



# Tax Information Bulletin

STATE BOARD  
OF EQUALIZATION

ISSUED QUARTERLY  
September 1999

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## What's Inside

### We Want To Hear from You

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### Paper, Ribbons, Bows, and Tax

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### Did the Dog Eat Your Return?

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### Y2K — YNOT2WORRY

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## 1. Annual Taxpayers' Bill of Rights Hearings Scheduled

If you would like to suggest ways to improve our services, or if you want us to look more closely at a tax or fee issue, you are encouraged to present your ideas at one of our upcoming Taxpayers' Bill of Rights hearings. These hearings are held by the Members of the Board of Equalization to give taxpayers, tax professionals, local government officials, and other interested parties the opportunity to comment on the Board's tax and fee programs.

Although you do not need to be scheduled in advance to speak at the hearing, it would help us to prepare if you contacted us beforehand to let us know your topic. If your proposal is complex or extensive, we encourage you to submit it in advance and then summarize it in your oral presentation.

### Business Tax Hearings

#### Culver City

Wednesday, October 27, 1999, 1:30 p.m.  
Board of Equalization District Office  
5901 Green Valley Circle, Suite 207

#### Sacramento

Wednesday, November 17, 1999, 1:30 p.m.  
Board of Equalization Headquarters  
450 N Street, 1<sup>st</sup> Floor Board Room



## Property Tax Hearings

### Culver City

Wednesday, October 27, 1999, 1:30 p.m.  
Board of Equalization District Office  
5901 Green Valley Circle, Suite 207

### Sacramento

Wednesday, December 8, 1999, 1:30 p.m.  
Board of Equalization Headquarters  
450 N Street, 1<sup>st</sup> Floor Board Room

To notify us of a topic you wish to discuss or to send written material in advance, please contact the

Taxpayers' Rights Advocate MIC:70  
P.O. Box 942879  
Sacramento, CA 94279-0070  
Toll-free Number 1-888-324-2798  
Fax: 916-323-3319

## 2. Gift-Wrapping and Sales Tax

The holiday season will be here before you know it and we want to remind everyone of how sales tax applies to gift-wrapping charges.

Whether you are solely in the business of wrapping gifts or offer gift-wrapping as a service to your customers when they purchase your products, sales tax generally applies to your entire gift-wrapping charge, including your charges for labor and materials. It does not matter whether the gift-wrapping is done by you, your employees, or by another party — the entire amount you charge your customer remains subject to tax. This is true even if you only offer gift-wrapping services temporarily during the holidays.

### **Special considerations**

**Wrapping nontaxable food products.** If you gift-wrap food items that you did not sell, tax applies to your total charge for the gift-wrapping. However, if you gift-wrap exempt food products and you were the seller of those food items, your charge for gift-wrapping is not taxable unless the gift-wrapping charge is greater than the value of the food products.

**Wrapping supplies.** Since you are considered the seller of gift-wrapping materials such as paper, tape, ribbons and boxes, you may purchase these items for resale from your suppliers. You must pay tax, however, on items that do not become a

part of the wrapped package (such as scissors and tape dispensers).

### **New publication!**

We now have a handy, two-page publication that explains how tax applies to gift-wrapping charges, including charges for wrapping combination packages of food and nonfood products. You can order a copy of publication 106 *Gift-Wrapping Charges* from our Information Center or download a copy from our website.

## 3. Did the Dog Eat Your Return? Here's How to Get a Replacement.

If you lose your tax return or if the tax return is late in getting to you, don't panic. You may be able to use a new replacement return that is designed for use in such situations. The return can be used by persons who file either the BOE-401-A or BOE-401-EZ return.

The form number of the replacement return is BOE-401-A2, *State, Local and District Sales and Use Tax*.

To obtain a copy, you can

- Download the form from our website at [www.boe.ca.gov](http://www.boe.ca.gov). Click on "Forms and Publications."
- Order a fax copy. Call our Information Center and choose the faxback option.
- Request a printed copy from the Information Center. Call during working hours to speak to a Customer Service Representative.

If you need the replacement return because you did not receive one in the mail, we ask that you allow enough time for mail delivery before you request a copy (please wait until after the 15th of the month following the end of the reporting period for which you must file a return).

If you file a return other than the BOE-401-A or BOE-401-EZ, or require additional schedules, please contact our Information Center for assistance. If you file form BOE-401-DB (*Prepayment of Sales Tax on Fuel Distributions*), or form BOE-401-E (*State, Local and District Consumer Use Tax Return*), or form BOE-401-GS (*State, Local and District Sales and Use Tax Return*), you should not



use the BOE-401-A2 return. The BOE-401-A2 does not have the specific information needed to properly report your taxes.

If you have problems completing the BOE-401-A2 return, finding your seller's permit account number, using the faxback option or downloading the BOE-401-A2 return, please call our Information Center for assistance.

*Remember* – you must file a tax return even if you do not receive one from the Board.

#### 4. All Systems Are “Go” for Y2K

The Board of Equalization is prepared for the year 2000. We have been working hard to ensure our systems and processes will continue to function after 1999 as they do today. We are committed to providing quality services to the public and anticipate a seamless transition into the next century.

We began to prepare for the transition in 1997, when we established a Year 2000 project team. The team focused on determining the scope of year 2000 problems and bringing together the resources and tools to do the job. In June 1999 the project team completed the testing and remediation of major systems, equipment, and communications networks. The team has also engaged in joint testing of systems and interfaces with our critical business partners for added assurance of year 2000 readiness.

As part of our preparation, we have developed a comprehensive contingency plan that complements our testing and remediation effort. Our contingency plan ensures that we can continue our critical business functions and services to taxpayers should we encounter unexpected year 2000 problems.

An independent assessment of our year 2000 effort was conducted in June 1999, confirming our readlines. If you are interested in reviewing the result of our assessment report, or that of any other California agency, visit the California Department of Information Technology's website at [www.doit.ca.gov](http://www.doit.ca.gov).

#### 5. Expanded Credit Card Program

Due to the success of our Discover/NOVUS credit card program, we have expanded the program to include MasterCard and American Express cards. Our credit card program is just another way for you to conveniently pay the sales and use taxes due with your return.

To charge your tax return payment, call the credit card processing vendor at 1-888-2PAY-TAX (1-888-272-9829). The call is toll-free (you must use a touch-tone telephone for the transaction). You will be guided through a set of recorded instructions to make your payment.

Credit card transaction information is received on a daily basis from the vendor and applied immediately to taxpayer accounts.

The following convenience fee will be charged by the vendor for using the credit card service:

Amount Charged	Fee
\$ 001 - 99.99	\$ 3.00
\$ 100 - 199.99	\$ 6.00
\$ 200 - 399.99	\$ 11.00
\$ 400 - 599.99	\$ 16.00
\$ 600 - 799.99	\$ 21.00
\$ 800 - 999.99	\$ 25.00
\$1000 - 1,399.99	\$ 35.00
\$1400 - 1,999.99	\$ 49.00
\$2000 - 2,699.99	\$ 68.00
\$2700 - 3,499.99	\$ 87.00
\$3500 - 4,399.99	\$109.00
\$4400 - 5,399.99	\$133.00
\$5400 - 6,399.99	\$159.00
\$6400 - 7,399.99	\$187.00
\$7400 - 8,699.99	\$218.00
\$8700 - 10,399.99	\$262.00
\$10,400+ Call 1-800-400-7115 or visit our website for the fee.	

*Note:* You cannot charge your tax payment if you are required to file taxes by EFT (electronic funds transfer). Nor can you charge tax liabilities for which you have been billed by the Board.

To learn more about the credit card program, visit our website at [www.boe.ca.gov](http://www.boe.ca.gov) or contact our Information Center .



## 6. Bad Debt Losses

If you have reported a taxable sale and have been unable to collect payment for the sale, you may claim a deduction for the bad debt on your sales and use tax return.

In general, you can claim deductions for checks returned unpaid by the purchaser's bank that you have determined to be uncollectible, or accounts from charge or credit sales found worthless. The bad debts must be charged off for income tax purposes, or if you are not required to file income tax returns, or file income tax returns on a cash basis, the bad debts must be charged off in accordance with generally accepted accounting principles.

You should claim the deduction in the reporting period that you discovered the debt became worthless. If you do not deduct the bad debt on the proper sales and use tax return, you cannot deduct it on a subsequent return. Instead, you must file a claim for refund for the amount of tax overpaid (generally you must file the claim within three years from the date in which you could have properly claimed the deduction on your return).

If the bad debt includes both taxable and nontaxable amounts, only that portion of the transaction associated with the taxable transaction can be deducted. If a partial payment has been made on an account that represents both taxable and nontaxable transactions, the payment must be prorated against both the taxable and nontaxable amounts. You should not allocate the partial payment only to the exempt portion of the transaction.

*Example:* A customer writes a bad check to an auto mechanic in the amount of \$357.25 to pay for a \$100 taxable sale of repair parts, a \$250 nontaxable sale of repair labor, and tax of \$7.25 (assume a 7.25% tax rate). The auto mechanic subsequently collects \$50 cash from the customer and writes off the remaining \$307.25 debt. The amount of the bad debt that may be claimed on the mechanic's sales and use tax return is \$86 ( $\$100 \div 357.25 = 28\%$ ;  $28\% \times \$307.25 = \$86$ ).

No deduction is allowed for the cost associated with the collection of bad debts. Also, if you

should later receive payment on a previously reported bad debt, the amount must be reported as a taxable transaction in the first return filed after the collection.

You should maintain the following information and records to support a bad debt deduction:

- Date of the original sale
- Name and address of the purchaser
- Amount purchaser contracted to pay
- Amount on which you, the retailer paid tax
- All payments or other credits applied to the purchaser's account
- Evidence that the debt has been properly charged-off on income tax returns or — if you are not required to file income tax returns or if you file income tax returns on a cash basis — in a manner consistent with generally accepted accounting principles

For more information, please contact our Information Center and request a copy of Regulation 1642, *Bad Debts*.

## 7. Medicare Part A and Part B — the Difference Is Important for Sales Tax Purposes

If you are a health care provider, you need to know how to apply tax when your sales are paid for under the Medicare Act. The application of tax will depend on whether those sales are paid for under Part A or Part B.

### **Part A payments**

Tax does not apply to the sale of property if payment is made under Part A of the Medicare Act. Under Part A you, the healthcare provider, have a contract with the U.S. Government to provide certain services. Therefore, your sale qualifies as an exempt sale to the U.S. Government.

To be considered a seller of the property, your billing for the property must be separately stated. Also, if the property requires administration to the patient, you must separately state the charges for administration. If you do not bill separately (that is, you charge a lump sum amount), you are generally considered the consumer of the property, and cannot take a deduction for sales to the U.S. Government. (See Regulation 1503 *Hospitals*,



*Institutions and Homes for the Care of Persons* for a explanation of separately stated charges. Or you can order a copy of publication 45, *Tax Tips for Hospitals*.)

*Please note:*

- Since Medicare reimburses only for reasonable cost, sellers often receive only partial payment of their charges from Medicare. Only the amounts actually received from the government are allowable as a deduction.
- If you are already claiming a deduction for the property for some other reason (such as an exempt sale of a medicine), you cannot take a second deduction for sales to the U.S. Government.

### **Part B payments**

Sales made under Part B of the Medicare Act do not qualify as exempt sales to the U.S. Government even though the patient assigns the claim for reimbursement to you (the seller) and you are paid by a carrier administering Medicare claims under contract with the United States. Under Part B, you do not have a contract with the U.S. Government; the contract is between the patient and the U.S. Government. Unless the sale is nontaxable for another reason (such as an exempt sale of a medicine), you must report and pay tax on the transaction.

### **What about sales under Medi-Cal?**

Sales under the Medi-Cal program are not sales to the U.S. Government. Medi-Cal is a State of California program and payments are treated as though the payment were made directly by the patient. Payment by Medi-Cal does not affect the application of tax.

## **8. Items Sold to Residents of a Foreign Country or Another State**

We have received complaints from foreign buyers that they were incorrectly advised by retailers that they could receive a refund of the sales tax on items they purchased and picked up in California. They were told they could do this by presenting their receipts at the airport.

Although many countries have such a provision for foreign travelers, California does not.

Nor does California have this provision for residents of other states. Consequently, if foreign tourists ask about a refund of tax paid on purchases, you should inform them that tax applies to merchandise *delivered in California* regardless of its ultimate destination. If your customers have any questions, you can refer them to our Information Center.

### **Nontaxable sales in interstate or foreign commerce**

A sale to a person from another country or state may be exempt from tax if it qualifies as a nontaxable interstate or foreign commerce sale. To qualify, the sales agreement or contract must require that the merchandise be *shipped out of state*. In general, the merchandise must be shipped to an out-of-state point with:

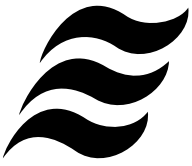
- Delivery made by your own facilities (for example, using a company-owned vehicle to make the delivery), or
- Delivery by you or your representative to a carrier, customs broker, or forwarding agent, whether hired by you or the purchaser, for shipment to such out-of-state point.

If a sale qualifies as a nontaxable sale in interstate or foreign commerce, you should not charge your customers sales tax reimbursement.

The following are examples of the types of documents you should keep to support claimed exempt sales in interstate and foreign commerce:

- Sales agreements or contracts specifying that the destination of the merchandise is a point outside California
- Express company or parcel post receipts, bills of lading, freight invoices, delivery receipts, driver's expense reports, import documents of a foreign country
- Documentary evidence specifying delivery of the merchandise to a qualified export packer or customs broker

For more information on this subject, please request a copy of our new publication 104, *Sales to Residents of Other Countries*.



## 9. Grocery Store Sales and Coupon Redemptions

Grocery stores commonly redeem discount coupons from their customers for their purchases. As indicated below, the type of coupon redeemed can have an impact on the application of tax.

The following discussion *applies to sales of taxable merchandise*. Tax does not apply to coupons that are redeemed for nontaxable food products.

*Note:* Coupons redeemed by grocers generally fall into the following categories:

- Retailer coupons (coupons sent out or published by individual grocers)
- Manufacturer coupons (coupons sent out or published by manufacturers)

### **Retailer Coupons**

If you publish or send out free coupons that are redeemable for merchandise at your store and if you are not reimbursed in any manner by a manufacturer or distributor, the face value of the coupon is a cash discount. Consequently, tax applies to the selling price of the item after you have deducted the coupon/diskont amount. You may claim a deduction for the discount on your sales and use tax return if you reported the full selling price of the item, without deduction for the discount, in your reported total sales.

### **Manufacturer Coupons**

When a manufacturer publishes or sends out coupons, the amount you (the retailer) receive from the manufacturer for redemption of these coupons (less any handling allowance) is considered part of your gross receipts from the sale of the product and is not deductible on your return. Tax applies to the total gross receipts from the sale even though part of the sales price is paid by the customer and part is paid by the manufacturer. In other words, tax applies to the selling price of the item before you deduct the coupon amount. Your reported total sales should include the full sales price of the merchandise without deduction for the coupon.

As noted above, the amount you receive from the manufacture for a handling allowance charge is not a part of your gross receipts. Many stores use

coupon redemption centers that make a charge for their services. If the service charge made by the coupon redemption center is greater than the handling allowance permitted by the manufacturer, the excess charge may not be deducted from your gross receipts.

### **Double-Discounts**

Some retailers match the discount offered in a manufacturer's coupon. If you provide such double-discounts, you must compute tax based on the regular selling price of the taxable merchandise *after* the retailer discount, but *before* the manufacturer discount.

*Example.* A customer purchases a container of laundry detergent with a sales price of \$8.00 and redeems a manufacturer's coupon for \$0.50, which you match, for a total discount of \$1.00. Tax is based on the amount of the sale *after* your discount and *before* the manufacturer's discount (in this example, tax is based on \$7.50).

Sales price	\$ 8.00
Retailer's discount	- 0.50
	<hr/>
Subtotal	\$ 7.50
Tax (\$7.50 x 7.25%)*	+ 0.54
	<hr/>
Subtotal	\$ 8.04
Manufacturer's discount	- 0.50
	<hr/>
Customer's pays this amount	\$ 7.54

To properly report the sale on your tax return, you should report total sales (line 1) of \$8.54, claim a deduction for a \$0.50 cash discount, and claim a sales tax included deduction of \$0.54.

\* The 7.25% tax rate is for example purposes only. In some areas of the state, a higher rate will apply.

### **Grocery store discount club cards**

Many grocery stores now offer price discounts to customers through the use of free "discount club" or "rewards" cards. Discounts offered through these free club cards are not subject to tax. For sales tax reporting purposes they are treated in the same manner as retailer coupons or cash discounts.



## 10. Clarification: Labor Charges for Painting New Automobile Parts

In the June 1999 *Tax Information Bulletin*, we included an article that described how tax applies to repair jobs that involve replacing a damaged bumper with a new bumper. We explained that when body shop operators paint a new automobile bumper prior to installing the bumper, the painting of the new bumper is considered fabrication labor and should be included in the taxable charge for the bumper.

We have received several questions asking if this tax treatment also applies to other car parts such as fenders, panels and mirrors. Although we used bumpers as an example, the same principle can be applied to your sales of other parts as well.

Labor charges for painting new parts prior to installation are considered fabrication labor and are generally taxable. Labor charges for painting a used part, or a new part after installing it on a used vehicle, are considered repair labor and not subject to tax. If the repairer, however, makes a separate charge for the paint for the used or installed part, tax applies to the paint charge but not to the labor charge.

If you have further questions regarding how tax applies to auto painting and body work, please contact our Information Center and request a copy of Pamphlet 25 *Tax Tips for Auto Repair Garages and Service Stations*.

## 11. Correction: Operative Date of Regulation on Exemption for Non-Annual Plants

Beginning January 1, 1999, the sale or use of plants is not taxable if the plants produce food products that people eat. The change in the law extended the exemption to include food-producing non-annual plants such as fruit trees and grapevines.

Although the January 1, 1999, date of the change was correctly reported in our December 1998 *Special Notice* and *Tax Information Bulletin*, the operative date was incorrectly printed in Regulation 1588 *Seeds, Plants and Fertilizer* as August 20, 1998. We apologize for any confusion and

recommend that you note the correct date on any copies of the regulation you may have. We are in the process of correcting the regulation to reflect the correct date of January 1, 1999.

## 12. Individual Sales of Goods Sold or Purchased for at Least \$500,000 and Delivered from Out of State

The following information explains how to allocate the 1% local use tax for individual sales and purchases of \$500,000 or more when the property is delivered from out-of-state inventories.

The guidelines provided below apply to you if

- You are a retailer who delivers goods to California customers from inventories located outside California
- You are a purchaser responsible for reporting the use tax on purchases delivered from out-of-state inventories for use in California.

The guidelines do not apply to out-of-state retailers who are voluntarily registered to collect and report the use tax. These retailers may continue to allocate the 1% local use tax on Schedule B.

### ***Guidelines for allocating the 1% local use tax on individual sales and purchases of \$500,000 or more***

When your sales or purchases are subject to the 1% local use tax and are delivered from out-of-state inventories, you are required to allocate the 1% local use tax to the *city or unincorporated county area where the first functional use will occur*. (Functional use means the use for which the subject property is designed or intended.) Do not allocate the 1% local use tax based on a general countywide designation.

Make your allocations for such sales or purchases on Schedule F, "Detailed Allocation of 1% Uniform Sales and Use Tax." If you require a Schedule F and one is not provided with your return, please contact our Information Center.

For individual sales or purchases of less than \$500,000, you may continue to allocate the 1% local use tax as you have in the past.

*Note:* The above guidelines have been in effect since January 1, 1996.



### 13. Do You Make Retail Sales of Gasoline?

The Business and Professions Code (section 13412) requires certain service station operators and other sellers of motor vehicle fuel to provide refueling services at the self-service price to customers with disabilities. For more information concerning the conditions that apply, please call the California Assistive Technology System at 1-800-390-2699 (TTY, 1-800-900-0706), rather than your local Department of Rehabilitation office or the Board's Information Center.

### 14. New or Revised Reference Material

If you would like to obtain a copy of any of the following reference material, please call the Information Center. Copies of some publications can also be downloaded or viewed from our website: <http://www.boe.ca.gov>.

#### Sales and Use Tax Publications

- 17 Appeals Procedures: Sales and Use Taxes and Special Taxes (July 1999)
- 45 Tax Tips for Hospitals (March 1999)
- 61 Sales and Use Tax: Exemptions and Exclusions (July 1999)
- 64 Tax Tips for Jewelry Stores (May 1999)
- 73 Your California Seller's Permit (April 1999)
- 76 Audits (July 1999)
- 105 District Taxes and Delivered Sales (July 1999)
- 107 Do You Need a California Seller's Permit? (July 1999)
- 109 Are Your Internet Sales Taxable? (July 1999)

#### Sales and Use Tax Regulations

- 1525 Property Used in Manufacturing (May 1, 1999)
- 1602 Food Products (June 12, 1999)
- 1699.6 Use Tax Direct Payment Permits (July 9, 1999)
- 1703 Interest and Penalties (April 17, 1999)

## How To Contact Us

**Information Center.** Call at any time to use our automated services, including our faxback service. To speak to a representative, call between 8:00 a.m. and 5:00 p.m., Monday through Friday, excluding State holidays.

**1-800-400-7115**

*Telephone devices for the deaf*

1-800-735-2929 (TDD phone)

1-800-735-2922 (voice phone)

**Internet.** Visit us at [www.boe.ca.gov](http://www.boe.ca.gov) to obtain information on tax rates, publications, legislation, regulations, telephone numbers, education programs, public meetings, and so forth.

**Seller's Permit Verification.** To verify permit numbers, you can call **1-888-225-5263** to use our automated voice response system. Or you can visit our website, [www.boe.ca.gov](http://www.boe.ca.gov).

**Taxpayers' Rights Advocate.** Call the Advocate's office if you need help with a problem you have been unable to resolve at other levels. Call toll-free, **1-888-324-2798**.

**Tax Evasion Hotline.** Call to report suspected tax evasion. Call toll-free, **1-888-334-3300**.

**Copies of Legislative Bills.** Write to the Legislative Bill Room, State Capitol, Room B-32, Sacramento, CA 95814. Or visit the following website: [www.leginfo.ca.gov](http://www.leginfo.ca.gov). The Bill Room does not provide copies of Board forms or publications.