



ITS Logistics Nevada vs. California Tax Analysis

Nevada provides significant tax advantages to companies locating their manufacturing and/or distribution facilities in the State versus California (and any other state with a corporate and individual income tax). These tax advantages are a compliment to the transportation advantages, namely the ability to reach seven western states overnight and another six states second day at rates traditionally lower than other locations.

The tax advantages achieved by locating in Nevada vs. California arise from California Public Law 86-272. Under this law, the state of California cannot impose a state income tax on an entity which “solicits orders, or his representative, in such State for sales of tangible personal property, which orders are sent outside the State for approval or rejections, and if approved, are filled by shipment or delivery from a point outside the State.”

In laymen’s terms, if a company merely solicits sales in California and does not have payroll (other than a sales force), real estate, equipment or inventory in California, that company is not subject to California income tax. However, if the company manufactures or distributes inventory from within the state of California, the company would be subject to state income tax.

Now the number crunching. The corporate income tax rate in California is currently 8.84% and the individual income tax rate in California is currently 9.3%. The rate used in any analysis is determined by whether the company is a C-Corporation or a pass through entity such as an S-Corporation, LLC or Partnership. C-Corporations will be subject to the corporate tax rate of 8.84% while the shareholders, members or partners of pass through entities will be subject to the individual tax rate of 9.3%.

California taxes entities utilizing an apportionment factor. The factor is calculated by multiplying California sales by two plus inventory, rent and equipment in California plus payroll in California with the result divided by the companywide sales plus inventory, rent and equipment plus payroll and dividing the result by four. For example:

California Sales	\$5,000,000 x 2	\$10,000,000
California Inventory		1,000,000
California Payroll		<u>150,000</u>



Total California	11,150,000
Divide by 4	4
California Factor	<u>\$2,787,500</u>
Companywide Sales	\$50,000,000
Companywide Inventory	4,000,000
Companywide Payroll	2,000,000
Companywide Equipment	200,000
Total Company	<u>\$56,200,000</u>
California Percentage	4.96%
Companywide Taxable Inc.	<u>\$3,000,000</u>
Taxable in California	148,800
California Tax Rate	<u>8.84%</u>
California Tax	<u>\$13,154</u>

In this example, the company generated a tax liability of \$13,154, which may be completely eliminated by locating inventory in Nevada. Additionally, sales to other states with corporate and individual income taxes, which are serviced out of a Nevada distribution facility, would minimize that companywide state income tax exposure. This is a significant benefit for a company locating its west coast distribution facility in Nevada.

This analysis is very cursory and any company planning to establish a west coast facility may wish to perform a complete sales tax analysis. This analysis would take into consideration actual sales, inventory, payroll, rent and equipment figures by state and in total. This analysis would also consider the various states a company operates in and the related income tax rates. Finally, the analysis would have to consider the company's headquarter state tax laws to determine if taxable income can be allocated to Nevada (in which there is no tax rate) thereby minimizing and/or eliminating state income taxes. Numerous companies such as Microsoft, Oracle, Intuit, Gannett and Starbucks have moved operations to northern Nevada to benefit from the state tax laws and central distribution location.

Additional benefits can be found on our website at www.its4logistics.com under the "Location" tab.