State of California | Board of Equalization

Memorandum

To : Honorable Bill Leonard, Member Second District

Date: March 4, 2010

From : Randie L. Henry, Deputy Director
Sales and Use Tax Department

Subject : Board Meeting, March 23-25, 2010
Item P3- Sales and Use Tax Department's Deputy Director Report
Update on Unapplied Remittances Project- Refunded Remittances

During the November 19, 2009 Board Meeting, you requested a sample of the number and amount of unapplied remittances that were refunded without credit interest. Sales and Use Tax Department staff have compiled the total number and amount of unapplied remittance refunds without credit interest from a recent unapplied remittance project[1].

Number of Refunds	5,897
Amount Refunded	$687,545.10
Estimated Credit Interest (not granted)	$182,399.02

Two of the refunds exceeded $50,000 and account for approximately $76,000 (42%) of the estimated credit interest with the next largest refund at $8,590. If the two over $50,000 dollar refunds are excluded, the average estimated credit interest is approximately $18 per refund.

Staff was unable to grant credit interest on these refunds because an unapplied remittance is not a payment. If the unapplied remittances were considered payments, staff would have been barred by the statute of limitations from refunding the $687,545.10.

Background

Unapplied remittances are funds received by the Board that cannot be matched to a liability. The goal of the unapplied remittance project was to resolve unapplied remittances that were over three years old.

These "aged" unapplied remittances were reviewed by staff. If a liability was identified, the remittance was applied. If a liability was not located, staff issued a letter to the taxpayer asking the taxpayer to identify the liability for which the remittance was intended or request the remittance be returned (i.e., refunded).

[1] The unapplied remittance project was covered in the July 14, 2008, memorandum entitled *New and Enhanced Procedures for Handling Unapplied Remittances* and attached the corresponding legal opinion on this issue.

The remittance letter stated if no response is received it would be assumed the remittance represented tax due to the state. If the letter was returned in the mail and staff could not locate a better address, the unapplied remittance was identified for transfer to the State Controllers Office (SCO) as unclaimed property.

The project resulted in:

- Refund requests: 5,897 taxpayers requesting refunds totaling $687,545.
- Bad addresses: 351 unapplied remittances totaling $17,286 transferring to SCO.
- No response: 11,823 taxpayers with remittances totaling $674,836 where no response or returned mail was received. These remittances are pending application through an automated batch process.

Current Processing

Staff is now reviewing all unapplied remittances before they become aged. Taxpayers are contacted at the time of review if staff is unable to determine where to apply the unapplied remittance or unable to issue a refund.

In addition, staff is in the process of implementing a new semi-annual notice that will be sent to all taxpayers that have an unapplied remittance. The notice will contain unapplied remittances that have not been assigned to staff for taxpayers to review. We anticipate the first notices will be mailed in May 2010.

If you have any questions or require any additional information, please let me know or contact Mr. Kevin Hanks, Chief, Headquarters Operations Division, at (916) 324-2151.

Approved: _____
Ramon J. Hirsig, Executive Director

RLH: djr

cc: Honorable Betty T. Yee, Chairwoman
Honorable Jerome E. Horton, Vice Chair
Honorable Michelle Steel, Member Third District
Honorable John Chiang, State Controller
Mr. Alan LoFaso
Ms. Regina Evans
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At the _____ Board Meeting

_____
Diane G. Olson, Chief
Board Proceedings Division

3/25/10 Update to April meeting
Diane G Olson