

*Early to Mid
1900s*



17th Street, Sacramento

Special Taxes

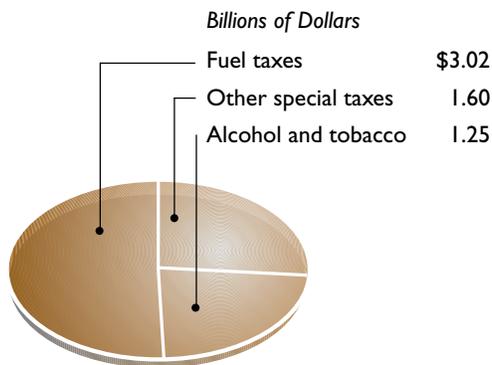


In 1998-99, the Board administered 16 tax and fee programs in addition to property taxes and sales and use taxes. The oldest—the insurance tax—dates from 1911, and the newest program—the diesel fuel tax—was implemented in mid-1995. Insurance tax and alcoholic beverage tax revenues and a portion of cigarette tax receipts are allocated to the state’s General Fund. Remaining special taxes program revenues fund specific state services, from transportation infrastructure to health education. The Board administers several programs in cooperation with other state agencies.

Revenues

Revenues collected for all special taxes programs totaled \$5.87 billion in 1998-99. Revenue and fund allocation information for each program is found in the next section of this chapter and in the foldout tax chart inside the back cover of this report. Revenues from the insurance tax, collected by the State Controller’s Office, are not included in the total revenue figures in this report.

1998-99 Special Taxes Revenues



Programs

Special taxes programs encompass a broad range of activities and transactions. This section includes information regarding program revenue, significant program highlights, changes for the fiscal year, and the number of registrants for each program. More detailed information regarding the individual programs is found in the foldout tax chart inside the back cover of this report. The chart includes information on what is taxed, who pays, tax and fee rates, year-to-year revenue changes, and how tax revenues from each program are used on behalf of California's citizens.



Blacker House, Pasadena

Motor Vehicle Fuel License Tax

Motor vehicle fuel license tax collections totaled \$2.60 billion for 1998-99, based on the distribution of 14.22 billion gallons of gasoline. Program registrants numbered 466 at the end of the fiscal year.

Aircraft jet fuel tax. Aircraft jet fuel tax collections for the year totaled \$1.92 million, based on the distribution of 94.51 million gallons of jet fuel. As of June 30, 1999, 196 jet fuel dealers were registered with the Board.

Diesel and Use Fuel Taxes

Revenues from diesel and use fuel taxes totaled \$422.76 million for 1998-99, including \$44.03 million from the interstate user tax.

Diesel fuel tax. As of June 30, 1999, there were 31,489 businesses and individuals registered for the diesel fuel tax program. Most are registered for fuel tracking or refund purposes. Ninety-three diesel fuel suppliers paid 89.02 percent of the 1998-99 diesel fuel tax receipts.

Interstate user tax. Most interstate motor carriers pay California's interstate user tax through the International Fuel Tax Agreement (IFTA), a compact among 48 states and 10 Canadian provinces. The vast majority of IFTA receipts are for diesel fuel use. California-based IFTA licensees numbered 10,073 at the end of the fiscal year. Carriers who travel

only between California and Mexico also pay the interstate user tax. There were 1,257 of these carriers registered as of June 30, 1999.

Use fuel tax. At the end of the fiscal year, 1,776 fuel users and 284 fuel vendors were registered with the Board.

Oil Spill Response, Prevention, and Administration Fees

Oil spill response fee. No fees have been collected since 1991-92, the last year in which collections were required to bring the Oil Spill Response Trust Fund to its maximum level of \$50 million. Forty-four feepayers were registered at the end of 1998-99. The Board administers the fee in cooperation with the Department of Fish and Game.

Oil spill prevention and administration fee. Revenues collected in 1998-99 totaled \$20.71 million. Fiscal year-end registration listed 37 feepayers.

Underground Storage Tank Fee

Revenues totaled \$189.14 million in 1998-99. The fee, which the Board administers in cooperation with the Water Resources Control Board, was being paid by 8,518 tank owners as of June 30, 1999.

Childhood Lead Poisoning Prevention Fee

1998-99 fee collections totaled \$15.13 million. At the end of the fiscal year, 2,366 feepayers were registered with the Board.

Alcoholic Beverage Tax

In 1998-99, revenues from this excise tax totaled \$273.12 million, a slight increase from 1997-98. Program registration comprised 3,201 businesses at the end of the fiscal year.

1998-99 Alcoholic Beverage Consumption



Cigarette and Tobacco Products Tax

Revenues totaled \$977.78 million in 1998-99. Proposition 10, enacted by the voters in November 1998, increased the cigarette tax rate from 37 cents per package of 20 cigarettes to 87 cents per package effective January 1, 1999. The tobacco products tax increased to 61.53 percent for the first six months of 1999, compared to the 26.17 percent rate in effect from July 1, 1998, through December 31, 1998. At the end of June 1999, 1,702 taxpayers held permits under this program. For more information on cigarette and tobacco tax revenue, see page 70.

Emergency Telephone Users Surcharge

Total revenues for 1998-99 were \$97.46 million. As of June 30, 1999, 504 telephone service suppliers were registered with the Board.

Energy Resources Surcharge

Revenues totaled \$44.21 million in 1998-99, an increase of 2.2 percent from 1997-98. At the end of the fiscal year, program registrants included 114 electric utilities and 26 public institutions, water districts, and irrigation districts.

Insurance Tax

Revenue from this tax, levied against insurance companies in lieu of all other state taxes except real estate taxes, totaled \$1.13 billion for 1998 business. As of June 30, 1999, 2,187 insurance companies were registered to pay the tax. The Board, the State Controller's

Office, and the Department of Insurance jointly administer the program.

Tire Recycling Fee

Revenues totaled \$5.1 million in 1998-99. At fiscal year end, 7,029 businesses were registered for the program, which is administered in cooperation with the Integrated Waste Management Board.

Integrated Waste Management Fee

For 1998-99, revenues totaled \$47.68 million. As of June 30, 1999, 214 facilities were registered for the fee. The Board and the Integrated Waste Management Board share administrative responsibilities.

Hazardous Substances Tax

The Board administers five hazardous waste fee programs in cooperation with the Department of Toxic Substances Control. Fee revenues for 1998-99 and the number of businesses registered at the end of the fiscal year are shown below.

Activity fees. Revenue: \$0.24 million. Entities pay the fees based on permit applications and modifications and other applications. They are not required to maintain ongoing registration with the Board.

Disposal fee. Revenue: \$4.41 million; Registered facilities: 14.

Environmental fee. Revenue: \$24.03 million; Registered corporations: 50,720.



Facility fee and waste reporting surcharge.

Revenue: \$4.65 million, including tiered permit fees for facilities that handle small quantities of waste; Program registrants: 208 facilities and 252 tiered permit facilities.

Generator fee. Revenue: \$15.95 million; Registrants: 8,216 fee payers with a total of 23,188 sites in the state.

Occupational Lead Poisoning Prevention Fee

Working with the California Department of Health Services, the Board collected revenues totaling \$2.73 million in fiscal year 1998-99. At the end of the fiscal year, 18,937 businesses were registered for the program.

Operations

Staff in the Board's Excise Taxes, Fuel Taxes, and Environmental Fees divisions, located in the agency's Sacramento headquarters office, provide direct assistance to the businesses that pay special taxes and fees. The Board processed more than 200,000 special taxes program returns during the 1998-99 fiscal year, including 85,400 environmental fees returns, 62,623 excise tax returns, and 54,869 fuel tax returns.

Audits

Staff in the Excise Taxes, Fuel Taxes, and Environmental Fees divisions have the primary responsibility for auditing special tax program accounts. This year, special

tax program audits yielded more than \$54 million in net tax deficiencies. The audit staff identified more than \$3 million in refunds due.

Compliance Activities

Special Taxes Department staff ensure proper registering and licensing of businesses, assist taxpayers in interpreting tax and fee laws and regulations, and provide help with tax and fee returns. Compliance staff also collect delinquent tax and fee payments.

Fuel Tax Compliance

Fuel tax evasion is an ongoing, nationwide problem that reduces government revenue while putting taxpaying businesses at a competitive disadvantage. Recognizing the significance of this issue in California, the Board's Fuel Taxes Division

- Continued working with other agencies, including the Internal Revenue Service, the California Air Resources Board, and the state Department of Food and Agriculture, in identifying illegal fuel blending and testing for fuel substitution by service stations.
- Continued to staff California Highway Patrol Truck Inspection facilities, issuing fuel trip permits and collecting outstanding tax owed, fees, and penalties. Board inspection facility staff also assist sales and use tax field offices by providing information on the movement into California of goods that may be subject to use tax.

Collections in 1998-99 totaled approximately \$3.2 million.

Cigarette Tax Compliance

Cigarette tax evasion is another area of serious tax compliance concern. This year, the Excise Taxes Division continued its efforts to improve compliance by

- Offering its Peace Officer Standards and Training (POST)-certified cigarette tax evasion investigation class to various law enforcement agencies.
- Providing training to all of the Board's district offices to enhance staff's ability to detect cigarette and tobacco products tax evasion.

Appeals

Those who disagree with special taxes program audit results or other Board decisions regarding the application of a tax or fee may seek resolution through the Board's administrative appeals process. For details on 1998-99 appeals, see the "Appeals" chapter, which begins on page 49.

The agency offers an administrative settlement program as an alternative method of tax and fee dispute resolution. In 1998-99, after review and comment by the state attorney general, the members of the Board approved seven special taxes or fee cases for settlement. The total settlement amount was \$5.27 million.

Legislation

Tire Recycling Fee Extended

Extends the expiration date of the tire recycling fee from June 30, 1999, to January 1, 2001.

Assembly Bill 117, Chapter 1020, Statutes of 1998; effective January 1, 1999

Security Deposits for Energy and Telephone Tax Programs

Authorizes the Board to require a telephone service supplier and an electrical service supplier to post a security deposit when necessary to ensure compliance in these programs. These provisions do not apply to current registrants who are up-to-date in filing their returns and paying their taxes.

Assembly Bill 911, Chapter 649, Statutes of 1998; effective January 1, 1999

Unsaleable Tobacco Products Credit

Requires the Board to refund or credit the excise taxes previously paid by a distributor on tobacco products that become unfit for use or unsaleable.

Assembly Bill 2075, Chapter 815, Statutes of 1998; effective September 25, 1998

Board-Sponsored Technical and Housekeeping Measure

This bill, in part:

- Allows the Board to require that credit interest be waived during the time that a taxpayer or feepayer requests the Board to defer action on a claim for refund.

- Includes the holding of untaxed cigarette and tobacco products by an unlicensed distributor within the definition of “use or consumption” so that the cigarette tax can be imposed on that untaxed inventory.

Senate Bill 2230, Chapter 420, Statutes of 1998; effective January 1, 1999

Board-Sponsored Technical and Housekeeping Measure

This bill, in part:

- Changes the period in which the annual disposal fee rate adjustment is made to a fiscal year basis for consistency with other annually adjusted hazardous waste fees.
- Allows emergency telephone user surcharge feepayers to file returns on other than a monthly basis.
- Provides that an overpayment of the disposal fee will be credited or refunded to the person submitting the hazardous waste for disposal, unless the disposal facility has not collected the amount due from that person or has refunded the amount.
- Makes technical changes to clarify that refunds are available for spilled diesel fuel and for specific sales of diesel fuel.
- Makes the diesel fuel tax exemption certificates for farming use or exempt bus operations a Board form and corrects their effective date.

Senate Bill 2231, Chapter 350, Statutes of 1998; effective January 1, 1999



Board-Sponsored Technical and Housekeeping Measure

This bill, in part:

- Adds to the Motor Vehicle Fuel License Tax Law a definition of “redistribution” and “tax-paid fuel”; includes a cardlock, keylock, and other unattended mechanism in the definition of a service station; redefines “bulk plant”; and excludes service stations from the tax on fuel redistributed in excess of the fuel acquired tax-paid, in order to conform the statutes with the *Al-Sal* decision.
- Provides under the various special taxes laws that a levy has the same effect as a levy made under a writ of execution and exempts deposit accounts from continuous provisions of the levy.

- Authorizes the Board to issue determinations for recovery of amounts it has refunded in error.
- Allows a California fuel trip permit to be issued without issuing a Department of Motor Vehicles trip permit; conforms the California fuel trip permit to the International Fuel Tax Agreement; and clarifies that the fuel trip permit is for entry or reentry during four consecutive days.
- Allows the Board to provide information obtained under the Use Fuel Tax Law and the Diesel Fuel Tax Law to state and federal agencies enforcing motor vehicle laws or conducting motor vehicle investigations.

Senate Bill 2232, Chapter 609, Statutes of 1998; effective January 1, 1999

Department of Toxic Substances Control-Sponsored Technical and Housekeeping Measure

This bill corrects, modifies, and clarifies some of the changes made by Senate Bill 660 (Stats. 1997, ch. 870), also known as the Environmental Cleanup and Reform Act of 1997. Among its provisions, this bill:

- Allows the Department of Toxic Substances Control to use the North American Industry Classification System to identify corporations subject to the environmental fee.
- Provides the Board continued authority to collect any outstanding generator fee

surcharge liabilities after the July 1, 1998, repeal date of the surcharge.

- Corrects references related to the deposit of the environmental fee.

Senate Bill 2240, Chapter 882, Statutes of 1998; effective January 1, 1999

Regulations

Use Fuel Tax Regulations

Regulation 1335 was amended to clarify when a person may be relieved from use fuel tax liability because the person reasonably relied on written advice given by the Board. Regulations 1301, 1316, 1317, 1321, 1323, 1325, 1331, and 1331.1 were amended to remove references to “diesel fuel” and “wholesale,” since diesel fuel is now taxed under the Diesel Fuel Tax Law and the wholesaler is no longer liable for the use fuel tax. In addition, the Board amended the regulations to reflect a statutory change by clarifying that flat rate fuel taxpayers can prorate the tax due on vehicles added during the year and by clarifying that interstate users are not permitted to pay an annual flat rate use fuel tax. The Board further amended the regulations to reflect a statutory change which requires that use fuel tax returns be filed on a quarterly, rather than a monthly, basis. The regulations were amended to delete a reference to “tour bus” since the statute now requires that tour buses that operate interstate must be registered under the International

Fuel Tax Agreement. Regulations 1308, 1316.5, and 1333 were repealed.

Title 18, California Code of Regulations, sections 1301, 1308, 1316, 1316.5, 1317, 1321, 1323, 1325, 1331, 1331.1, 1333, and 1335; effective May 20, 1999

Diesel Fuel Tax Regulations

Regulations 1411, 1413, 1420, 1421, 1422, 1430, 1431, 1432, 1433, and 1470 were adopted to implement the Diesel Fuel Tax Law. The regulations define the terms “highway,” “tax-paid,” and “ex-tax”; identify the various types of diesel fuel suppliers; and describe the application of the diesel fuel tax to each. The regulations also clarify a successor’s liability for the diesel fuel tax and clarify when a person may be granted relief from diesel fuel tax liability because the person reasonably relied on written advice given by the Board. The regulations explain the application of the Diesel Fuel Tax Law to fuel exported from the state; to diesel fuel used on a farm for farming purposes, in power take-off equipment, and off the highway; and to fuel lost during the course of handling, transportation, and storage. The regulations also describe recordkeeping requirements.

Title 18, California Code of Regulations, sections 1411, 1413, 1420, 1421, 1422, 1430, 1431, 1432, 1433, and 1470; effective March 31, 1999



Consumption of Beer on Brewery Premises

Regulation 2554, *Consumption of Beer on Brewery Premises*, was adopted to clarify the application of the alcoholic beverage tax to beer consumed on a beer manufacturer’s premises. The regulation conforms to federal law in requiring that all beer be accounted for and that all beer—other than that consumed on a brewery’s internal revenue bonded premises—must be beer on which tax has been paid.

Title 18, California Code of Regulations, section 2554; effective March 31, 1999

Proposition 10 Floor Stock Tax

Regulation 4036 was adopted on an emergency basis to implement the “floor stock tax” provisions of Proposition 10. The proposition gave the Board authority to levy a one-time tax on cigarettes and tobacco products held by every dealer and distributor on or after January 1, 1999.

Title 18, California Code of Regulations, section 4036; effective December 17, 1998