guidelines, listed in order of importance, should be followed:

1. Determine the primary business activity – identify the sector (first two digits). For example, a hotel with a restaurant, bar, and store should be assigned the Sector Code for a hotel (Sector 72 - Accommodation), a school selling meals should be coded as a school (Sector 61 – Education), etc.
2. Determine the taxpayer’s primary customer. This will help determine if the business is operating as a retailer, wholesaler, manufacturer, repairer, service provider, construction contractor, or leasing/rental business.

3. Determine what the taxpayer is selling. If the business is selling multiple items, determine the main reason a permit is required.

Staff performing registration functions should use the NAICS Code Generator to assist in the accurate selection of the NAICS code during the registration process. The Generator also has a “Help” button to provide additional assistance in determining the proper code, and a “Support” link which allows users to report problems or make suggestions for improvements to the Generator.

The NAICS Code Generator has the following three tools to determine the appropriate code:

1. Search

Staff can type in a general business classification in the search field, and the field can be narrowed down by ~~retail/wholesale, manufacturing, and service by~~ selecting the category (retail, wholesale, manufacturing, service, etc.). If ~~unsure of the category the business falls into~~ no match is found initially, selecting a pop-up screen will ask if the user would like to search “All” categories will bring up any category the business classification may fall into.

2. Franchises

If the business is from a known franchisor, there is a quick search available under “Franchises.” By typing the name of the franchise in the Franchise section of the Generator, a NAICS code will appear. The drop down screen is in alphabetical order displaying common franchises. Not all franchises will be available, and in that instance, staff should use the Search ~~or Wizard~~ to determine the proper NAICS code.

3. Reverse Look-Up

If the taxpayer provides their NAICS code or if staff is trying to verify whether the NAICS code is descriptive of the taxpayer’s business, the “Reverse Look-Up” is designed to enter a NAICS code, displaying the description associated with it.

For ~~PSTD~~the Special Taxes and Fees Department (STFD), accounts with Taxable Activity Types ~~(TAT) EF and OL~~ (Occupational Lead Poisoning Prevention Fee) use the Standardized Industrial ~~Code~~Classification (SIC) code, and the system automatically translates the SIC into a NAICS code. ~~Both t~~The SIC code~~and NAICS fields are~~ is modifiable. A list of SIC codes for industries for which the Occupational Lead Poisoning Prevention Fee is applicable can be found in the Occupational Lead Poisoning Prevention Fee Regulation 38005. For other programs administered by ~~PSTD~~STFD, the NAICS code will, generally, default automatically to a pre-designated NAICS code, although staff can input the applicable NAICS code during registration if necessary.

If the NAICS Code must be changed because of error or the taxpayer changes the nature of the business, staff will do the following:

1. Place the cursor under the NAICS number, press F9 modify key. “NAICS Change” screen pop-up appears
2. In the NAICS Change pop-up, enter the Code in the field under “NAICS” heading

3. Enter the month and year under “Effective Date of Change.” The effective date of change should be as close as possible to the actual date the change occurred or will occur
4. When all changes are entered, press the F5 key to accept the changes made

Ensuring the NAICS Codes are kept current is the responsibility of the Data Analysis Section (DAS). Any problems with the NAICS Code Generator should be directed to DAS staff (MIC 75).