



MULTISTATE INCOME/FRANCHISE TAX

## California Franchise Tax Board to hold Sixth Interested Parties Meeting on market-based sourcing regulation

### Tax Alert

## Overview

On May 14, 2021, the California Franchise Tax Board (“FTB”) issued its Notice of Sixth Interested Parties Meeting, informing the public that the FTB will hold an Interested Parties Meeting to solicit public comment on its fifth iteration of draft changes to California Code of Regulations, Title 18, section 25136-2, the market-based sourcing regulation. The Interested Parties Meeting will be held on **June 4, 2021 at 10 a.m.** Written comments must be submitted to the FTB **by July 5, 2021.** The FTB’s Notice, Explanation of Draft Language, and Draft Language for this version are available [here](#).

## Proposed amendments to market-based sourcing regulation

The following are some notable proposed changes in the FTB’s fifth version of the draft market-based sourcing regulation:

- Proposes a new definition for “asset management services” as “the direct or indirect provision of management, distribution or administration services to funds,” and further defines the phrases “administration services,” “distribution services,” “management services,” and “fund,” for purposes of the sourcing rules applicable to the gross receipts derived therefrom—rules that generally source such receipts based on the domicile of the investor or beneficial owner.
- Proposes a new rule providing that if a taxpayer provides substantially similar “professional services” to more than 250 customers, then gross receipts from such services are assigned based on the customer’s billing address. However, if more than 5 percent of a taxpayer’s receipts from sales of professional services are derived from a single customer, then receipts from this customer do not fall under this special rule.

- Proposes to define “professional services” to mean “management services, tax services, payroll and accounting services, audit and attest services, actuary services, legal services, business advisory consulting services, technology consulting services, services related to brokering securities that generate commission income, investment advisory services other than asset management services as defined in this regulation, and services related to the underwriting of debt or equity securities.”
- Provides an effective date for these proposed amendments as taxable years beginning on or after January 1, 2023.

Generally, the remaining language of this fifth version of the draft regulation does not significantly differ from the fourth version of the draft regulation, with respect to, among others, the new proposed rules that apply to sales of services, sales of asset management services, and sales of corporate stock, pass-through entity interests, dividends, and goodwill.

## Get in touch

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