

State Board of Equalization

OPERATIONS MEMO

For Public Release

No : 1136
Date: March 30, 2007

SUBJECT: North American Industry Classification System (NAICS) Replaces BOE Business Codes

I. BACKGROUND

Previously, the Board of Equalization (BOE) Sales and Use Tax Department (SUTD) used a broad based business code system to categorize and identify a taxpayer's primary business activity. These codes ranged from 01 to 99 (but not all numbers were used) and were grouped in number ranges that denote whether the primary business activity was retail, service, or wholesale. The business code was assigned at the time of registration, and currently is still used for audit selection, return processing edits, and statistical processes, as well as identifying types of businesses for special informational mailings. In the Property and Special Taxes Department, (PSTD) certain programs use the Standardized Industrial Code (SIC) to categorize and identify a taxpayer's primary business activity. However, because of the wide variety of businesses in each of the business and SIC codes, their usefulness has greatly diminished. In an effort to overcome the limitations of the current business/SIC codes, BOE has instituted the use of the North American Industry Classification System, or NAICS.

NAICS is currently used by the federal governments, state agencies, and private industries of the United States, Canada, and Mexico to identify a business' principal activity to a greater level of detail within the retail, wholesale, and service categories. By converting to NAICS, the BOE will more accurately capture the principal business activity of the accounts it registers.

II. DETERMINING THE NAICS CODE DURING ACCOUNT REGISTRATION

The NAICS input field was activated on March 6, 2006, and SUTD staff began inputting the NAICS Code that most closely describes the applicant's primary business activity instead of the BOE business code upon registration. PSTD staff will continue to input the SIC Code, when applicable, during registration, and the system will automatically translate the valid SIC Code into a NAICS Code. Both fields display on the Special Taxes registration screens.

Because the NAICS Code is extremely important to the Board's compliance, audit and administrative programs, the importance of accurate coding cannot be overemphasized.

Interpreting the NAICS Code

Although some entities use a NAICS code that is greater than six digits, the NAICS Code the BOE now uses consists of a six digit number. Occasionally, applicants may already know the NAICS Code for their business. When an applicant gives staff a NAICS code greater than six digits, staff will only use the first six digits of that NAICS Code for registration purposes.

Each digit's position within the NAICS Code indicates a type of characteristic. For example, previously a taxpayer whose primary business activity is a limited service restaurant (service provided at the counter as opposed to wait service at tables) which does not serve any alcoholic beverages would have been assigned business code 24. Now, it will be assigned NAICS code 722110. The first two digits in this example (72) represent the general category of economic activity (Accommodation and Food Services), the third digit (2) represents a sub-sector, the fourth digit (1) designates the industry group, and the fifth digit (1) represents the NAICS industry. The sixth digit (0) represents the national industry and can be modified by each country according to their specific criteria. A zero (0) in the sixth position represents that it has not been customized.

NAICS Codes and BOE Business Codes

Until use of the BOE business code is completely phased out in SUTD, when a NAICS Code is assigned by staff, the corresponding BOE business code will be automatically derived by IRIS and displayed in a non-modifiable field in the IRIS Taxable Activity Registration, Account Information (TAR AI) and Account Maintenance (TAR AM) screens.

Staff can no longer enter an SUTD business code when registering an account. Instead, when in the Taxable Activity Registration System's, Taxable Activity Add screen (TAR AA), staff completing the registration process will paste the NAICS Code on the entry field labeled "NAICS" (see Exhibit F). The system automatically will look up the corresponding business code and populate the business code field in the taxable activity record. The business code will not be displayed on the TAR AA screen, but will be displayed in the TAR Account Information (TAR AI) screen.

For PSTD, the law allows the use of SIC Codes for certain programs, and the agencies the Board administers these programs for still rely on the use of SIC Codes. Therefore, the SIC Code will remain modifiable and the corresponding NAICS Code will be displayed on the IRIS SPR AI and AM screens. Currently, if there is a need to change the NAICS Code, PSTD staff must first change the SIC Code and the system will read the table and change the NAICS Code accordingly.

There have been some changes to the existing BOE business codes in an effort to keep and simplify the relationship that exists within NAICS. For example, all restaurants selling alcoholic beverages used to receive a BOE business code of 36. In the example given above, a limited service restaurant that is assigned NAICS Code 722111 will receive a BOE business code of 24 and a full service restaurant that is assigned NAICS Code 722110 will be assigned Business Code 36. This will be true regardless if alcoholic beverages are sold or not. Staff needs to

realize that the BOE Business Code determined using the NAICS Code may no longer match the BOE Business Code that was manually assigned in the past. It is important that the NAICS Code be correct to allow for data matching with other governmental as well as non-governmental entities. Future enhancements to the BOE registration will include the license number issued by the Department of Alcoholic Beverage Control, which will define the type of alcoholic beverages sold by the restaurant, and the Department of Motor Vehicles, which will define the type of dealer licensed.

Note: There is no change to the functionality of the Account Characteristic Codes (ACC). When a business code has a matching ACC, the ACC is still required. For example, a service station is given a business code 62, and is given an ACC of 3, 4, or 5.

Obtaining the NAICS Code: BOE NAICS Code Generator (Exhibit A)

There are more than one thousand NAICS codes used by the BOE. To simplify finding the proper code, SUTD staff should use the “BOE NAICS Code Generator,” (Generator) from the staff’s desktop computer using Microsoft Access (Access), rather than searching from a hardcopy such as the Business Taxes Code Book (BTCB), or by other electronic means (e.g., Internet). The Generator will reside on a user’s desktop computer “C:” drive and will be updated from Headquarters as needed. Initial installation may be made by the LAN Coordinators who have been provided separate instructions.

Staff performing registration will open the “NAICS Code Generator” icon. When the program is open, staff will initially see four tabs: Search, Reverse Lookup, Wizard, and Franchises. The Search, Wizard, and Franchises tabs allow alternate ways of searching for the appropriate NAICS Code, while the Reverse Lookup tab is to verify the NAICS code with the taxpayer’s principal type of business.

The method of searching for the proper NAICS Code is a matter of the user’s preference between the Wizard and Search tabs. Each method is designed to guide the user into choosing the code that best matches the given search parameters. After choosing the appropriate NAICS Code, staff must write it in the space provided on the BOE-400-CSC, CSL, CSU or SPA application form and enter it on the IRIS input screen by using the “Copy to Clipboard” function available on the screen. This function will be explained in the exhibits that follow. Extensive help for using the application can be found by pressing the “Help” button.

Search Tab (Exhibit B)

To use the Search tab, staff should enter a key word in the “Search For:” field (e.g. restaurant, auto repair, etc.), click the “Search In:” drop down button as to the type of business activity (e.g. Retail, Wholesale, Manufacturing/Mining/Farming, Repair, Service, Construction Contractor, or Leasing/Rental). A list under “Description” will appear for staff to choose the correct NAICS Code. If the inquiry performed does not show what staff needs, clicking on the “Clear” button will clear all the entries and the user may start again. If the search does not produce any results in the current “Search In:” category, the user has an option to search the entire database for that key word. The “Detailed Descriptions” drop down box should be used to verify the accuracy of

any search results. This will also enable the user to copy the NAICS code to the clipboard if desired.

Reverse Lookup (Exhibit C)

The Reverse Lookup tab allows staff to verify the NAICS Code for the taxpayer's principal type of business activity. Users will enter the NAICS Code and press the "Enter" key, or click on the drop down button to view the type of business.

Wizard Tab (Exhibit D)

Staff will begin the search at the first drop-down box marked, "Start Here." When staff makes a choice, all the other dropdown boxes are activated. Choices must then be made at each dropdown box, and when a choice is made at the last dropdown box, the corresponding NAICS Code will display. The button to the right of the NAICS Code marked "Copy to Clipboard," may be used instead of writing down the number. Clicking on this will allow the user to simply paste the number on the entry field "NAICS" on the "Taxable Activity Add" (TAR AA) screen in IRIS when staff is adding a Sales and Use Tax account. To paste, users will put the cursor on the NAICS field and click on the "paste" icon.

Franchises (Exhibit E)

If an applicant for a Sales and Use Tax account is from a known franchisor (e.g., McDonald's, Burger King, Ace Hardware, etc.), staff can accurately locate the NAICS Code by using the "Franchisee" list on this tab. Once the franchisee is chosen, the NAICS Code appears along with the "Copy to Clipboard" button.

Note: If the franchise is not listed, use the Wizard or Search tabs. Notify the Compliance Policy Unit, Registration Specialist, MIC: 40, by sending a memo request to add the franchise to the list.

"Forced" NAICS Code - 100000

A "forced" NAICS Code is a code that does not actually exist in the NAICS system and therefore, at this time, will not be found in the NAICS Generator. For the Board's purposes, NAICS Code 100000 should be manually entered and used only when an applicant withholds information regarding the types of items sold. This applies to the following:

- Question number 38, "What Items Will You Sell?" on the BOE-400-SPA, *Seller's Permit Application*,
- Question number 27, "What Items Will You Sell or Lease?" on the BOE-400 CSC, *Application for Certificate of Registration Use Tax*,
- Question number 27, "Types of Items Purchased," on the BOE-400-CSU, *Application for Consumer Use Tax Account*.

Note: Questions regarding suppliers may also be blank. The BOE-400-CSL, *Application for Certificate of Lender* does not ask what items are sold or purchased by the applicant.

Staff processing registration applications where the answers to these questions are missing will follow current procedures and contact the applicant to obtain an answer. However, if the applicant declines to answer the question, staff will do the following:

- Complete the application process using the forced NAICS Code,
- Ensure that the NAICS Code is written on the application,
- Attach a signed BOE-400-WVR, *Incomplete Application Waiver*, to the BOE-400-application,
- Give the application and waiver to a designated supervisor.

The designated supervisor will ensure the person who signed the application is also the same person who signed the waiver. The supervisor will check the TAR screen to ensure that NAICS Code 100000 was entered.

III. REGISTRATION AND ACCOUNT MAINTENANCE (TAR AM) (SPR AM)

SUTD staff inputting the NAICS Code should make every effort to ensure the code chosen matches the applicant's primary business activity. However, if the code is mistakenly entered, or a code is not present and needs to be entered, staff with update capability in TAR AM can change or add the code by doing the following:

- Place the cursor under the NAICS number, press F9 modify key. "NAICS Change" screen pop-up appears (See Exhibit G).
- In the NAICS Change pop-up, enter the Code in the field under "NAICS" heading.
- 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 will occur. The effective date must be equal to, or after, the account's start date.
- When all changes are entered, Press the F5 key to accept the changes made.

For PSTD staff, changes to the NAICS Code require a change to the SIC Code first, then the corresponding NAICS Code will automatically populate the NAICS Code field.

IV. DISTRICT OFFICE AUDIT SECTION RESPONSIBILITY

During the course of performing an audit, the auditor must determine if the existing Business/NAICS Code correctly identifies and matches the type of business the taxpayer is conducting. If they do not match, the auditor must notify the compliance staff to make the change, in addition to noting the change on the reverse of the BOE-414-A. To notify compliance the auditor will:

- Print a copy of TAR AI from IRIS.
- Cross out the business code.
- Write a legible but short and accurate description of the taxpayer's business. For example: "TP's business is a full service diner serving beer and wine." (Note the ABC license (if any) on the TAR AI copy.)
- Give the print out with notations to the auditor's supervisor for verification.

- When approved, the supervisor will give the form to the District Principal Compliance Supervisor or their designee who will ensure the proper NAICS code will be entered.

V. PROGRAM MAINTENANCE RESPONSIBILITY

The Tax Policy Division's Compliance and Technology Section, Research and Statistics Team (Team), MIC: 40 is responsible for updating and ensuring that the NAICS Codes are kept current. Staff who may have questions regarding the NAICS Codes, or encounter any problems with the use of the NAICS Code Generator should send documentation to the Team. The Team will examine and resolve any problems encountered and notify management and the affected business sections. No other staff having access to the NAICS Code Generator other than the Team will make any modifications, additions, or otherwise alter its use, properties, or components.

VI. OBSOLESCENCE

This Operations Memo becomes obsolete when the information it contains is incorporated into the appropriate manuals.

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Attachments:

Exhibit A - NAICS Code Generator
Exhibit B - Search Tab
Exhibit C - Reverse Lookup Tab
Exhibit D - Wizard Tab
Exhibit E - Franchise Tab
Exhibit F - NAICS Code Location
Exhibit G - "NAICS Change" Pop-Up

Distribution: 1-D

Exhibit A: NAICS Code Generator

Icon:



NAICS01.zip (1,021
KB)

NAICS Screen:

The screenshot shows the 'BOE NAICS Code Generator' application window. The title bar reads 'NAICS Codes (Ver 2.00)'. The main title is 'BOE NAICS Code Generator'. The interface includes a menu bar with 'Search', 'Reverse Lookup', 'Wizard', and 'Franchises'. On the right, there are 'Help' and 'Quit' buttons. Below the menu bar, there is a search section with a 'Search For:' text box, a 'Search In:' dropdown menu set to 'Retail', and 'Search' and 'Clear' buttons. To the right of this is a 'Detailed Descriptions for NAICS' section with a dropdown menu. At the bottom, there is a table with columns for 'NAICS', 'Class', and 'Description'. The table area is currently empty.

NAICS	Class	Description
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Exhibit B: Search Tab

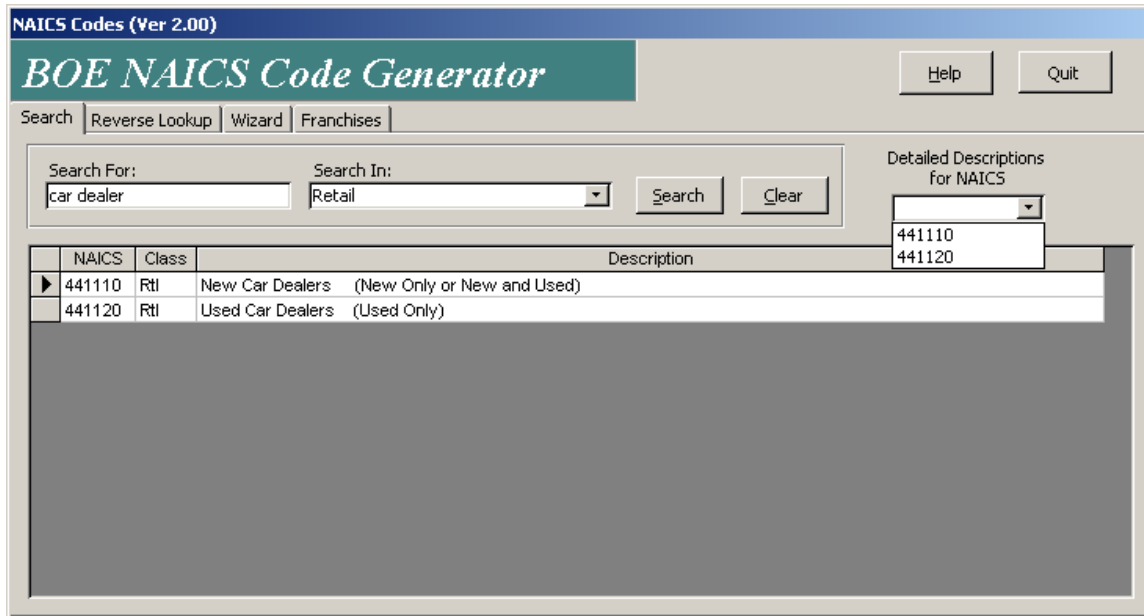
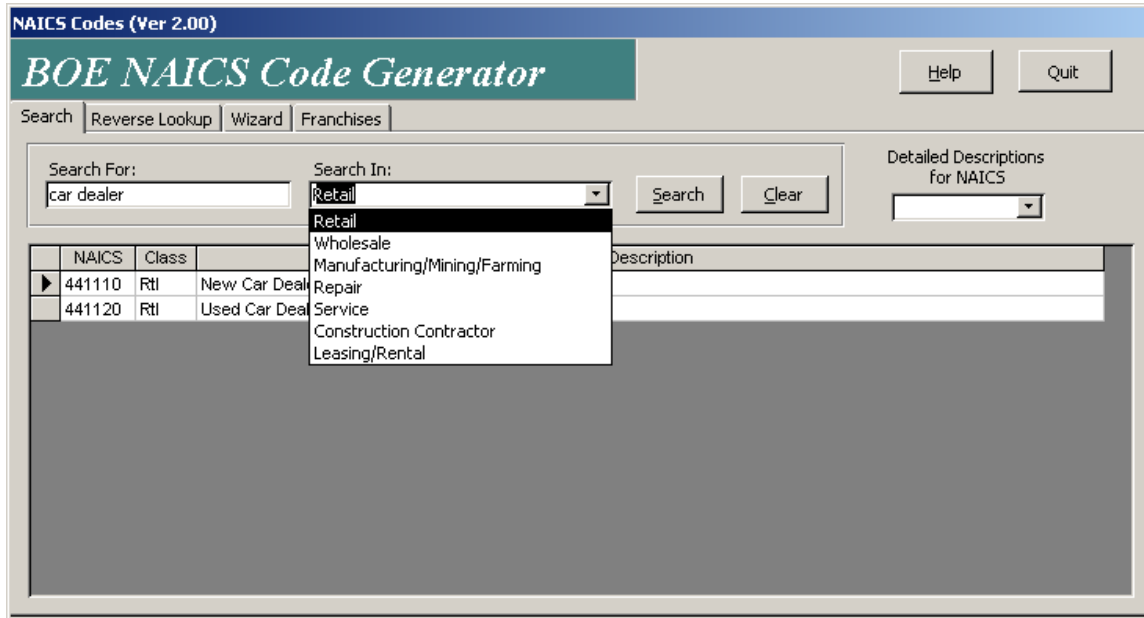


Exhibit B: Search Tab (Continued)

NAICS	Description
▶ 441110	Automobile dealers, new only or new and used
441110	Light utility truck dealers, new only or new and used
441110	New car dealers

Exhibit C: Reverse Lookup Tab

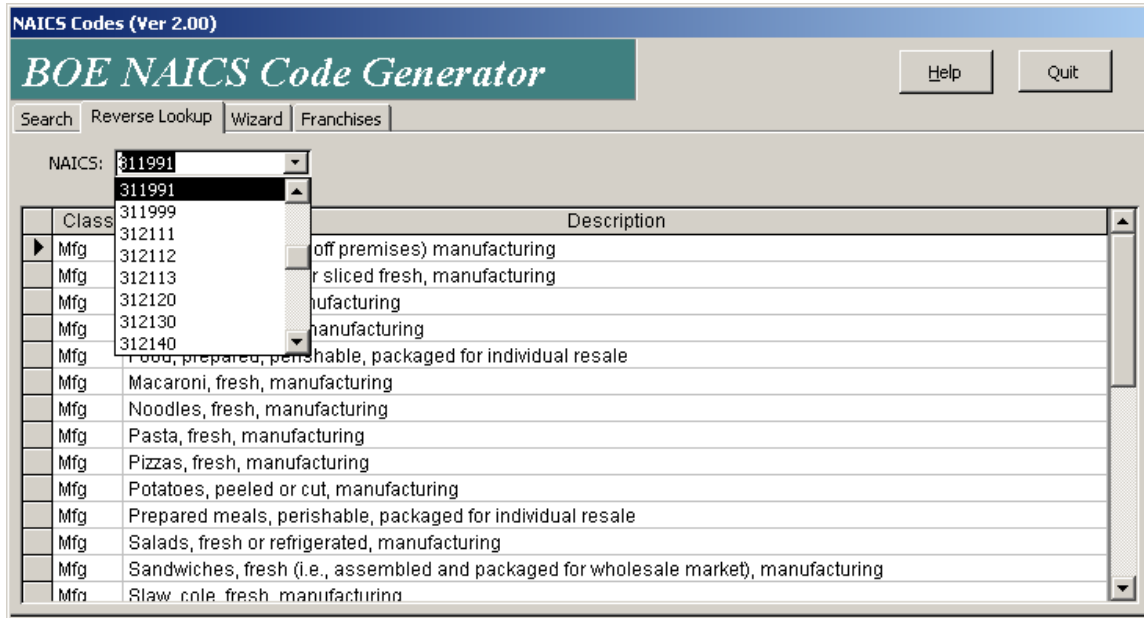
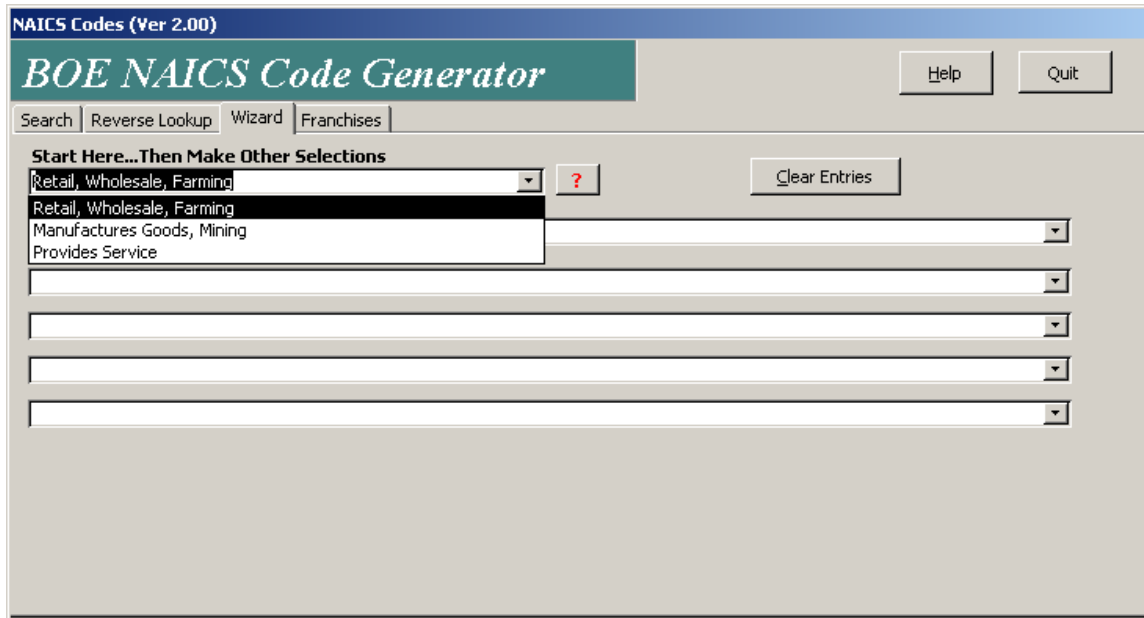


Exhibit D: Wizard Tab



NAICS Codes (Ver 2.00)

BOE NAICS Code Generator

Search Reverse Lookup Wizard Franchises

Start Here...Then Make Other Selections

Retail, Wholesale, Farming ? Clear Entries

Retail, Wholesale, Farming

Manufactures Goods, Mining

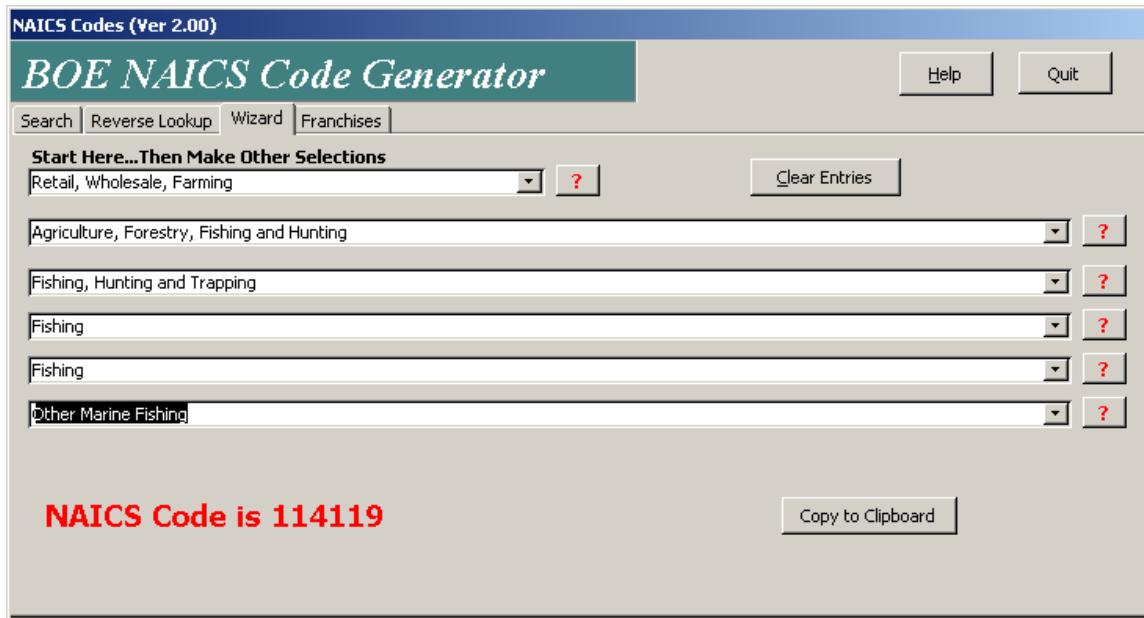
Provides Service

[Empty dropdown]

[Empty dropdown]

[Empty dropdown]

[Empty dropdown]



NAICS Codes (Ver 2.00)

BOE NAICS Code Generator

Search Reverse Lookup Wizard Franchises

Start Here...Then Make Other Selections

Retail, Wholesale, Farming ? Clear Entries

Agriculture, Forestry, Fishing and Hunting ?

Fishing, Hunting and Trapping ?

Fishing ?

Fishing ?

Other Marine Fishing ?

NAICS Code is 114119

Copy to Clipboard

Exhibit E: Franchise Tab

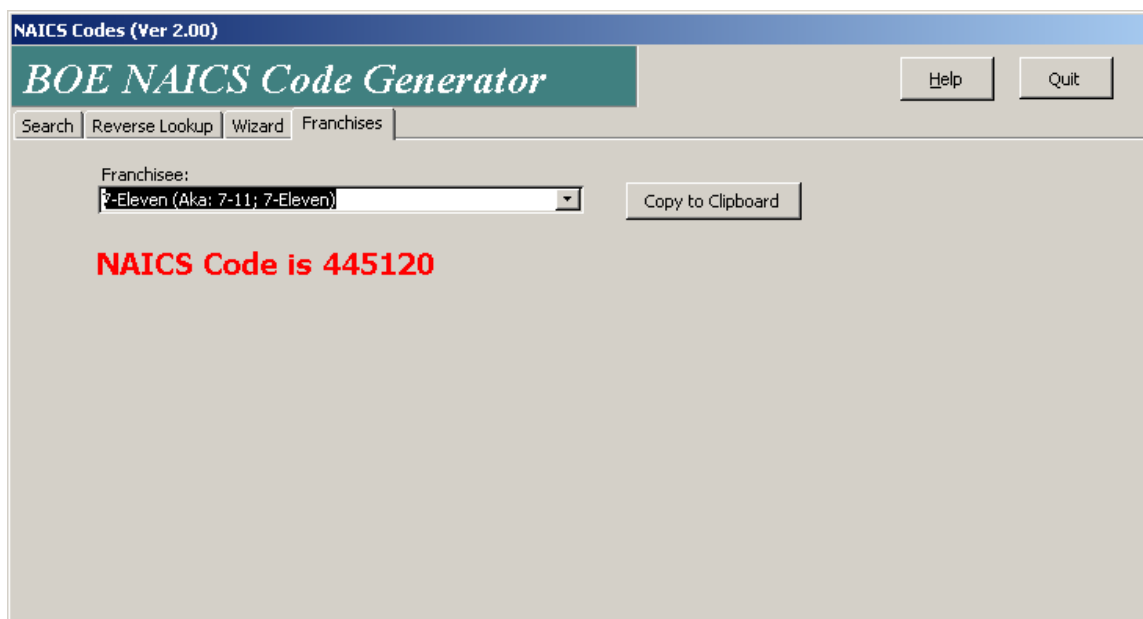
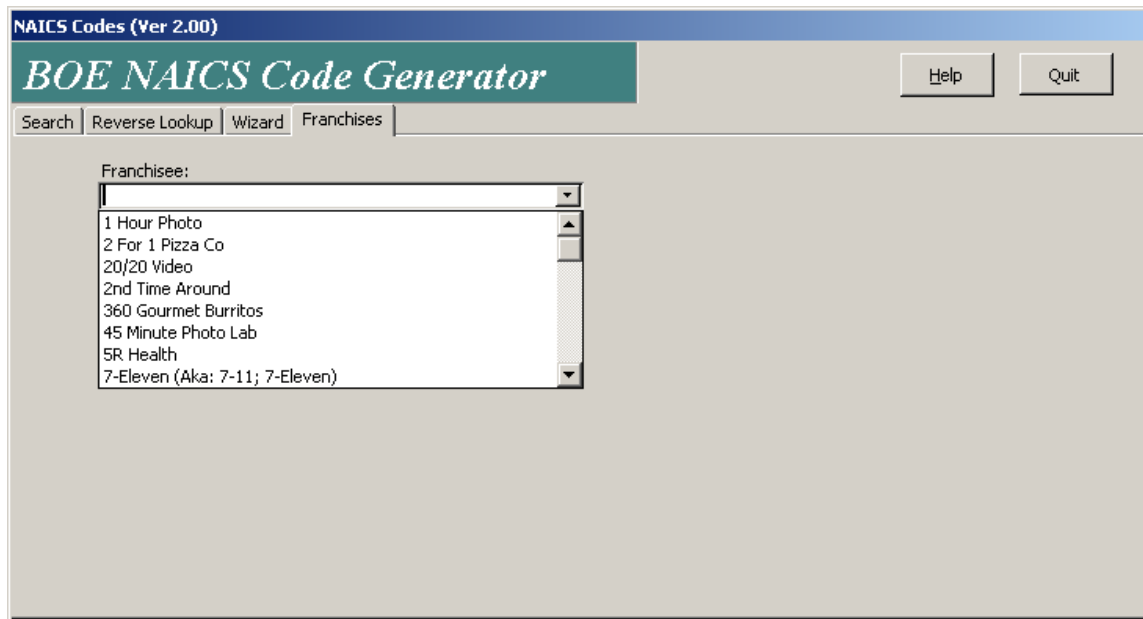
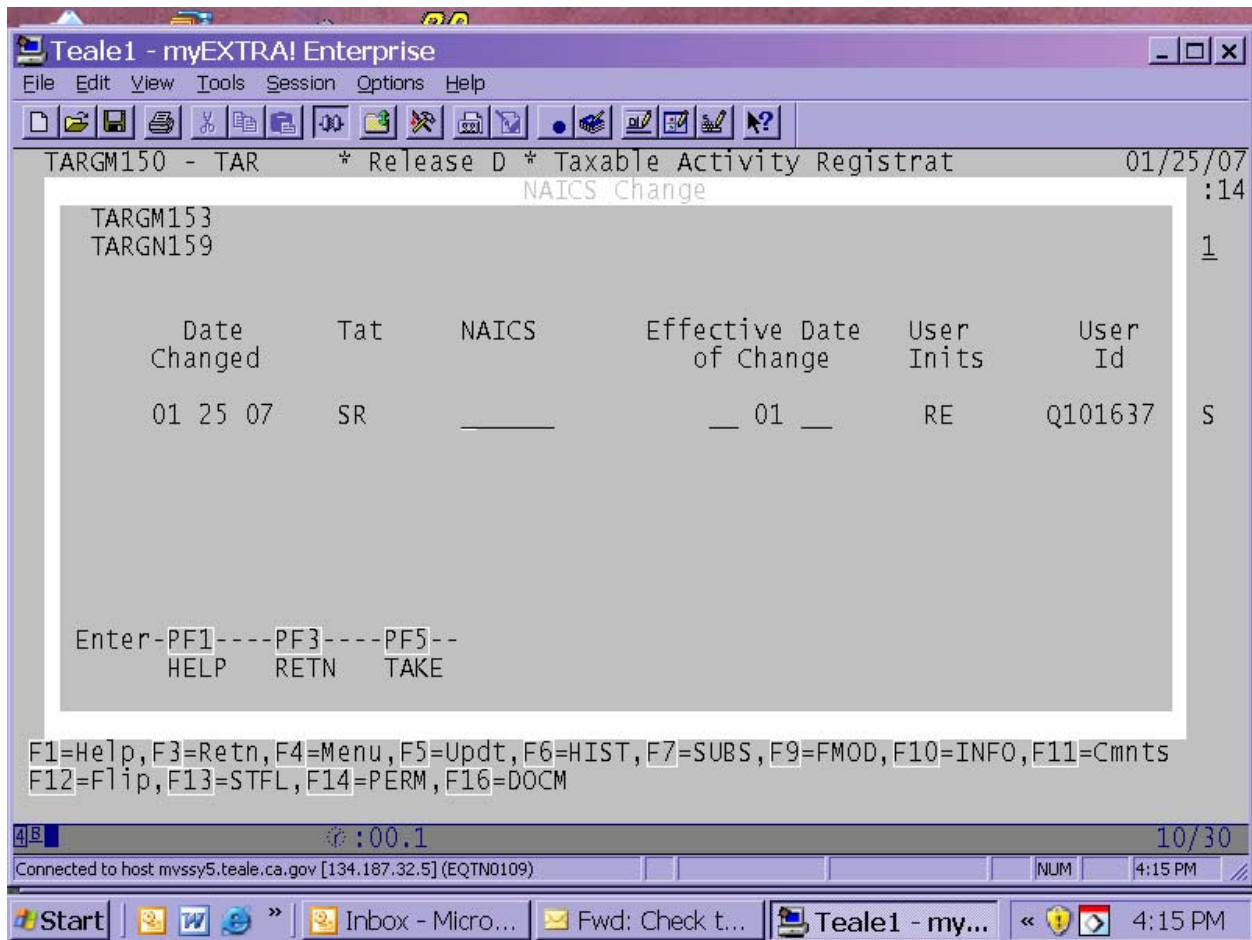


Exhibit F: NAICS Code Location

The screenshot shows the Teale - myEXTRA! Enterprise application window. The title bar reads "Teale - myEXTRA! Enterprise". The menu bar includes "File", "Edit", "View", "Tools", "Session", "Options", and "Help". The toolbar contains various icons for file operations and navigation. The main display area shows account information for TARGM001 (TAR) and TARGP001 (AI). The account type is "Release D * Taxable Activity Registrat" and the inquiry is "Account Inquiry". The date is 01/24/07 and the time is 14:55. The TIN is 99000015. The Seq is 001, Tat is SR, Ind is Dist: FHA, Acct is 900 000001. The Inq Date is 01 24 07, Creation Date is > 10 18 06, #Tot Subs is Active, E-mail/Web is +, Address Rtn is + Y. The Start Date is 01 01 05, Basis is Q, Bus Code is 19, NAICS is 100000 (circled), Acct Char is +, C/O Date is +, Transfer Info is +, Security is +, EFT is +, TPI is +. The Taxpayer is TEST CLIENT, DBA is +, Owner Code is S. The Location is St: 1219 A TEST ST, City: CALEXICO, Ph: + 916 555 1011, ST: CA, Zip: 92231 0000. The Tax Area Code is 13 022 029 0000, Attn is +, Mail Str: 1219 A TEST ST, City: CALEXICO, ST: CA, Zip: 92231 0000. The EDD is Dist File: BRP: ABC: +, Return Type: 2, 6015: +, Tar Cd: +, Mail In: Acctant: +, Spec Proc: Susp Auto, Bill: Go. The footer shows "4B", a refresh icon, ":00.1", "04/65", "Connected to host mvssy5.teale.ca.gov [134.187.32.5] (EQTN2613)", "NUM", and "2:56 PM".

Note: The Business Code and NAICS Codes are displayed in the same area in TAR AM as in TAR AI.

Exhibit G: "NAICS Change" Pop-up



When all entries are made, press F9 to modify.