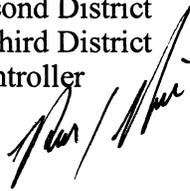


# Memorandum

**To:** Honorable Betty T. Yee, Chairwoman  
Honorable Judy Chu, Ph.D., Vice-Chair  
Honorable Bill Leonard, Second District  
Honorable Michelle Steel, Third District  
Honorable John Chiang, Controller

**Date:** March 9, 2007

**From:** Ramon J. Hirsig  
Executive Director



**Subject:** Item P1, sub-item 2, March 20, 2007, Retail Licensing Enforcement Report, As Requested by the Supplemental Report of the 2006 Budget Act for the 2006-07 Fiscal Year

The Board is required to report to the budget committees of both houses on the performance of the Retail Licensing Enforcement Program no later than April 1, 2007. The request for this report was made in the Supplemental Report of the 2006 Budget Act for the 2006-07 Fiscal Year, (Item 0860-001-00001, Board of Equalization, Retail Licensing Enforcement). This report outlines the development of the program including the background, methodology, staffing, findings and recommendations. The attached copy is provided for your information.

The Retail Licensing Enforcement Program, more commonly referred to as the Business License Inspection Program (BLIP), was initiated in the latter part of 2006 to establish a significant statistical sample of retail licensing inspections in two pilot areas (San Francisco and Los Angeles). The program's purpose is to identify the level of underground economy activity attributable to retail sales and to address the retail portion of the "tax gap" or disparity between sales tax revenue due under existing sales tax law and the actual amount that is reported and paid.

ID staff has conducted 21,378 inspections to date, that have generated 5,023 taxpayer information registration updates (220Is), 268 audit referrals (1164s), and identified 954 unlicensed business locations operating without a seller's permit. Business license inspections identified a noncompliance rate of 4.5 percent, in other words, the average percentage of unlicensed businesses to licensed business inspected this is the representing 89 business types in the North American Industry Classification System (NAICS).

## Staff Recommendation

Staff recommends that, based on the initial results of the pilot inspection program conducted thus far, a state wide roll-out of an assertive SUTD inspection program supported by ID enforcement effort and coordination would be an effective and efficient use of resources to address these problems.

The report will be submitted to the Budget Chairs no later than April 1, 2007. Please feel free to contact me if you have any questions regarding this report.

RJH:mr/sc  
Attachment

Item P1.2  
3/20/07

cc: Mr. Alan LoFaso, Board Member's Office, First District  
Mr. Mark Ibele, Board Member's Office, First District  
Ms. Barbara Alby, Board Member's Office, Second District  
Mr. Erik Caldwell, Board Member's Office, Third District  
Mr. Steve Shea, Board Member's Office, Fourth District  
Ms. Marcy Jo Mandel, Controller's Office (MIC:76)  
Ms. Kristine Cazadd ((MIC:83)  
Ms. Randie Henry (MIC:43)  
Ms. Karen Johnson (MIC:69)  
Ms. Jean Ogrod (MIC:82)  
Mr. Gil Haas (MIC:42)  
Mr. Dave Hayes (MIC:67)  
Ms. Margaret Shedd (MIC:66)



# **Retail Licensing Inspection Program**

*Special Report – April 2007*

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## Introduction

This report responds to the legislative request in the Budget Act of 2006 for a report from the Board of Equalization on the Retail License Enforcement Program. This report provides a synopsis of the program results to date and staff recommendations, as requested in the Budget Act of 2006. The Budget Act of 2006 specifically states:

Pursuant to the Budget Act of 2006, no later than April 1, 2007, the Board of Equalization shall report to the budget committees of both houses on the performance of The Retail License Enforcement Program. This reporting shall include the number of businesses contacted through this program, the overall noncompliance rate at both locations, the amount of tax associated with the unpermitted business identified; an analysis of noncompliance by industry type, including the size of businesses found out of compliance; the number of disputed assessments; number of personnel transferred from other BOE programs to this unit; hiring timelines for all new staff, and a description of the methods used to conduct retail licensing enforcement and their effectiveness.

## Background

The Retail Licensing Enforcement Program, more commonly referred to as the Business License Inspection Program (BLIP), was initiated as a BOE effort to establish a significant statistical sample of retail licensing inspections in two pilot areas (San Francisco and Los Angeles). This program's purpose is to identify the level of underground economy activity attributable to retail sales and to address the retail portion of the "tax gap," or disparity between sales tax revenue due under existing sales tax law and the actual amount that is reported and paid.

## Program Methodology

Data extractions from existing accounts in the BOE Integrated Revenue Information System (IRIS) organized by zip code are supplemented by additional revenue data on historical tax reporting. All data is downloaded to encrypted tablet PCs, which allows inspectors to utilize touch screen technology to document registration errors, unpermitted business operations, and potential audit leads in the field while conducting inspections. Inspectors use the data to conduct a visual analysis of business operations, comparing past reported amounts against retail inventories and sales activity. Where inventories and sales activity appear to be significantly underreported, staff completes an audit referral or lead, which is forwarded to the district office.

Prior to the inspection, taxpayers with active seller's permits receive a letter from the BOE notifying them of the impending inspection. The letter also informs taxpayers that they can call the BLIP call center if they have any questions related to the inspection. During the licensing sweep, inspectors visit each business location on the street to verify the accuracy of existing permits/licenses as well as identifying and inspecting those businesses not shown on the extraction list. Taxpayers receive Publication 153, *Business License Inspection Program*, which provides an overview of what to expect during the inspection, and their rights relating to the inspection process. During the process,

inspectors increase awareness of tax law compliance by responding to taxpayers' questions regarding the types of BOE permits required. In addition to the street sweeps, the inspectors attend trade shows, or conventions where retail sales occur, to identify unlicensed business operations and level of compliance. One such trade show, the Gem Show held in San Francisco on November 25, 2006, resulted in the identification of 367 vendors, of which 324 were inspected, and 41 or 11% were found making retail sales without a seller's permit.

## Program Implementation

### Staffing

The Budget Act of 2006 requests data on the number of personnel transferred from other BOE programs to the Retail Licensing Enforcement Program and the hiring timelines for all new staff.

Budget Change Proposal No. 2e authorized 33 positions, comprised of 1.0 Legal Support (Tax Counsel III), 2.0 Field Supervisors (Business Taxes Administrator I), 20.0 Inspectors (Business Taxes Specialist I), 1.0 Audit Billing Staff (Associate Tax Auditor) 1.0 IRIS Assignment Control (Business Taxes Specialist I), 2.0 Field Support Personnel (Tax Technician III), 3.0 Sales and Use Tax Registration Staff (Tax Technician II) 1.0 Technology Services Division Staff (Staff Information Systems Analyst), and 2.0 Personnel Administrative Support (1.0 Associate Personnel Analyst and 1.0 Personnel Specialist).

This information requested in the Budget Act concerning the number of personnel transferred from other BOE programs to the Retail Licensing Enforcement Program is for the purpose of measuring the negative impact, if any, on existing Sales & Use Tax Department (SUTD) Compliance and Audit programs from the implementation of the new program. It was necessary to document specifically how many SUTD staff would leave SUTD for promotion into a position in the Investigations Division (ID) to gauge the impact. Therefore, the table below identifies only those positions that had the potential to draw from SUTD, which includes 29 of the 33 positions authorized.

# Positions	Classification	SUTD Employee	Other
20	Business Taxes Compliance Specialist	8	12
2	Business Taxes Administrators	2	0
2	Tax Technician III	0	2
1	BTSI Tax Auditor	1	0
1	BTSI IRIS Control		1
3	Tax Technician II		3
		<b>Total Employees hired from SUTD</b>	
			11

## Training

The Business Licensing Inspection Program is staffed by the Board's first full-time wireless field inspection crews. The training program provided to inspectors to support this effort included specific knowledge in the areas of Sales and Use Tax Law, other Board tax & fee program areas, fraud recognition, interview and safety techniques, as well as, instruction on how to utilize tablet computers with encryption software and wireless connectivity. Many inspectors were well grounded in some of these areas; but it was necessary to develop individual training plans to provide the expertise in Sales and Use Tax Law compliance and ID enforcement needed to conduct these inspections and to identify potential underreporting. The start date and initial training for BLIP field staff was July 10, 2006. Training highlights include the following:

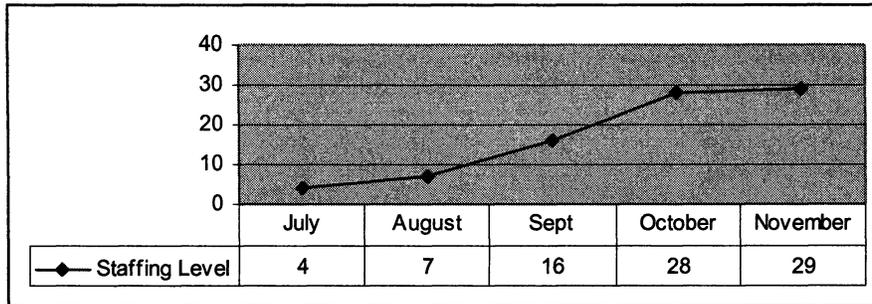
- July 10-19, 2006: New employee orientation and Sales and Use Tax Law training for San Francisco BLIP field staff
- July 24-August 11, 2006: Cross training of BLIP staff with Cigarette and Tobacco Products inspection staff.
- August 14-18, 2006: Computer training introducing the BLIP database, encryption software, tablet computer with handwriting recognition software and upload and download processes using encrypted portable storage and encrypted wireless information transfer.
- January 16-19, 2007: Semi-annual Investigations Division meeting in Sacramento for all division staff. BLIP staff received training on various tax programs' licensing and registration requirements, including excise taxes on fuels, environmental fees, sales and use tax and the cigarette and tobacco products taxes. In addition, inspectors received reinforcement training regarding the identification and reporting of sales tax audit leads (BOE 1164).

The first BLIP inspections were conducted on August 21, 2006 in San Francisco. After the deployment of the San Francisco inspection crews, the training process was repeated for a Los Angeles roll-out. The first Los Angeles inspections were conducted on October 10, 2006. The Northern and Southern BLIP inspectors met on November 13-15, 2006, in Sacramento to identify the progress, challenges and future training needs for BLIP. Additional training was suggested to assist staff in the identification of significant tax under reporting for active permit holders, where reported sales tax did not reconcile with observed business inventories and sales activity. This training was held in mid-January 2007. Representatives from each of the BOE tax programs provided inspectors with specific information related to their respective registration or licensing requirements in addition to extensive audit referral training.

## Deployment (Hiring Timeline)

Recruitment for the San Francisco office began in June 2006, with hiring commencing in mid-July. Full staffing for the San Francisco office was not achieved until mid-October 2006. Recruitment for the Norwalk (Los Angeles office) began in July 2006, with hiring commencing in mid-September 2006. The Norwalk office achieved full staffing on November 1, 2006. The table below represents inspection team staffing by month.

### Business License Inspections Staffing



## Businesses Contacted

### Inspections

An inspection area is identified for the Business License Inspection Program, based on permit clusters, or demographic areas of significant licensed business activity. As noted above, the licensed businesses receive a letter, BOE 1322, providing an overview of the inspection process, and their rights relating to the inspection. Business inspections began in late August 2006 in the BH (San Francisco) district in Northern California, and in mid-October 2006 in AA (Norwalk, Los Angeles) district in Southern California. Thus far, more than 40,000 letters have been sent to California taxpayers. Table 1 below provides an overview of the program totals.

Inspection Totals Through January 31, 2007					
	Inspections	220Is	1164	# Unlicensed	Percent
AA	9,395	1,837	209	365	3.9%
BH	11,983	3,186	59	589	4.9%
<b>Total</b>	<b>21,378</b>	<b>5,023</b>	<b>268</b>	<b>954</b>	<b>4.5%</b>

### Non-Compliance (unlicensed operations)

Initial inspections were choreographed to occur in areas where voluntary compliance was believed to be high to ease staff into inspections utilizing new tablet PC technology. Once staff demonstrated proficiency using the tablet PCs, they were moved to areas reflecting higher densities of business activity. ID inspectors have conducted 21,378 inspections to date, that generated 5,023 taxpayer information registration updates (220Is), 268 audit referrals (1164s), and identified 954 unlicensed locations operating without a seller's permit. The average percentage of unlicensed businesses to licensed businesses inspected is 4.5 percent.

## **Non-Compliance after Inspection**

The main thrust of the Business License Inspection Program is to identify unlicensed business operations and to provide them an opportunity to voluntarily obtain a seller's permit. The Board's records reflect that 26 percent of the businesses contacted thus far have voluntarily obtained a seller's permit. This result indicates that additional follow up is required, involving either a warning or citation, depending on prior staff advice provided to the taxpayer, to bring the remainder into compliance. The majority of these business owners stated that their unpermitted business operations had started within one to two months of contact by the BOE. Several indicated their businesses had operated for an entire year without a seller's permit, and a few identified unpermitted businesses in operation for several years.

## Misdemeanor Citations

### **Citations Issued**

The ability of our Investigators to issue misdemeanor citations for violations of Revenue & Taxation Code Section 6071 is a key advantage of the Investigations Division's involvement in the Business License Inspection Program. Section 6071 makes it a misdemeanor offense to engage in business as a seller in this state without a permit, or while a permit has been suspended or revoked.

Early program efforts were geared toward obtaining voluntary compliance. The issuance of citations for those businesses that did not register within 60 days of initial contact began in late February 2007; therefore, misdemeanor citation data is not yet available.

### **Citations Prosecuted**

Citations issued for violation of section 6071 should take an average of 90 days to adjudicate, which means that substantive data will not be available on prosecuted citations until late April 2007. However, it is anticipated that the number of unpermitted businesses contacted during the inspections will decline as a result of the citations issued and the potential for receiving a criminal citation becomes more widely known. Increased compliance will result from additional businesses obtaining a seller's permit, or discontinuing sales of taxable property.

## Value Added Customer Services

### **Investigator Information Requests**

ID established a BLIP call center comprised of two Tax Technician III positions to provide real-time registration information to inspectors. These positions provided 1,963 registration searches for inspectors when the registration information available on the tablet PCs did not match information obtained at the business location. The searches provided confirmation of businesses making retail sales, without the benefit of having a seller's permit with the BOE, as well as confirmation of permitted sales activity, where

the business location information was not accurate or consistent with the BOE's current account registration.

### **Taxpayer Information Requests**

Over 3,526 calls were received from taxpayers responding to the mailer advising of upcoming inspections in their zip code. These calls resulted in the issuance of 849 replacement seller's permits for taxpayers who could not locate their copies, 1,631 registration updates, and additional information provided to taxpayers about the inspection program.

In addition, 316 callers requested their seller's permits be closed out. The majority of these businesses were home-based businesses, such as interior decorating and part-time sellers.

## **Business Types**

### **North American Industry Classifications**

Business license inspections to date have identified a non compliance rate of 4.5 percent, representing 89 business types in the North American Industry Classification System (NAICS). Attachment A provides a breakdown of businesses by NAICS codes that obtained a permit after they were contacted by an inspector. It shows that noncompliance with registration requirements is not specific to a single type of business. An analysis of the NAICS codes and the typical revenues associated with these businesses indicates that annual revenue losses associated with these accounts average \$77,000 in sales tax per account. It should be noted that NAICS codes make very little distinction between the big box office types of retailers and the small store front retailer. Nonetheless, it is still reasonable to associate \$10,000 in annual potential sales tax for each of these accounts for revenue estimate purposes, since business overhead in the high cost areas where the pilots were conducted would necessitate a minimum of \$120,000 in sales.

As discussed in the "Industry Trends" section later in this report, the inspections revealed that a number of service industries that traditionally have not been involved in retail sales activity, are now making retail sales. Additionally, notice should also be taken on the number of unpermitted jewelry stores identified on Attachment A. A total of 24 jewelry stores operating without a seller's permit were identified, primarily from the Gem Trade Show licensing sweep conducted in San Francisco on November 25, 2006.

## **Audit Leads**

### **Revenue Generated from Audit Leads**

Staff generated 268 potential audit leads in the course of their inspections. However, many of these leads were found to be insufficient to forward to district offices to initiate audits due to varying levels of the BLIP inspector's knowledge and experience. The leads were screened by experienced audit staff in ID, with an emphasis on identifying

additional inspector training opportunities to address deficiencies. Of the 268 potential audit referrals, 53 (37 Los Angeles & 16 San Francisco) were forwarded to the district offices in late February 2007. Staff will be following up on these referrals to ascertain potential revenue, as well as, to refine the referral process to increase future audit referral revenue returns.

## Outreach

### City and County Collaboration

Prior to rolling out the Business License Inspection Program in the San Francisco and Los Angeles pilot areas, ID staff met with various city business licensing staff to promote the program, and explore opportunities to collaborate on business licensing efforts. These contacts have resulted in a mutual agreement that BOE and city staff will check retailers for both city business licenses and BOE seller's permits and share information on unlicensed or unpermitted business activity. The City of San Francisco has provided its business licensing data to the BOE electronically, and a dialogue is ongoing with other cities within the pilot project areas to promote joint cooperative efforts and data sharing. Research is underway to determine whether new data matching software can be used to match the city's business license data against the BOE seller's permit data for the purpose of identifying "orphaned accounts," or business accounts held solely by the city or the BOE, but not by both. Once this research is completed, orphaned accounts will be reviewed for new licensing opportunities.

ID staff also met with the misdemeanor District Attorney's intake department staff of each city and/or county in the pilot program area to ascertain the unique requirements of each municipality for prosecuting misdemeanor violations of section 6071. The meeting discussion included intake procedures and the benefits of prosecuting misdemeanor violations for operating without a sales tax permit. These meetings were well received and have proven to be very productive for streamlining the prosecution process by identifying contacts and specific information required by each District Attorney's office to successfully pursue a misdemeanor conviction, with the goal of obtaining taxpayer compliance.

### Publications

An informational flier for this program also was developed specifically for distribution to the Chambers of Commerce in the pilot areas for further distribution to their members. The response to the flier has been positive based on contacts from business leaders involved in a number of the Chambers. The leaders of one Chamber considered the information in the flier so helpful that they published it in their bimonthly newsletter to members.

As noted above, a BLIP letter was developed to notify business owners with active seller's permits about the program prior to the inspectors conducting the inspection at their business location. The letter informs business owners about their rights during the inspection process and that inspectors would ask to see their seller's permit and other BOE licenses that may be required, and would verify their registration information. The letter also discusses the unfair business advantage of businesses that operate without the

required license(s) and the Board's efforts to make the state's tax system more equitable for all businesses through this inspection program.

Publication 152, Business License Inspection Program, also was developed for inspectors to hand to the business owners at the time of the inspections. This publication provides information concerning the purpose of the inspection, the inspection process, the business owner's rights under the inspection program and contact information should they desire more information. The Investigations Division also has made this publication available at the Board's Small Business Fairs held within the pilot program areas. This publication is currently being translated into the Board's identified common contact languages, as well as other needed languages identified by ID staff during their field contact.

### **Media (Public Service Announcements)**

The BOE's Communications Office contacted Bay Area and Los Angeles media, and used print, radio and television coverage to publicize the BLP program to businesses in the pilot inspection areas of the state. The press releases provided information about the reasons for initiating the Business Licensing Inspection Program, how it benefits the state as well as the business community, and what the taxpayer could expect when contacted.

## **Opportunities**

### **Increased Data Mining Opportunities**

The local business licensing data from the City of San Francisco presents an opportunity for the BOE to work with other municipalities on a win-win formula, involving the BOE's proposed use of sophisticated data matching software to match the city's business license data against BOE seller's permit data for the purpose of identifying "orphaned accounts," or business accounts held solely by the city or the BOE, but not by both. The orphaned accounts found to be unlicensed with the city can be forwarded to the city, while those found to be operating without a seller's permit, can be worked by the BOE. Presently, all accounts identified to be operating without a city business license/permit during inspections are referred to the city.

Some cities apparently have been reluctant to provide licensing data without due compensation. This information is based on staff discussions with the Franchise Tax Board staff relating to their past efforts to obtain such data from cities. But the experience with the City of San Francisco demonstrates that an opportunity exists for BOE to collaborate with local municipalities when data sharing enables mutual revenue benefits.

### **Interdepartmental Cooperation ( FTB, DMV, EDD) – Revenue Potential**

The BOE Investigations Division, in conjunction with the Federal/State Steering Committee On Bridging the Tax Gap and under the direction of Randie Henry, Deputy Director of Sales and Use Tax, has been sharing information gained from the business licensing sweeps with the Department of Motor Vehicles (DMV), Franchise Tax Board (FTB), and the Employment Development Department (EDD). This information

generates potential revenue opportunities for these departments in addition to the sales tax revenues resulting from the subsequent licensing and tax compliance of businesses making retail sales of tangible personal property. Below are the results of preliminary discussions and revenue generating explorations.

#### Franchise Tax Board

Investigations Division inspectors shared information with FTB staff on 250 accounts determined to be operating without a seller's permit in the early stages of the BLIP pilot program, in an effort to explore additional revenue generating opportunities. FTB matched 145 of the 250 accounts to their filer data, of which 121 had filed returns and 24 or 9.6% of the total were not in compliance. This information identifying the business location of 24 accounts represents potential income tax revenue and collection opportunities for FTB. Staff is currently attempting to provide additional information on the 105 accounts that FTB was unable to identify to determine if these businesses known to be operating without a seller's permit also represent additional non-filers of state income tax returns. As a result of these preliminary findings, both departments are exploring opportunities to pursue additional resources through the Budget Change Proposal process.

#### Department of Motor Vehicles

An issue paper developed by the Investigations Division on used car evasion trends resulted in a cooperative effort between BOE and DMV, initiated by BOE Executive Director, Ray Hirsig. The staff of both agencies identified and agreed upon a number of joint projects, including joint seller's permit/vehicle registration enforcement. All car dealers are required to possess a BOE seller's permit at the time their application is reviewed and approved by DMV. ID used DMV data on 9,951 car dealers to identify those businesses registered with DMV, but not with BOE. This project enabled BOE to identify 8,477 of 9,951 registered dealers, or 88%, as having an active seller's permit. An additional 815 or 9.6% were identified as closed-out permits, and 1,114 or 11.6% could not be matched with existing seller's permit accounts. The data that could not be matched can be attributed to a number of causes, including, data entry error, non-matching search criteria, or evasive information provided at the time of registration.

The Investigations Division met with DMV enforcement staff on February 15, 2007, to establish protocols for conducting joint permit/licensing inspections of the 815 dealers with closed-out BOE permits and the 1,114 unmatched dealers, and to establish reciprocal information sharing requirements.

#### Employment Development Department

In conjunction with the efforts of the Federal/State steering committee on the tax gap, the Investigations Division will identify certain BOE accounts that will be made accessible to EDD. These accounts were identified during ID staff inspections where plain sight observation of the business, or information obtained during the inspection, indicates that the business has more than six employees on the payroll. EDD will use this information to data match against their database of employers reporting unemployment taxes in an effort to obtain viable leads for future registration and/or compliance activity.

## **Intra-Departmental**

The Business License Inspection Program also has created intradepartmental opportunities by substantially improving data integrity (over 51% of the licensing inspections have resulted in some form of registration update being identified), and by identifying licensing and registration leads in tire recycling and environmental fees programs and other BOE tax and fee programs.

Opportunities also exist for better strategic planning as a result of improved data integrity and inspection intelligence. As discussed in the following section, recent inspections have identified segments of the business service industry that, historically, have only provided services, but are now conducting retail sales.

## **Industry Trends**

One specific trend highlighted by the compliance inspections is the movement by some business services that, historically, have not made retail sales, to provide added value services to their customers by offering retail products for sale. Such examples include, but are not limited to, beauty and nail salons offering high-end cosmetic and beauty supplies, jewelry, clothing and hand bags; optometrists offering designer sun glasses, lens cleaning products, glass ropes and other accessories; dentists offering water picks; and chiropractors selling lotions, back braces, vitamins, and herbal remedies. While these industries do not represent significant tax losses, collectively, they erode the retail sales base of other vendors who might, otherwise, offer and report their retail sales of these products.

As more inspection data becomes available and is correlated and analyzed to corroborate the level of this type of activity within specific service industries, opportunities to directly promote seller's permits and reporting requirements to these types of businesses can be conducted cost effectively.

## **Recommendation**

The recommendation, based on the initial results of the pilot inspection program conducted thus far, is a state wide roll-out of an assertive SUTD inspection program supported by BOE ID enforcement.

## **Recommendation Analysis**

Business license inspections, to date, have identified a noncompliance rate of 4.5 percent, representing 89 business types shown in the North American Industry Classification System (NAICS) codes. Attachment A provides a breakdown of businesses by NAICS that obtained a permit after they were contacted by an inspector; there is no single type of business avoiding registration with the BOE. An analysis of the NAICS codes and the typical revenues associated with these businesses indicates that annual revenue losses associated with these accounts average \$77,000 in tax per account. It is reasonable for purposes of revenue estimation, to associate the \$10,000 in annual potential sales tax for each of the accounts. When 4% of the total number of existing seller's permits (1,068,435, per the 2004-2005 Annual Report) is extrapolated, the total number of potential unlicensed business operations in California is 44,518. Lost revenue or

potential future revenues is \$445,180,000 annually, based on an estimated sales tax return of \$10,000 for each unpermitted business per year.

A two tier approach is advocated as more effective at achieving compliance. The initial tier would be staffed by the Sales and Use Tax Department compliance specialists who would conduct the street sweeps and inspections. They would coordinate with district collections staff to identify unlicensed business operations, clear seller's permit revocations and to obtain voluntary compliance for taxpayers willing to clear delinquencies or obtain a permit. SUTD specialists would provide clear and concise documentation of noncompliant taxpayers, enabling ID to effectively execute the second tier, the issuance of misdemeanor citations to unpermitted businesses. The accurate documentation by SUTD staff would establish the knowledge and intent necessary under applicable tax law for the Investigations Division to effectively pursue misdemeanor violations against taxpayers who continue to make retail sales while their seller's permits are revoked, or fail to obtain a seller's permit and remit the taxes due on their retail sales.

Current inspection results demonstrate that 26% of the retailers inspected through the BLIP program have voluntarily obtained a seller's permit, while 74% continue to operate without a permit. Voluntary compliance is expected to increase as enforcement is stepped up and misdemeanor violations are prosecuted by local jurisdictions. Initial compliance results and discussions with SUTD indicate that increased staffing within the department is necessary for more active compliance efforts addressing habitual revocations, and unlicensed business operations. All criminal enforcement activities should remain the core responsibility of the Investigations Division so that program areas can focus on enhanced activities for increased voluntary compliance and to ensure statewide continuity in the sales tax program, and other departmental tax units.

The Legal Department and the Sales and Use Tax Department are requesting permanent funding to implement the foregoing recommendation for a statewide program, based on a total of 114 positions: 3 Administration, 2 Legal Department, 26 Investigations Division, and 83 Sales and Use Tax Department. This proposal seeks to make permanent within existing programs the 33 positions funded in BCP 2(e), and to obtain additional ongoing funding for a statewide business license inspection and enforcement program comprised of one (1) additional Business Taxes Specialist position in the Legal Department; five (5) Business Taxes Administrators I's, 52 Business Taxes Compliance Specialists, 13 Associate Tax Auditors and 10 Tax Technician II positions in the Sales and Use Tax Department.

NAICS Code	# Permits in 2005	Total Taxable Transactions in 2005 (in thousands)	# Businesses in Sample	Potential Annual Taxable Sales (E*F)	U.S. NAICS Short Title
					Attachment A
448120	12,065	4,897,512	5	\$ 2,029,636	Women's Clothing Stores
448150	12,065	4,897,512	4	\$ 1,623,709	Clothing Accessories Stores
448110	3,203	1,137,699	2	\$ 710,396	Men's Clothing Stores
448140	21,530	9,956,305	11	\$ 5,086,826	Family Clothing Stores
451130	12,155	50,588,297	2	\$ 8,323,866	Fabric Store, Needlecraft Store
452990	12,155	50,588,297	11	\$ 45,781,264	All Other General Merchandise Stores
451212	14,331	1,937,039	1	\$ 135,164	News Dealers and Newsstands
453220	14,331	1,937,039	3	\$ 405,493	Gift, Novelty, and Souvenir Stores
453110	7,468	3,890,259	2	\$ 1,041,848	Florists
443130	979	529,866	2	\$ 1,082,464	Camera Shops, Photographic
451220	3,288	1,567,786	2	\$ 953,641	Prerecorded Tape, Compact Disc, and Record Stores
451211	9,897	4,066,664	1	\$ 410,899	Book Stores
453210	9,897	4,066,664	4	\$ 1,643,595	Office Supplies and Stationery Stores
448310	12,101	2,850,134	24	\$ 5,652,691	Jewelry Stores
423710	139,837	19,325,897	1	\$ 138,203	Keys and Locks Merchant Wholesalers
445292	139,837	19,325,897	1	\$ 138,203	Candy Stores, Packaged, Retailing Only
446120	139,837	19,325,897	13	\$ 1,796,639	Cosmetics, Beauty Supplies, and Perfume Stores
446130	139,837	19,325,897	1	\$ 138,203	Optical Goods Stores
451120	139,837	19,325,897	1	\$ 138,203	Toy Stores
453910	139,837	19,325,897	1	\$ 138,203	Pet and Pet Supplies Stores
453920	139,837	19,325,897	1	\$ 138,203	Art Dealers
453998	139,837	19,325,897	3	\$ 414,609	All Other Miscellaneous Store Retailers (except Tobacco Stores)
445210	19,698	7,876,903	1	\$ 399,883	Meat Markets
445230	19,698	7,876,903	1	\$ 399,883	Fruit Markets
445291	19,698	7,876,903	1	\$ 399,883	Bakery Stores, Retailing Only
445299	19,698	7,876,903	1	\$ 399,883	All Other Specialty Food Stores
446191	19,698	7,876,903	2	\$ 799,767	Food (Health) Supplement Stores
722211	55,425	21,341,643	10	\$ 3,850,545	Limited-Service Restaurants
722213	55,425	21,341,643	4	\$ 1,540,218	Snack and Nonalcoholic Beverage Bars
722320	55,425	21,341,643	2	\$ 770,109	Caterers
722410	55,425	21,341,643	1	\$ 385,054	Eating/Drinking places without Alcoholic Beverages
454210	30,297	2,841,739	3	\$ 281,388	Vending Machine Operators
454390	30,297	2,841,739	5	\$ 468,980	Other Direct Selling Establishments
722330	30,297	2,841,739	1	\$ 93,796	Mobile Food Stand
442110	29,770	12,845,934	4	\$ 1,726,024	Furniture Stores
442210	29,770	12,845,934	1	\$ 431,506	Floor Covering Stores
442299	29,770	12,845,934	3	\$ 1,294,518	Housewares Stores
443112	3,995	4,542,770	6	\$ 6,822,683	Radio, Television, and Other Electronics Stores
453310	7,085	551,896	1	\$ 77,896	Thrift Shops, Used Merchandise
722110	10,826	13,536,466	7	\$ 8,752,564	Full-Service Restaurants
444190	5,050	26,655,437	1	\$ 5,278,304	Other Building Material Dealers
444130	2,464	3,721,316	1	\$ 1,510,274	Hardware Stores
441110	2,729	61,696,931	4	\$ 90,431,559	New Car Dealers
441310	16,643	5,711,097	1	\$ 343,153	Automotive Parts and Accessories Stores
447190	8,982	38,566,548	2	\$ 8,587,519	Other Gasoline Stations
441120	8,366	6,193,346	2	\$ 1,480,599	Used Car Dealers
811111	31,356	4,898,057	1	\$ 156,208	General Automotive Repair
811121	31,356	4,898,057	1	\$ 156,208	Automotive Body, Paint, and Interior Repair and Maintenance
811192	31,356	4,898,057	1	\$ 156,208	Car Washes
811212	29,088	10,267,207	1	\$ 352,971	Computer and Office Machine Repair and Maintenance
811412	29,088	10,267,207	1	\$ 352,971	Appliance Repair and Maintenance
811490	29,088	10,267,207	1	\$ 352,971	Bicycle Repair
541410	34,336	2,969,443	1	\$ 86,482	Interior Design Services
561720	34,336	2,969,443	1	\$ 86,482	Cleaning Offices
711110	34,336	2,969,443	1	\$ 86,482	Theater Companies and Dinner Theaters
812112	34,336	2,969,443	18	\$ 1,556,674	Beauty Salons
812113	34,336	2,969,443	2	\$ 172,964	Nail Salons
812310	34,336	2,969,443	16	\$ 1,383,711	Coin-Operated Laundries and Drycleaners
812320	34,336	2,969,443	3	\$ 259,446	Drycleaning and Laundry Services (except Coin-Operated)
423310	24,301	23,369,385	1	\$ 961,664	Lumber, Plywood, Millwork, and Wood Panel Merchant Wholesalers
423720	24,301	23,369,385	1	\$ 961,664	Plumbing and Heating Equipment and Supplies (Hydronics) Merchant Wholesalers
337214	6,268	5,096,229	1	\$ 813,055	Chairs, Office-Type Manufacturing
423850	6,268	5,096,229	4	\$ 3,252,220	Service Establishment Equipment and Supplies Merchant Wholesalers
339116	8,563	1,882,946	1	\$ 219,893	Dental Laboratories
446110	8,563	1,882,946	1	\$ 219,893	Pharmacies
541940	8,563	1,882,946	1	\$ 219,893	Animal Hospitals
621111	8,563	1,882,946	1	\$ 219,893	Offices of Physicians (except Mental Health Specialists)
621210	8,563	1,882,946	2	\$ 439,787	Offices of Dentists
621310	8,563	1,882,946	1	\$ 219,893	Offices of Chiropractors
517310	7,413	11,205,484	1	\$ 1,511,599	Telecommunication Resellers
561510	7,413	11,205,484	1	\$ 1,511,599	Travel Agencies
423690	8,101	10,657,222	3	\$ 3,946,632	Other Electronic Parts and Equipment Merchant Wholesalers
611699	37,500	7,681,302	1	\$ 204,835	All Other Miscellaneous Schools and Instruction
312111	8,821	3,081,553	1	\$ 349,343	Soft Drink Manufacturing
424490	8,821	3,081,553	1	\$ 349,343	Other Grocery and Related Products Merchant Wholesalers
423210	21,365	3,623,411	3	\$ 508,787	Furniture Merchant Wholesalers
423220	21,365	3,623,411	3	\$ 508,787	Home Furnishing Merchant Wholesalers
423940	21,365	3,623,411	1	\$ 169,596	Jewelry, Watch, Precious Stone, and Precious Metal Merchant Wholesalers
424330	21,365	3,623,411	1	\$ 169,596	Women's Clothing Merchant Wholesalers
325620	4,837	5,041,090	1	\$ 1,042,194	Toilet Preparation Manufacturing
424210	4,837	5,041,090	5	\$ 5,210,968	Drugs and Druggists' Sundries Merchant Wholesalers
339993	60,536	31,442,196	1	\$ 519,397	Fastener, Button, Needle, and Pin Manufacturing
423450	60,536	31,442,196	1	\$ 519,397	Orthopedic Equipment and Supplies Merchant Wholesalers
423460	60,536	31,442,196	3	\$ 1,558,190	Ophthalmic Goods Merchant Wholesalers
423840	60,536	31,442,196	1	\$ 519,397	Packaging Material Merchant Wholesalers
423910	60,536	31,442,196	1	\$ 519,397	Bicycles Merchant Wholesalers
423990	60,536	31,442,196	2	\$ 1,038,793	General Merchandise Merchant Wholesalers
424990	60,536	31,442,196	2	\$ 1,038,793	Novelties Merchant Wholesalers

Total # different NAICS codes: 88    Total # bus    Total Sales    Total Sales Tax @ 8% Rate  
Total # different BOE codes: 39        256        \$ 248,332,220    \$19,866,578