



STATE BOARD OF EQUALIZATION  
450 N STREET, SACRAMENTO, CALIFORNIA  
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0092  
800-400-7115 • FAX 916-322-0187  
www.boe.ca.gov

BETTY T. YEE  
First District, San Francisco

BILL LEONARD  
Second District, Ontario/Sacramento

MICHELLE STEEL  
Third District, Rolling Hills Estates

JUDY CHU  
Fourth District, Los Angeles

JOHN CHIANG  
State Controller

RAMON J. HIRSIG  
Executive Director

Dear Tax Practitioner:

As you prepare your client's California income tax return, we encourage you to discuss how they can properly report and pay use tax they may owe on their purchases during 2006. You can help your clients avoid penalties and interest on use tax. Using the California income tax return is one way to help. Below you will find information on how to report the use tax, the In-State Voluntary Disclosure Program, and general information about use tax.

### **How should my clients report use tax for 2006?**

There are two ways businesses and individuals can report and pay use tax if they do not hold a seller's permit.

The easiest way is to report use tax using the line provided on the California income tax return (for additional information see the tax booklets prepared by the Franchise Tax Board), or your clients can prepare a separate tax return and pay the use tax directly to the Board of Equalization. The return form is found in our publication 79-B, *California Use Tax*.

Seller's permit holders should report the tax on their sales and use tax returns.

### **How should my clients report use tax for prior years?**

The Board of Equalization has an In-State Voluntary Disclosure Program to report use tax liabilities for prior years. If your client applies and qualifies for this program, we can go back only three years to assess use tax on past purchases. After the program expires on January 1, 2008, the statutory period to assess use tax on past purchases could be a maximum of ten years. For more information on this program, see [www.boe.ca.gov/sutax/isvdprog.htm](http://www.boe.ca.gov/sutax/isvdprog.htm) or refer to Revenue and Taxation Code section 6487.06.

### **What is use tax?**

Use tax applies to the *purchase* of items used, stored, given away, or otherwise consumed in California when sales tax is not collected on a transaction. It is similar to the sales tax paid on sales in the state.

The tax is intended to protect California retailers who would otherwise be at a competitive disadvantage when out-of-state vendors make sales to California customers without charging tax. More than one-third of California sales and use tax assessments include tax on purchases from out-of-state vendors. Although it has been part of state law since 1935, use tax is often overlooked by individuals and tax practitioners alike.

(over)

**Which purchases are subject to use tax?**

In general, your clients owe use tax on purchases made outside California if all of the following apply:

- The sale would be subject to sales tax if made in California.
- The retailer does not collect California sales or use tax.
- Your client uses, gives away, stores, or consumes the purchased item in this state.

Use tax applies whether your client makes the purchase in person, or by Internet, phone, or mail order.

Please see our publication 112, *Purchases from Out-of-State Vendors*, for additional information.

**For more information**

If you or your clients have any questions, please see our website, [www.boe.ca.gov](http://www.boe.ca.gov), or call our Information Center at 800-400-7115 (TDD/TTY 800-735-2929). You can download or order publications from our website at [www.boe.ca.gov/formspubs/index.htm](http://www.boe.ca.gov/formspubs/index.htm) or call our Information Center to have copies mailed to you.

In addition, if you or your organization would like us to make a sales and use tax presentation to your group, please contact our Speaker's Bureau at 916-324-2051. Feel free to share this letter with your clients.

STATE BOARD OF EQUALIZATION