



*Y*OSEMITE CREEK
ABOVE THE FALLS





Sales and Use Taxes

Revenues

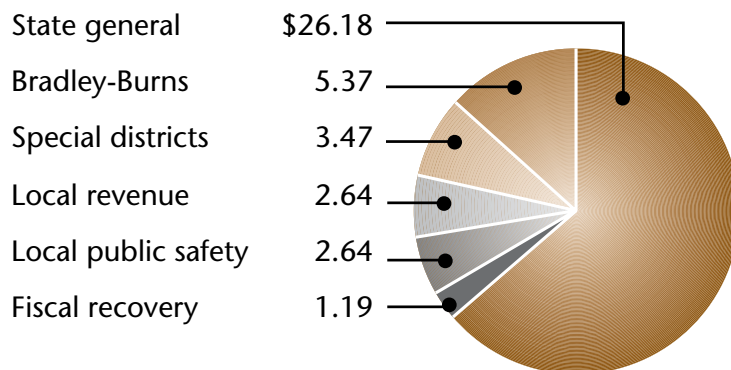
California sales and use tax revenue totaled \$41.5 billion in 2004-05, an increase of 9.0 percent from the \$38.1 billion total in 2003-04. Sales and use tax revenue included:

- \$32.64 billion from the 6.25 percent state sales tax, with \$26.18 billion allocated to the state's General Fund; tax rate of 5.0 percent.
 - \$2.64 billion allocated to the state's Local Revenue Fund; tax rate of 0.5 percent.
 - \$2.64 billion allocated to the Local Public Safety Fund; tax rate of 0.5 percent.
 - \$1.19 billion allocated to the state's Fiscal Recovery Fund; tax rate of 0.25 percent
- \$5.37 billion from the 1.00 percent Bradley-Burns Uniform Local Sales and Use Tax, allocated among all of the state's 58 counties and 478 cities.
- \$3.47 billion in special district transactions (sales) and use tax; rates vary by district.

Sales and use tax allocations to the General Fund were 8.8 percent higher than in 2003-04.

2004-05 Sales and Use Tax Revenues

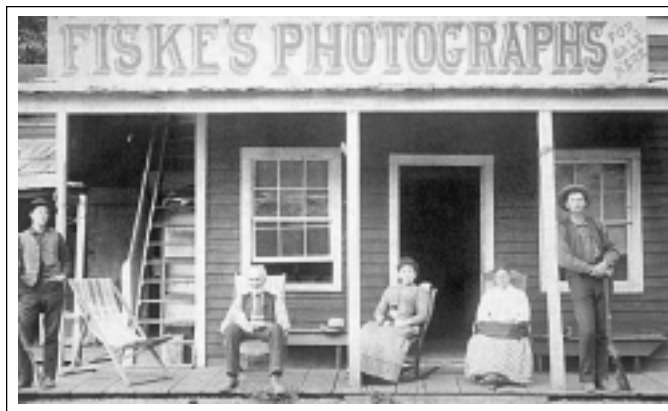
Billions of Dollars





rates of 0.50 percent: the City of Fort Bragg Maintain City Streets and City of Sonora Transactions and Use Taxes. Additionally, the following 17 new districts went into effect on April 1, 2005:

City of Richmond Transactions and Use Tax	0.50
City of South Lake Tahoe Transactions and Use Tax	0.50
County of Fresno Zoo Authority	0.10
City of Lakeport Transactions and Use Tax	0.50
Marin County Transportation Authority	0.50
Mariposa County Health Care Transactions and Use Tax	0.50
City of Los Banos Public Safety Transactions and Use Tax	0.50
City of Sand City General Purpose Transactions and Use Tax	0.50
City of San Juan Bautista Transactions and Use Tax	0.75
City of Montclair Transactions and Use Tax	0.25
City of El Cajon Public Safety Facilities Transactions and Use Tax	0.50
City of Stockton Public Safety Transactions and Use Tax	0.25
City of Capitola Transactions and Use Tax	0.25
Sonoma County Transportation Authority	0.25
City of Sebastopol Community Transactions and Use Tax	0.25
City of Santa Rosa Public Safety Transactions and Use Tax	0.25
City of Farmersville Transactions and Use Tax	0.50



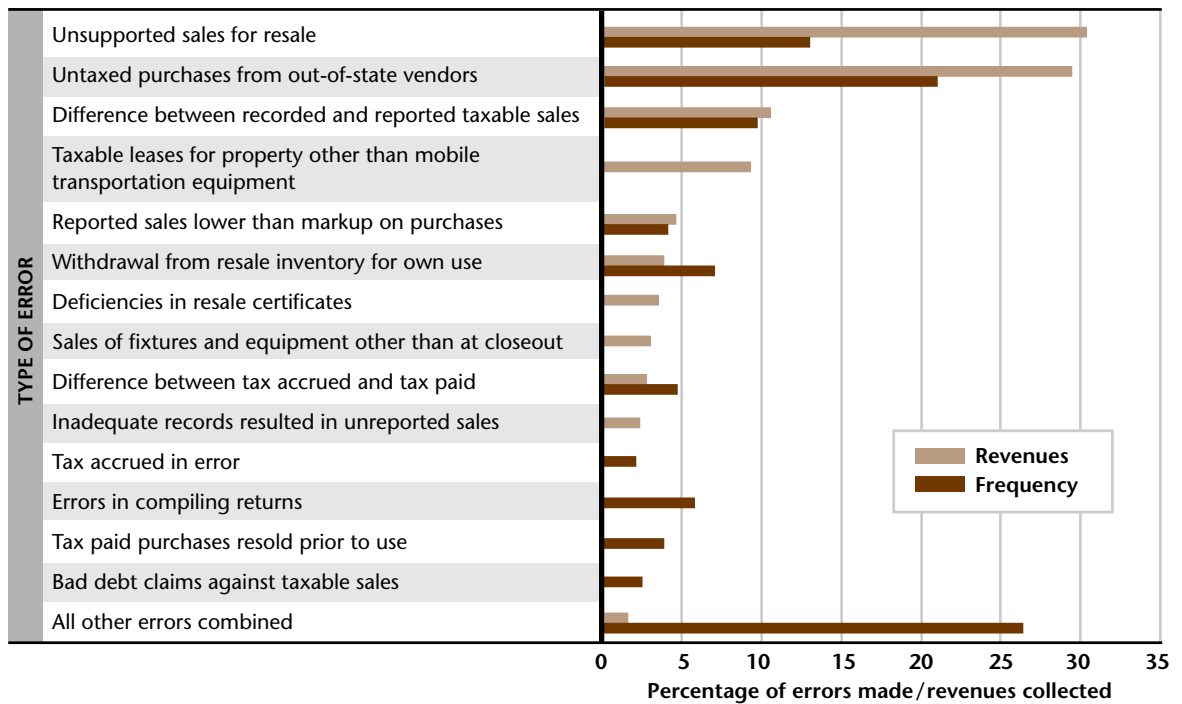
Fiske's Photographs

George Fiske, the first photographer to be a year-round resident of Yosemite, lived there for nearly 40 years. He built his photography studio in 1898, and listed some 600 images for sale in his catalogue. James Hutchings called Fiske "the resident photographic artist of Yo Semite."



2004-05 Analysis of Noncompliance

Types of Noncompliance Frequency of Errors/Revenues Collected



Types of Business Making Error Ranked by Revenues Collected

Type of Business	Percentage	Rank for 2003-04
Publishers; producers and distributors of light industrial equipment	27.27	2
Manufacturers and wholesalers of electronic equipment	9.66	1
Repair and hand trade shops	9.11	3
Producers and distributors of heavy industrial equipment	4.34	11
Construction contractors and sellers of building materials	4.04	10
Gasoline stations	3.95	12
Office stores and school furniture equipment stores	3.84	6
Used automobile dealers	3.50	8
Full-time specialty stores	2.72	5
Manufacturers and wholesalers of store and office equipment	2.63	4
All other businesses		28.94
Total		100.00



Court Decisions

Borders Online Must Collect and Remit Use Tax

Borders Online (Online), which has no California locations, took orders over the Internet and shipped the purchased items to California consumers from outside the state. Those purchasers could return the items to any Borders Books and Music Store (Borders) for an exchange or credit card refund. Online and Borders were separate but related companies. The court held that, although there was no written agreement between the two, Borders acted as Online's representative in California for purposes of accepting returns from Online's California purchasers. The court further held that the acceptance of returns for Online was a selling activity under Revenue and Taxation Code section 6203. Online was therefore a retailer engaged in business in California, and required to collect the applicable California use tax from its purchasers and remit the tax to the Board. The court held that Online had substantial nexus with California, and that requiring Online to collect and remit the use tax does not violate the commerce clause of the United States Constitution.

Borders Online v. State Bd. of Equalization (2005) 129 Cal.App.4th 1179

Legislation

Tax Penalty Amnesty Program for Amounts Due Prior to January 1, 2003

Requires the Board to administer a sales and use tax penalty amnesty program for the period beginning on February 1, 2005 and ending March 31, 2005. The amnesty program applies to sales and use tax liabilities due and payable for tax reporting periods beginning before January 1, 2003.

Senate Bill 1100, Chapter 226, Statutes of 2004; effective August 16, 2004

Vehicles, Vessels and Aircraft Purchased Outside California

Provides that, for the period October 1, 2004 through July 1, 2006, it shall be presumed, unless shown otherwise, that a vehicle, vessel, or aircraft purchased outside this state, and brought into California within 12 months from the date of purchase, is purchased for use in California. Therefore, it is subject to California use tax, if any of the following occur:

- (a) The vehicle, vessel, or aircraft was purchased by a California resident;
- (b) The vehicle was subject to California registration or the vessel or aircraft was subject to property tax in this state during the first 12 months of ownership; or
- (c) The vehicle, vessel, or aircraft was used or stored in this state more than one-half of the time during the first 12 months of ownership.

Senate Bill 1100, Chapter 226, Statutes of 2004; effective August 16, 2004



Legislation (Continued)

Tax Practitioners

Extends the sunset date on the tax practitioner-client confidentiality privilege from January 1, 2005 to January 1, 2009.

Assembly Bill 1416, Chapter 412, Statutes of 2004; effective January 1, 2005

Statistical Data— San Fernando Valley

Requires state agencies that develop and maintain data and statistics on a city level, to make a separate breakdown of the San Fernando Valley and requires the City of Los Angeles to provide all necessary data to state agencies that request it for these purposes.

Assembly Bill 2207, Chapter 181, Statutes of 2004; effective date January 1, 2005

Kings County— Sales and Use Tax Revenues

Among its provisions, requires the California Research Bureau, in conjunction with the Board and the Franchise Tax Board, to calculate the state tax revenues attributable to Kings County for the fiscal year 2003-04, and for each fiscal year thereafter, commencing with the 2006-07 fiscal year.

Assembly Bill 2585, Chapter 885, Statutes of 2004; effective date January 1, 2005

Local Government Budget Trailer Bill— Technical Corrections to the “Triple Flip” (Sales and Property Tax Swap)

Among its provisions, provides that, during the “Triple Flip,” the applicable local sales and use tax rate in the case of a county is 1.0 percent, and in the case of a city is 0.75 percent or less.

Assembly Bill 2115, Chapter 610, Statutes of 2004, effective September 20, 2004

Local Government Revenues— “Triple Flip”

Among its provisions, Proposition 1A, approved by the voters in the November 2004 election:

Prohibits the Legislature from restricting the authority of a city or county to impose a rate under the Bradley-Burns Uniform Local Sales and Use Tax Law or the Transactions and Use Tax Law, and prohibits the Legislature from changing the method of allocation of these local sales and use taxes. The Legislature, however, could revise the allocation of the use tax portion of the Bradley-Burns tax if necessary to comply with federal law or an interstate compact. The Legislature is prohibited from extending the revenue exchange period (also known as the “Triple Flip”) and must restore the 0.25 percent local tax rate after the revenue exchange period.

Senate Constitutional Amendment, Resolution Chapter 133, Statutes of 2004; effective November 3, 2004



Regulations

Membership Fees

Regulation 1584, *Membership Fees*, was amended to explain that when persons other than retailers make sales of memberships that are related to a retailer's anticipated sale of tangible personal property, and the retailer's sales meet the criteria established in subdivision (a)(1) of the regulation, the gross receipts from such membership sales should be included in the taxable measure of the retailer selling tangible personal property, and not the person selling the membership.

Title 18, California Code of Regulations, section 1584; effective August 26, 2004



Grizzly Giant

The "Grizzly Giant," shown in this early lithograph, is not the tallest nor most graceful tree. Standing at 100 feet tall, its broken branches, worn smooth bark, and many scars show countless struggles with snow, wind, and fire. Yet, at about 6,000 years old, the patriarch of the Mariposa Grove is likely not only the oldest living tree, but the oldest living thing on earth.



Regulations (Continued)

Containers and Labels

Regulation 1589, *Containers and Labels*, was amended to implement the provisions of Revenue and Taxation Code (RTC) 6364(d), operative April 1, 2000. The statute provides an exemption for the sale or lease of a container to a person who places food in the container for shipment, provided the food products will be sold, whether in the same container or not, and regardless of whether the food products are remanufactured or repackaged prior to sale. The operative date of the change is April 1, 2000, with the effective date of the regulation January 13, 2005.

Title 18, California Code of Regulations, section 1589; effective January 13, 2005

Foreign Consuls

Regulation 1619, *Foreign Consuls*, was amended to explain new federal requirements for automobile dealers to demonstrate they are entitled to an exemption from tax for sales or leases of vehicles to foreign consular officers, employees, or members of their families. The operative date of the change was June 1, 2003, with an effective date of the regulation February 5, 2005.

Title 18, California Code of Regulations, section 1619, effective February 5, 2005

Packers, Loaders, and Shippers

Regulation 1630, *Packers, Loaders, and Shippers*, was amended to implement the provisions of RTC 6364(d). That statute provides an exemption for the sale or lease of a container to a person who places food products for human consumption in the container for shipment, provided the food products will be sold, whether in the same container or not, and regardless of whether the food products are remanufactured or repackaged prior to sale. The operative date of the change is April 1, 2000, with an effective date of January 11, 2005.

Title 18, California Code of Regulations, section 1630; effective January 11, 2005

Process for Reviewing Transactions and Use Tax Distribution Inquiries

Regulation 1828, *Process for Reviewing Transactions and Use Tax Distribution Inquiries*, was amended to establish a formal process for administering district tax inquiries and appeals. The operative date of the regulation is July 1, 2004, with effective date June 17, 2004.

Title 18, California Code of Regulations, section 1828, effective June 17, 2004