

**From the desk of
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Nevada is Not a Shelter from California State Taxes

Despite popular theory that incorporating in a tax-free state such as Nevada somehow one can avoid California income taxes is incorrect.

A resident company doing business in California but incorporated elsewhere must pay California corporate income taxes the same as any corporation doing business in California no matter where it is incorporated.

To the extent any part that income a corporation is derived in another state, and taxed by that other state there is an offset credit for that tax against the California state income tax.

California allows a credit against State income tax equal to the amount of income taxes paid to other states.

Should there be no income tax due to another state there is no credit and therefore the full amount of tax applicable to California is due to California.

In many situations where what is known as apportionment issues between jurisdictions, it is mandatory to establish which state the income was derived to determine to what state income taxes maybe due.

This is not as straight forward as it would initially appear in that California requires a very complex set of procedures to allocate earnings to other states and assumes that all earnings otherwise are reportable to California.

The mere incorporation of an entity in some other state does not alleviate the reporting of activities conducted in California, and therefore income derived in California is taxable here.

This concept extends to corporations that do business in multiple states including California, therefore earnings derived in California by those multistate, or multinational

companies owe taxes on that portion of earnings derived in California to the California State Franchise Tax Board.

This concept extends to entities that may not even have resident status in California. As an example to the extent that certain air carriers fly over the state California requires earnings attributable to the flight and air time over the state as being taxable.

The same concept applies to personal or professional services, as an example when professional sports teams, and their employees, i.e. the players compete here in California they owe California income taxes for the games played here.

Should you have questions relating to this subject area, give us a call.

We here at Muffoletto & Company believe that the more informed you are in regards to the rules and regulations that affect you the more we can be of service.

Should you have questions relating to any tax or financial matters give us a call at

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or you can visit us on the web at

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