

# Memorandum

To : Mr. David Gau  
Chief Deputy Director (MIC 101)

Date: December 28, 2015



From : Lynn Bartolo, Acting Deputy Director  
Sales and Use Tax Department (MIC 43)

Subject : **Board Meeting January 26-28, 2016**  
**Item N: Administrative Agenda**  
**Proposed Revision to Compliance Policy and Procedures Manual (CPPM)**  
**Chapters 2, 5, 7, and 8**

I am requesting approval to forward the attached revisions to the Board Proceedings Division to be placed as consent items on the Administrative Agenda at the January 2016 meeting. The following sections are being revised to incorporate current policies and procedures:

- CPPM Chapter 2, Section 203.060, *Application Status*
- CPPM Chapter 2, Section 203.070, *Registration Assignments*
- CPPM Chapter 5, Section 505.030, *Return Filing*
- CPPM Chapter 5, Section 540.170, *Compliance Assessment Procedures*
- CPPM Chapter 7, Section 707.050, *Payment Application Documents*
- CPPM Chapter 8, Section 805.005, *Department of Motor Vehicles (DMV)*

These revisions have been reviewed and approved by SUTD management, provided to Board Members, and posted on the Board's website at <http://www.boe.ca.gov/sutax/pmr.htm> to solicit comments from interested parties. No comments were received from Board Members or other interested parties.

If you have any questions, please let me know or contact Ms. Susanne Buehler at (916) 324-1825.

LB:rs

Attachment

Approved

**STATE BOARD OF EQUALIZATION**

BOARD APPROVED



At the January 26, 2016 Board Meeting

Joann Richmond

Joann Richmond, Chief  
Board Proceedings Division



Mr. David Gau  
Chief Deputy Director

cc: (all with attachment)

Mr. Wayne Mashihara (MIC 47)

Ms. Susanne Buehler (MIC 92)

Mr. Richard Parrott (MIC 57)

Mr. Kevin Hanks (MIC 49)

Mr. John Thiella (MIC 73)

Mr. Marc Alviso (MIC 101)

Mr. Chris Lee (MIC 101)

Ms. Leila Hellmuth (MIC 43)

## APPLICATION STATUS

203.060

The following table provides a description of terms used by the registration system to describe the status of an application.

Status	Description
Complete	The application was processed and is completed. No further action is required. No modifications to the application can be made.
Discontinued	The application was discontinued based on a review performed by staff or by request of the taxpayer.
Incomplete	An application was started but has not been completed or submitted.
Locked	The application was submitted and failed validation. The taxpayer is unable to modify the application while in this status.
In Process	The application was submitted but processing has not been completed due to an application-level or registration-level processing error, or other system error. The application in this status is also locked.
Pending Staff Review	The application was submitted by the taxpayer and requires review by staff.
Pending Verification	The application was submitted and requires manual entity validation to be performed by staff. Manual validation is necessary when the system is unable to validate an entity.
Pending Payment	The payment related to the application was not submitted at the time of registration.

Registration staff has the ability to take certain actions on applications. Essentially there are two primary actions, Discontinue and Release. The [ApplicationRegistration](#) Staff Action Reason Table ([RASACT](#)) provides several variations of the two primary actions. Staff can access the table by using the ERG MT jump code in IRIS and selecting [RASACT](#) table.

### **Important: Procedures for Releasing and Discontinuing Pending Applications When the Application Has Accounts Under Both the Sales and Use Tax Department (SUTD) and the Special Taxes and Fees Department (STFD)**

When a taxpayer registers for a seller's permit and an account in one or more STFD programs, and the account is in pending status, SUTD staff must not release the hold on the SUTD account as it will cause the hold to be released on the STFD account(s) as well. Also, SUTD staff must not discontinue the seller's permit registration if there is a corresponding STFD account, because it discontinues the entire application, including the corresponding STFD account. If, after further review, it is determined a seller's permit is not needed and a STFD account is included in the application, SUTD staff must contact the STFD Registration and Licensing Section at (916) 327-4208. If SUTD staff discovers an existing seller's permit, they should select the release reason "Release Registration – Use Existing Account" and enter the existing seller's permit number. By selecting this release reason, it will allow STFD staff to continue with their part of the application. STFD staff must not release a hold on a SUTD account as it will also discontinue the taxpayer's application.

## REGISTRATION ASSIGNMENTS

203.070

Assignments are accessed through Assignment Control (ASC) in IRIS using the registration ID number or account number. Assignments are created when an application does not pass established edits, when the tax or fee program rules require additional processing, or when some action is required after an account has been issued. Exhibit A at the end of this chapter provides a summary of each assignment, identifies the potential recipients of each, and provides general information as to how each assignment is resolved.

To locate registration assignments, staff will access the ASC RG screen in IRIS. This screen allows assignments to be located using the registration ID number. Since most assignments require tasks to be completed outside of the registration system, staff will have to indicate when the assignment has been completed manually by entering "Y" in the Completed (Cmp) field and selecting the F5 key to update.

In some cases, the registration process cannot be completed until staff completes the assignment. When this occurs, a REGHLD assignment is created in ASC in addition to the assignment(s) that identify the specific issues affecting an application. When a REGHLD assignment exists for an application, the assignment(s) that are preventing registration from completing are priority assignments and must be completed by staff no later than eight (8) business days following the date the assignment was created. The REGHLD assignment will complete automatically in ASC once the application is released by staff in the registration system. [Prior to releasing an application with multiple tax and/or fee programs, SUTD staff must contact STFD as explained in Section 203.060.](#)

Several assignments can be created for a single application. Each assignment is routed to the appropriate department, section, or unit for processing by staff. For example, applications for a seller's permit where the entity could not be validated by the registration system are assigned to the appropriate field office staff.

In instances where an application results in multiple accounts administered by both SUTD and ~~STFD~~~~PSTD~~, and manual validation of the entity is required, ~~STFD~~~~PSTD~~ receives the validation assignment as well as any other assignments specific to their programs. All other assignments relating to the SUTD account will be the responsibility of the appropriate SUTD section or office.

Filing a return is one of many online services available on the BOE website. Online filing is available for most Sales and Use Tax ([including TATs SR S, SR Y, SR X, SR Z and SC](#)), Motor Fuels Tax, International Fuel Tax Agreement, and Cigarette Tax accounts. Most taxpayers file electronically and will not receive return forms in the mail. However, some taxpayers are ineligible to file electronically (CPPM section 505.032) and others are exempted (CPPM section 505.035). Although BOE may not provide paper returns to most taxpayers, paper returns received from taxpayers will continue to be accepted.

Taxpayers can file returns electronically through the BOE online filing system. BOE does not charge a fee for online filing, and the online filing system is available daily except between the hours of 7:00 pm Sunday and 5:00 am Monday. Taxpayers can either log in as a registered user, or by using the Express Login feature. To create a User ID, the taxpayer will need the account number, express login code, and the taxpayer's full name as registered with the BOE. Taxpayers who log in using the Express Login feature will only need their account number and the eight-character express login code. The express login code is provided to taxpayers at the time of registration and can be found on many BOE correspondences and on the TAR AI screen in IRIS.

Taxpayers may also file a return electronically through a direct transmit service provider. Direct transmit service providers are third-party providers who have successfully completed BOE acceptance testing and have been authorized to receive return and payment information from taxpayers and forward to the BOE for processing. These third-party providers may not offer all of the same features as the BOE online filing system. A list of certified direct transmit service providers is provided on the BOE website. Taxpayers should be advised that BOE staff does not provide support or assistance with direct transmit providers' websites.

The Direct Transmit Program uses Simple Object Access Protocol and Extensible Markup Language (XML) to allow tax return data to be electronically transmitted directly to BOE. Taxpayers transmitting returns on their own behalf (i.e. without using a registered provider) must submit a BOE-400-XML, *Application for Direct Transmission of Tax Returns*, and successfully complete all applicable system testing to be certified as a Direct Transmitter. Testing and certification is done by the eServices Team. Detailed information is available to taxpayers on the BOE website. Applications and inquiries may be submitted by email to [eDirect@boe.ca.gov](mailto:eDirect@boe.ca.gov).

Returns that are filed using the BOE online filing system can be viewed, printed, and reprinted at a later date by taxpayers who are registered users. This is done by selecting "View History/Status" after logging in. Taxpayers who filed returns using the Express Login feature will not be able to view or print previously filed returns until they have created a User ID and log in with their User ID and Password.

**Taxpayers should also be made aware that failure to receive notification of a return due date from BOE does not relieve the taxpayer of the obligation to file a timely return.** Taxpayers are responsible for filing within the time specified by law.

**General Policy**

All permit holders are required to file and pay timely tax returns. Staff should make every effort to obtain the tax return on a voluntary basis. If the tax return is not filed within a reasonable amount of time, the district should consider whether it is appropriate to issue a deficiency determination by use of the Compliance Assessment (CAS) procedure. The CAS procedure is also used to issue a determination on ~~the~~ certain sales of fixtures and equipment when an account is closed out.

**General Procedure**

In IRIS, the CAS procedure satisfies a Financial Obligation (FO) by filling it with Revenue. The FO types used in this procedure are Periodic (PER), which is generally set up when a return is mailed to a registered taxpayer, or One-Time (OTM), which is set up for obligations falling outside a regular reporting period. When a CAS is prepared for a periodic FO, IRIS automatically clears the delinquency for that FO.

A CAS may be prepared for a single period or for multiple periods. The Derive Estimated Revenue screen is used when a return is not filed. The Derive Estimated Revenue — F&E Assessment screen is used when fixtures & equipment are not reported on a filed return and payment in full has been received.

**Authority**

The authority for preparing a CAS for a deficiency determination is RTC section 6481 — Deficiency Determination. The time in which to prepare a deficiency determination is generally covered in RTC section 6487 — Limitations; Deficiency Determinations. The authority for issuing a deficiency determination on an unfiled return is RTC section 6511.

**Process for Unfiled Returns**

The CAS ~~Compliance Assessment~~ process calculates estimated revenue for unfiled returns from one or more periods by averaging prior returns filed for the account. The average tax measure used to estimate revenue can be increased or decreased by a specified percentage. This process provides the ability to ~~also allows for an~~ override ~~of~~ the average tax measure amount calculated and input of a specific tax measure on which the estimated revenue will be based. In addition, staff can input the amount of any sales of fixtures & equipment to be included in the tax measure.

The CAS process is also used to derive schedules for a single period or for multiple periods for a Taxable Activity based on selected periods. The schedules that can be derived are schedules A, B, C, E and F. This process may be used for creating local tax allocations and for compliance assessments. Deriving schedules is for headquarters use only.

The CAS function is not available for Consumer Use Tax accounts or SG accounts.

**Process for Use Tax Liabilities**

Requests for investigations on out-of-state purchases with delivery in California are researched by staff to determine whether the taxpayer has voluntarily reported and paid the use tax. While investigating the requests, staff may encounter situations

where the taxpayer states they have not reported or paid the use tax but intend to report and pay the tax on their income tax return with the Franchise Tax Board (FTB).

Persons purchasing tangible personal property from out-of-state vendors may report and pay use tax directly to the BOE using online registration. Certain taxpayers also have the option of reporting purchases subject to use tax on the income tax return filed with the FTB. However, if they are required to hold a California seller's permit or otherwise required to be registered with the BOE, the use tax must be reported and paid on the sales and use tax return in the applicable period. More information about how to file a return is provided on the California Use Tax Information page on the BOE's website.

If the taxpayer is not required to hold a California seller's permit or otherwise register with the Board and intends to pay the use tax on their income tax return, compliance staff will retain the request for investigation documents (e.g., bill of lading, invoice, place of delivery) and verify that the use tax was reported to either the BOE or to the FTB after the income tax return has been filed and processed by the FTB. The Use Tax Due Dates shown on the following table identify the due date for use tax in various circumstances. Please be aware that FTB provides an automatic six month filing extension for individuals and an automatic seven month filing extension for corporations and exempt organizations.

	<u>Tax Reported On</u>	<u>Total Amount of Purchases</u>	<u>Due Date</u>	<u>Notes</u>
<u>Persons NOT Required to Hold Seller's Permits, Certificate of Registration- Use Tax, or Register for Consumer Use Tax Accounts</u>	<u>FTB Tax Return</u>	<u>Any amount</u>	<u>Due on or before the same date as the person's FTB return (RTC § 6452.1).</u>	<u>Use tax must be reported on the FTB tax return corresponding to the year in which the use tax liability was incurred.</u>
	<u>Individual Use Tax Return (IUTR) (BOE-401-DS)</u>	<u>Any amount</u>	<u>Prior to January 1, 2009, an IUTR was accepted as timely for the period in which it was filed and paid. However, beginning with returns filed for 2009 and any IUTR for a prior period received on or after January 1, 2009, IUTRs are on a calendar year basis and due on January 31st of the year following the year in which a taxable purchase is made.</u>	<u>The IUTR was modified in March 2009 to require that taxpayers report taxable purchases on a calendar yearly basis and that returns are due January 31st of the year following the year in which taxable purchases are made.</u>
<u>Qualified Purchaser</u>	<u>File a Return with BOE Online</u>	<u>Any amount</u>	<u>The return is due on a calendar yearly basis and is due on April 15th of the year following the year in which a taxable purchase is made.</u>	<u>Purchases subject to use tax must be reported on the return for the reporting period in which the taxable purchase is made.</u>
<u>Persons Required to Hold Seller's Permits, Certificate of Registration- Use Tax, or Register for Consumer Use Tax Accounts</u>	<u>Sales and Use Tax or Consumer Use Tax Return</u>	<u>Any amount</u>	<u>Due on or before the due date of the return.</u>	<u>Purchases subject to use tax must be reported on the return for the reporting period in which the taxable purchase is made.</u>

Verification of use tax reported and paid on FTB income tax returns may be obtained by submitting a request for FTB information using the External Access Tracking program. The information must be accessed only by authorized resource person(s) within the requestor's office/section/area of responsibility. IRIS must also be

checked to determine if additional information regarding a person's use tax payment exists under an existing arbitrary account.

A CAS should be created for cases that remain unresolved due to the taxpayer not reporting the use tax to the BOE online or on their FTB income tax return.

The procedures for creating a CAS for use tax assessments are as follows:

1. Tax Liability of \$5,000 or less

A compliance assessment should be created when the use tax liability is \$5,000 or less.

2. Tax Liability of more than \$5,000

If the tax liability is more than \$5,000, refer the case to the audit staff with copies of all supporting documents for further investigation and the preparation of a field billing order (FBO). Comments regarding the transfer of the case to audit will be entered in the TAR subsystem in IRIS.

3. Approval

The supervisor approving the CAS is responsible for ensuring that the thresholds outlined above are followed, the proper documentation retained and the appropriate comments have been entered in the TAR subsystem.

4. Appeals

Compliance assessments that are petitioned will be referred to the District Principal Compliance Supervisor. Petitioned FBOs will be referred to the District Principal Auditor for coordination and handling within timeframes and guidelines from the Petitions Section.

5. Record Retention

Districts must send supporting documentation to the Taxpayer Records Unit using Documentum procedures on eBOE. Documents should be retained for three years.

**Accounts in Legal Status**

When an account is in legal status because of bankruptcy, assignments, receivership, or probate, the "Legal Status" field on the Difference screens must be filled in. This will alert headquarters that the account should be given special attention. If the account should be in legal status but it is not displayed, the legal information must be input using the Legal Claim Case screen.

If split returns are required, the Periodic FO must first be split and then filled with Revenue, that is, a return, CAS or audit. If a CAS is required for an FO that needs to be split, go to the Split Financial Obligation screen and split the FO before preparing the CAS. See CPPM [sections 510.200](#) and [740.070754.055](#)—for information about splitting an FO.

**Penalty and Interest**

A failure to file penalty is automatically added to a CAS.

Billings for penalties under RTC section 6073 (swap meet operators), section 6074 (catering trucks), and section 6077 (florists) will be issued by the [Audit Determination](#)

and Refund Section (ADRS)~~Centralized Review Section~~. Districts will provide the information required to substantiate these penalties directly to ADRS~~Centralized Review Section~~.

Interest is automatically calculated by IRIS based on the amount of tax and due dates.

### **Notice**

The billing statement (Notice) will be generated only after the CAS is approved by ADRS~~Centralized Review Section~~. Districts will not be able to create a Notice.

### **Consolidated Accounts**

The CAS process is also used for consolidated accounts. IRIS will generally compute the district tax based on the selected prior returns. Staff must verify the allocation of district tax on all assessments, since in certain situations the district tax may not have been properly allocated or created by IRIS. Situations that would prevent IRIS from creating correct district tax include:

- Single location accounts that report sales in more than one district.
- Multiple location accounts that operate in more than one district, but the assessment is not based on prior returns.
- Multiple location accounts that operate in more than one district, the assessment is based on prior returns, but the sub-locations have changed during the assessment period.

Allocations of district tax can be reviewed using the system's Maintain/Inquire menu.

### **Security, Payments and Credits**

When security, payments or credits are applied to a CAS, staff should enter a note in the justification field or in the Revenue comments field. Information that should be entered includes the payment amount, effective date and any other applicable comment. These payments/credits will not necessarily be automatically applied. However, IRIS will automatically adjust any penalties and recalculate interest when the payments/credits are applied.

### **Fixtures and Equipment**

Normally, an assessment for sales of fixtures and equipment that have not been reported by a taxpayer on a regular return will be included in a CAS when staff creates a Revenue entry on the Derive Estimated Revenue screen. However, when payment has been received that will fully satisfy the liability for the asset sale, staff should use the Derive Estimated Revenue F&E Assessment screen to create the CAS. The Derive Estimated Revenue — Fixtures and Equipment screen is used to derive Revenue for a single period based upon a specified Fixture & Equipment (F&E) amount. This process will accept the F & E amount and derive the return by "backing into" the taxable measure using the F & E amount. A One-Time (OTM) Financial Obligation without Revenue must exist. Do not use a Periodic FO for this process. Note that this process is only used to create a Revenue entry for fixtures and equipment when no penalty is to be assessed and full payment has been received. Upon completion of a CAS for F&E, IRIS's Assignment Control automatically routes the CAS to the district office's CAS reviewer. The reviewer is responsible for reviewing and approving the CAS at the district level.

## PAYMENT APPLICATION DOCUMENTS

707.050

There may be an occasional need to create a document when applying a payment in a manner that does not follow the standard payment application rules. The following options may be used to specify how a payment is to be applied to a taxpayer's liability in such a situation:

### Using PAY BD Printouts

This procedure can be used to apply payments to all billed differences existing on an account and for payment(s) that are to be applied to a previously created Fixtures and Equipment assessment with a difference already on the system.

Placing a "T" next to a selected difference in DIF DA will highlight the liability and the "Differences Selected for Payment" field will display the total number of differences selected. Pressing F17 will return the user to the PAY BD screen and display all the differences that were selected at the DIF DA screen.

1. In IRIS, type PAY BD and press "Enter."
2. Type DIF DA and the account number to obtain the list of liabilities owed on the account.
3. Type "T" next to the liability where a payment will be applied and press "Enter."
4. Press F17 to "Take" (this will return you to the PAY BD screen).
5. Confirm the effective date of payment.
6. Input the remittance amount and the payment amount(s) and press "Enter."
7. Print and submit the document to the cashier.

### Using DIF DA Printouts

The DIF DA screen is used when a payment is to be applied to a specific difference that has not yet been created. For example, where payment is received from a person who is paying against a customs program liability in advance of being billed.

1. In IRIS, type DIF DA and account number, and press "Enter."
2. Print the DIF DA screen.
3. Write the remittance amount, effective date, and either the FO ID number, if available, or the words "Apply to A/R" on the printout if no difference exists (this will be an unapplied payment). If a difference does exist, a FO must be created to avoid application of payment to existing differences.
4. Submit the document to the cashier.

### Using Notices

Payment(s) may also be applied to a specified difference using the billing notice itself.

1. In IRIS, print the notice.
2. Write the effective date and the amount of payment in the appropriate boxes.
3. Submit the notice to the cashier.

### ~~Using Form BOE-904, Advice of Miscellaneous Receipts~~

~~Form BOE-904, Advice of Miscellaneous Receipts, is used to account for payment of collection costs and advance fees. When these types of payments are received, prepare~~

~~Form BOE-904 and include the Difference ID, if available, for collection costs at the top of the document. If the remittance amount is greater than the collection costs balance, include an additional transmittal document specifying the difference(s) to which the remainder of the payment is to be applied.~~

**Automated Cost of Collection Report**

District staff must apply payments to the Cost of Collections (COC) differences in IRIS when reconciling outstanding warrants and ABC renewal fees. IRIS produces an automated report to capture information about the payments applied to COC differences in IRIS. This automated report is provided electronically to the Headquarters' Cashier Unit and Accounting Section with the necessary information to reimburse the General Revolving Fund. The GA-904, *Advice of Miscellaneous Receipts* that had been used is no longer necessary.

In addition, the report provides information about payments that have been moved or changed. For example, the automated report will reflect the change to the COC difference if staff applies a payment to a COC difference in IRIS and subsequently moves the payment to another difference in IRIS. This data is necessary since the Accounting Section is responsible for transferring funds from the retail sales tax account to the general revolving fund.

## DEPARTMENT OF MOTOR VEHICLES (DMV)

805.005

DMV acts as an agent for the BOE by collecting the use tax due on private party transfers of vehicles, mobilehomes, commercial coaches, and undocumented vessels in California, when the transfer is registered by the purchaser. Each week, DMV provides information to CUTS pertaining to the registration and transfer of vehicles and undocumented vessels that meet certain criteria for potential use tax assessment.

DMV also registers undocumented vessels (as defined in CPPM 812.025) for the State of California as an agent for the Department of Boating and Waterways.

### **Collection of District Taxes by DMV**

When processing registration for a purchaser of a vehicle from a private party, the DMV Automation system automatically calculates the tax rate based on zip code. DMV has implemented several options to ensure the correct tax rate is collected when a purchaser's address is not within the jurisdiction's boundaries but has a postal zip code that overlaps with a jurisdiction imposing a district tax.

When the purchaser actually resides outside the boundaries of the district tax jurisdiction, the district tax is not due. To allow DMV to process the registration without payment of the district tax, the purchaser may do any of the following:

- Provide a completed BOE-111, *Certificate of Vehicle, Mobilehome, or Commercial Coach Use Tax Clearance*, to the DMV at the time of registration.
- Complete DMV form REG-256, *Statement of Facts*.
- If the jurisdiction imposing the district tax is an incorporated city, provide a letter to DMV, obtained from the incorporated city on city letterhead, indicating the registration address is outside the boundaries of the incorporated city imposing the district tax.