

Highlights

Revenue

Total BOE Revenues Increase

Fiscal year 2009-10 revenues totaled \$50.7 billion. This amount is 4.7 percent higher than the \$48.4 billion collected in 2008-09. Sales and use tax receipts, which totaled \$39.9 billion in 2008-09, rose to \$42.2 billion, an increase of 5.6 percent.

2009-10 BOE Revenues

Billions of dollars



Significant Legislation

Fuel Tax Swap

Assembly Bill x8 6 (Statutes 2010, Chapter 11) makes several changes to the imposition and rates of state taxes on transactions involving transfers of motor vehicle fuel and diesel fuel. For motor vehicle fuel, beginning July 1, 2010, the “tax swap” reduces the amount of sales tax imposed on sales of gasoline by exempting sales of gasoline from the state’s General Fund portion of the sales and use tax rate. To replace these lost revenues, the tax swap increases the state’s excise tax rate on gasoline by 17.3 cents per gallon. For diesel fuel, beginning July 1, 2011, the tax swap reduces the excise tax rate on diesel fuel by 4.4 cents and replaces the lost revenues by increasing the state’s sales and use tax rate on sales of diesel fuel by 1.75 percent¹.

Fuel Tax Swap Clean-Up

Senate Bill 70 (Statutes 2010, Chapter 9) clarified the following with respect to the fuel tax swap:

- Exempts aviation gasoline from the 17.3 cent increase in the excise tax on motor vehicle fuel.
- Exempts from the 1.75 percent increase in the sales and use tax rate, sales of diesel fuel when that fuel qualifies for an exemption from the diesel fuel excise tax. This includes fuel used by train operators, exempt bus operators, and others who may file claims for refund of the diesel fuel excise tax paid on fuel used off-highway or in any other exempt manner.
- Allows the Board to adjust the sales tax prepayment rates on gasoline and diesel fuel if the established rate could result in prepayments that consistently exceed or are significantly lower than retailers’ sales tax liability.

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Legislation enacted in 2010 increased the sales and use tax rate on sales of diesel fuel by 1.75 percent, effective July 1, 2011, but Assembly Bill 105 replaced that legislation and increased the rate further to 1.87 percent.

Underground Storage Tank Maintenance Fee Increase

Assembly Bill 1188 (Statutes 2009, Chapter 649) temporarily increases the underground storage tank maintenance fee by an additional \$0.006 per gallon of petroleum stored, beginning January 1, 2010, and continuing through December 31, 2011.

Certain Disabled Veterans as Consumers

Senate Bill 809 (Statutes 2009, Chapter 621) provides that, beginning April 1, 2010, and continuing through December 31, 2011, a “qualified itinerant vendor” is a consumer of, and shall not be considered a retailer of, tangible personal property owned and sold by the qualified itinerant vendor, except alcoholic beverages and tangible personal property sold for more than \$100. A qualified itinerant vendor means:

- The person was a member of the United States Armed Forces, who received an honorable discharge or a release from active duty under honorable conditions from service;
- The person is unable to obtain a livelihood by manual labor due to a service-connected disability;
- The person is a sole proprietor with no employees for the purposes of selling tangible personal property; and
- The person has no permanent place of business in this state.

Enhancing Taxpayer Services

Digital Audits Project

The BOE completed a successful six-month Digital Audits Project pilot, one element of the greater Digital BOE effort introduced in April 2009. A digital audit is an audit that can be managed, tracked, and processed electronically. During the pilot, almost 100 digital audits were completed, saving time and an estimated 10,000 sheets of paper. Audit staff utilized technology to create the digital audit, scan and hyperlink hard-copy documentation, provide taxpayers with audit results in a digital format, and transmit audits electronically for processing. Digital audits benefit taxpayers by improving efficiency in the processing of audits and the ability to receive electronic audit reports. The project team is now tasked with expanding the Digital Audits Project to include all audit functions, where possible, using existing resources.

BOE eFiling Program

Since beginning the BOE’s electronic filing program in 2005 with single outlet retailers, the program has now expanded to include all types of business operations. The BOE’s eFiling program continues to increase its participation rate. In fiscal year 2009-10, the number of efiled returns/prepayments doubled from the previous year, from 1.13 million to over 2.5 million. BOE continues to achieve cost savings, increase government efficiencies, and provide taxpayers convenient online services.

Expanded Online Services

The BOE continues to improve transparency and customer service by expanding the use of Internet-based services. In fiscal year 2009-10, the BOE created two new mobile web applications to enable taxpayers to access BOE information “on the go” from the convenience of their mobile devices. By clicking on the cell phone icon on our website, mobile users can find the closest BOE field office or verify a permit.

BOE Basic Statistics

During fiscal year 2009-10, the BOE introduced new items of interest to its website including the [Information Resource Library](#). The site now provides basic statistics (for fiscal years 2004-05 through 2008-09) for

most of its tax programs, including revenues collected, total permit holders, volume of returns filed, level of accounts receivable, and number of outreach programs.

Tax Appeals Assistance Program Expanded

The BOE increased the number of taxpayers eligible for free legal assistance with their appeals before the Board by expanding the BOE's [Tax Appeals Assistance Program](#), which is overseen by the [Taxpayers' Rights Advocate](#). Since fiscal year 2005-06, qualified individuals appealing certain decisions of the FTB have received help with appeals from law students who are supervised by BOE tax counsels. Starting with the Fall 2009 semester, free legal assistance also became available to taxpayers appealing BOE consumer use tax billings. See page 25 for more information on this program.

Implementing Tax Gap Programs

Sales and Use Tax Department

During fiscal year 2009-10, the Sales and Use Tax Department implemented several programs to help close the tax gap (the difference between sales and use tax revenue due under the existing laws and the actual amount that is reported and paid). These programs included education, outreach, and other efforts to promote voluntary compliance, plus an enforcement component. As the tax gap programs continue to evolve and mature, voluntary compliance will improve resulting in increased revenues for the state and a more level playing field for California businesses.

The sales and use tax gap programs included:

- *Qualified Purchaser*—This new program was implemented as the result of Assembly Bill $\times 4$ 18 (Statutes 2009, Chapter 16), which added Revenue and Taxation Code section 6225 requiring "Qualified Purchasers" to register with the BOE and report all purchases subject to use tax. The Qualified Purchaser Program employed a letter and outreach campaign notifying Qualified Purchasers that they were required to register and file returns reporting use tax. Approximately 170,000 letters were sent during the fiscal year. The program registered over 199,103 users and generated \$26.3 million in revenue.
- *In-State Service Businesses*—The In-State Service Business Program uses information from the Employment Development Department (EDD) to identify specified service businesses that may be purchasing items subject to use tax and works with these businesses to ensure proper reporting. The program sent approximately 6,368 letters during the fiscal year, generating revenue of \$20.4 million.
- *U.S. Customs*—The U.S. Customs program reviews the Department of Homeland Security's U.S. Customs data for California destined purchases to pursue use tax collection on imported items. The program sent approximately 4,000 letters during the fiscal year, generating revenue of \$12.7 million.
- *Agricultural Inspection Stations*—The Agricultural Inspection Program is a partnership between the BOE and the California Department of Food and Agriculture (CDFA). BOE staff receives information from the CDFA regarding trucks entering California. The information is used to issue seller's permits to those that need them and to identify activities that warrant an audit. Staff reviewed 18,000 leads during the fiscal year and the program generated \$15 million in revenue.
- *Statewide Compliance and Outreach Program*—The Statewide Compliance and Outreach Program (SCOP) has seven teams located throughout the state conducting door-to-door visits of all nonresidential businesses and verifying whether or not each business holds the applicable permits and licenses required by the BOE. During the fiscal year, SCOP team members visited over 86,034 retail and service businesses. Of those businesses visited, approximately 1,913, or 2.2 percent, were found to be operating without a valid seller's permit. During the fiscal year, SCOP generated approximately \$55.5 million in revenue.

Increased Interagency Cooperation

Federal-State Underground Economy Investigations

The BOE Legal Department's Investigations Division participated in a specialized task force with the U.S. Attorney's Office (USAO), the California Attorney General's Office (AGO), and the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF). In March 2010, the BOE entered into an official Memorandum of Understanding with ATF with respect to this joint enforcement effort. Working from the ATF Sacramento Field Office, the Investigation Division's three senior investigators assigned to the task force focused on the trafficking of illegal and untaxed cigarettes and tobacco products in California. With the USAO, the task force filed four criminal cases in U.S. District Court during fiscal year 2009-10 for federal offenses related to California tobacco tax evasion, estimated at approximately \$9.8 million.

Improving Operations

Budget Reduction and Savings Plan

The BOE's fiscal year 2009-10 budget was reduced by approximately \$41.0 million as part of the Governor's Budget Act savings plan. Our Administration Department coordinated the development and management of BOE's savings plan which included targeted savings in BOE's personnel services and operating expense budget. The BOE also implemented a Voluntary Personal Leave Program in which approximately 1,300 employees participated, thereby reducing these employees' monthly pay by five to ten percent. The BOE expenditures were monitored throughout the year to ensure that required savings were achieved. The savings attained allowed BOE to operate within its reduced budget and precluded employee layoffs, while providing essential services to California's taxpayers.

Cost Saving Efforts of the 90-Day Project

In an effort to reduce costs and increase revenue, the BOE launched the 90-Day Project in February 2010. The goal of this project, as its name applies, was to implement staff ideas and realize maximum value in a 90-180 day time frame. Over the following few months, staff from throughout the organization came together and submitted ideas for creating efficiencies by reducing costs, improving processes, and otherwise making better use of resources. Several suggestions were implemented. Many others are in the process of being evaluated and implemented. Dozens of ideas were shared with other project teams who were already working on related issues or processes. Overall, the project was quite successful, providing numerous ideas for continued improvement.

Reorganization of Property and Special Taxes Department

During fiscal year 2009-10, the Property and Special Taxes Department began the planning stages to reorganize and combine three separate divisions into one single Special Taxes and Fees Division. Effective July 1, 2010, the new combined division is more efficient and has four separate branches that reflect the primary work functions performed by each work area—program policy and administration, compliance, audit examination, and appeals and data analysis.

Statewide Student Internship Program Model

The BOE developed a Student Internship Program to offer unpaid internships to student volunteers who want to obtain experience and earn academic credit. The BOE benefits from receiving immediate project assistance while students acquire practical work experience through year-round internships. The State Personnel Board has implemented the BOE's program model statewide.

Improvements to Return Processing

To assist the implementation of the eFile Program for BOE's taxpayers, the Administration Department initiated process improvements in conjunction with the Sales and Use Tax Department (SUTD) to eliminate redundant and unnecessary return workload processes. These process improvements have resulted in the establishment of consistent policy direction for handling taxpayer information as well as workload efficiencies in both the Administration Department and the SUTD.

Establishment of Career Center

The BOE's Career Center, established in the summer of 2009, provides employee assistance to those whose workload had been impacted by the eFile Program. Assistance provided by the Career Center includes access to resources for application, cover letter, and resume preparation, training to improve interviewing techniques, examination exploration, and mock interviews. The Career Center transitioned 27 employees to other careers, thus avoiding employee layoffs. The Career Center is now available to all BOE employees and continues to assist BOE program areas experiencing workload reductions due to e-filing or other operational changes.

Automation of Report Approval and Form Routing

The Administration Department converted several agency-wide manual operations, forms, and reports to electronic versions for processing. These new electronic processes for review of monthly telephone bills and expenditure reports, as well as ongoing personnel hiring and separation forms have resulted in expedited reviews and approvals, a significant reduction in the amount of paper/supplies that are purchased, stored, and delivered, and continue to provide a centralized location for frequently used documents.

Transit Pass Purchase Program

In December 2009, the BOE implemented an automatic pre-tax payroll deduction Transit Pass Purchase Program. This program was initiated to encourage employee use of public transportation for commuting purposes, thereby decreasing BOE's carbon footprint. Approximately 55 percent of Headquarters employees who purchase monthly transit passes enrolled in this new program.