



Beginning around 1900, California oil fields provided new sources of fuel for the state. Los Angeles, first oil district, Toluca Street.

SALES AND USE TAXES

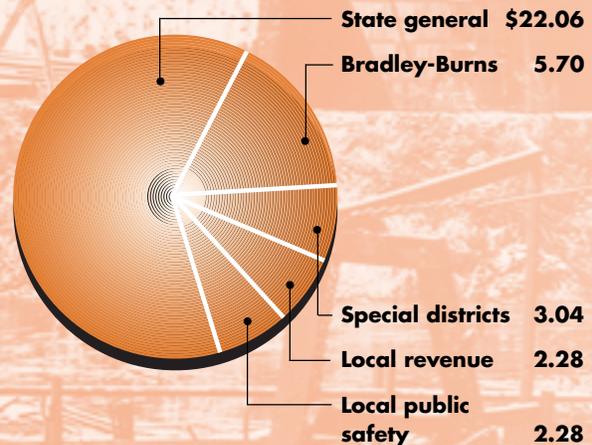
Revenues

Total California sales and use tax revenue reached \$35.4 billion in 2000-01, an increase of 5.2 percent from the previous year's total of \$33.6 billion. Fiscal year 2000-01 revenues included:

- \$26.6 billion from the state sales tax, with
 - \$22.1 billion—5 percent from July 1, 2000, through December 31, 2000; 4.75 percent from January 1 through June 30, 2001—allocated to the state General Fund.
 - \$2.28 billion—0.5 percent—allocated to the state's Local Revenue Fund.
 - \$2.28 billion—0.5 percent—allocated to the Local Public Safety Fund.
- \$5.70 billion from the 1.25 percent Bradley-Burns Uniform Local Sales and Use Tax, allocated among all of the state's 58 counties and 475 cities.

2000-01 Sales and Use Tax Revenues

Billions of Dollars



- \$3.04 billion in special district transactions (sales) and use tax (rates vary by district).

2000-01 revenues allocated to the state General Fund, \$22.1 billion, were 3.4 percent higher than revenues for 1999-00.

Programs

California’s sales tax is paid by retailers engaged in business in the state. It applies to all retail sales of tangible personal property except those specifically exempted by law. The use tax generally applies to the storage, use, or other consumption in this state of goods purchased from retailers in transactions not subject to the sales tax. Use tax may also apply to purchases shipped to a California consumer from another state, including purchases made by mail order, phone, or over the Internet.

The statewide rate for both the sales and use tax, unchanged since 1991, was 7.25 percent in the first half of fiscal year 2000-01 (combined 6 percent state rate and 1.25 percent local rate). In January 2001, the state rate dropped to 5.75 percent, reducing the statewide rate to 7.00 percent. The 0.25 percent reduction in the state sales tax was mandated by a 1991 statute (see “Highlights,” page 12). It required the rate reduction when state budget reserves were expected to exceed four percent of general fund revenues for two consecutive fiscal years. The total sales and use tax rate is higher in areas where special transactions and use taxes are in effect.

Note: On January 1, 2002, the state sales tax rate returned to 6 percent, following a dramatic 2001 decline in state revenue caused by the recession and the energy crisis.

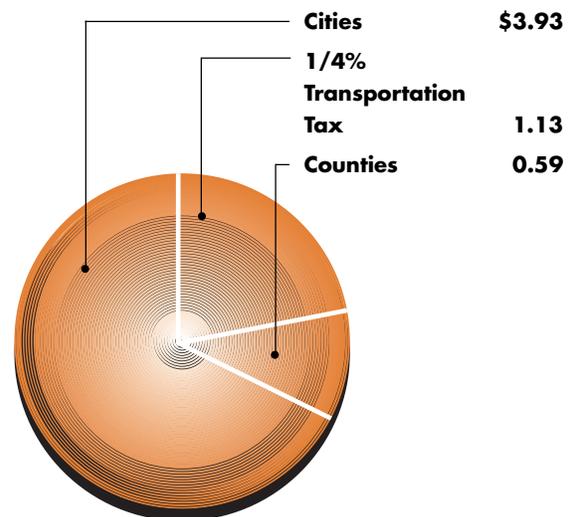
As detailed on the previous page, sales and use taxes provide revenue to the state’s General Fund, to local governments through specific state fund allocations, and to local jurisdictions.

Local Sales and Use Tax

The Board of Equalization collects the 1.25 percent Bradley-Burns Uniform Local Sales and Use Tax and allocates resulting revenue among all California cities and counties. For each sale, local tax of 0.25 percent is allocated to the county where the sale occurs, for transportation projects. The remaining one percent local tax is allocated to the county or an incorporated city, generally depending on the location of the sale.

City and county local tax distributions are detailed in Table 21A of the Appendix, beginning on page A-26.

2000-01 Local Sales and Use Tax Distributions
Billions of Dollars



Redevelopment Agencies. Between 1981 and 1994, cities were authorized to finance redevelopment projects with revenue derived from the local sales and use tax and distributed under agreement to city redevelopment agencies. While this authority was repealed effective January 1, 1994, existing city ordinances were permitted to continue. Thirty-six redevelopment projects in 26 California cities were receiving sales and use tax revenue as of June 30, 2001.

District Transactions (Sales) and Use Tax

The Board of Equalization collects and distributes district transactions (sales) and use tax on behalf of voter-approved special tax districts established throughout the state. While the first special districts funded local and regional transportation projects, newer districts fund schools, open space protection, hospitals, county services, and public libraries. Some California locations lie within more than one tax district. A complete list of special tax districts, jurisdictions, and revenues is found in Appendix Table 21C, on [page A-30](#).

At the beginning of the 2000-01 fiscal year, there were 35 special tax districts in the state, with rates ranging from 0.125 percent to 0.50 percent. The Mariposa County Healthcare Authority district tax and the City of Woodland General Revenue Transactions and Use Tax went into effect on July 1, 2001. The Avalon Municipal Hospital and Clinic Transactions and Use Tax went into effect on October 1, 2000. All three new districts have tax rates of 0.50 percent.

Sales made by retailers engaged in business in a special tax district are subject to a total sales tax rate that includes the statewide rate and the applicable district tax rate (see Appendix [Table 23B](#), on



Kern County's Lakeview Gusher produced 50,000 barrels of oil a day in 1910. Maricopa/Midway oil field near Taft.

page A-33). While the provisions of the Transactions and Use Tax Law are similar to state and local sales and use tax laws, significant differences do exist, including an exemption for sales shipped to a location outside the district for use in that location. There are also special requirements for sales of registered vehicles, aircraft, and undocumented vessels.

Operations

The Board encourages voluntary tax law compliance and offers sales and use tax assistance through its Sacramento headquarters and 26 field offices located across the state. Staff in Board offices in New York, Chicago, and Houston assist taxpayers located outside California but registered to do business in this state.

The number of registered sellers increased this fiscal year, totaling 987,072 as of June 30, 2001. The agency processed more than three million sales and use tax returns.

Compliance Activities

Board compliance staff ensure that sellers properly comply with permit requirements, assist them in interpreting tax laws and regulations, provide classroom instruction and individual assistance in the correct preparation of tax returns, and collect outstanding tax amounts. In 2000-01, compliance staff collected more than \$637 million in delinquent sales and use taxes.

Consumer Use Tax Section

The Consumer Use Tax Section works closely with state and federal agencies in administering the use tax due on nondealer sales of vehicles, vessels, aircraft, and mobile homes and on purchases

identified on customs declarations. Fiscal year 2000-01 revenues of \$611.4 million included

- \$517 million collected by the Department of Motor Vehicles.
- \$9.1 million collected by the Department of Housing and Community Development.

Consumer use tax collections this year increased by 7.7 percent over collections in 1999-00.

Audit Program

The Board maintains an effective audit program to ensure that businesses report neither more nor less tax than required by law. The program audits nearly two percent of active accounts each year, concentrating on those considered most likely to be inaccurate in their tax reporting. In fiscal year 2000-01, the sales and use tax audit program disclosed net deficiencies of nearly \$383 million. Taxpayers received nearly \$87.6 million in sales and use tax refunds.

Areas of Taxpayer Noncompliance

To comply with requirements of the Taxpayers' Bill of Rights, the Board annually

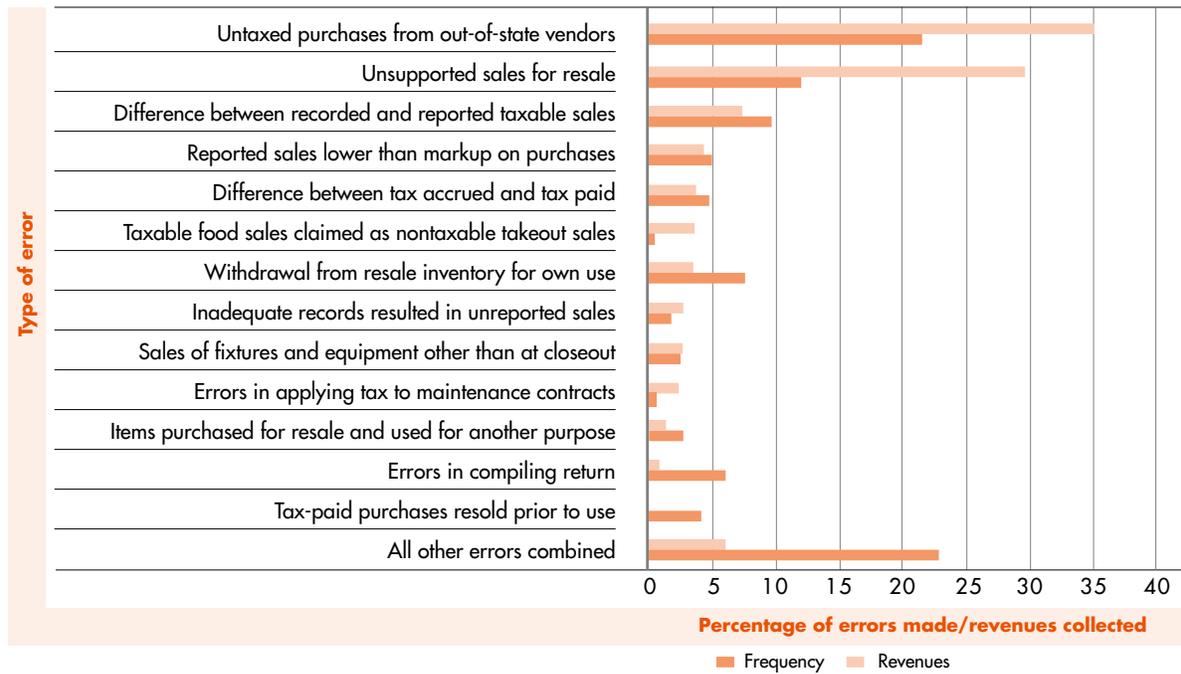
- Identifies the areas of the Sales and Use Tax Law where taxpayer noncompliance is highest.
- Classifies the types of businesses making errors.

The most frequent and costly category of taxpayer noncompliance this fiscal year was failure to pay use tax on purchases from out-of-state vendors. Over 35 percent of net sales and use tax audit deficiencies occurred in that category—totaling more than \$92 million in unpaid tax. Ranking close behind this category in both frequency of occurrence and amount of revenue were sales for resale made without supporting documentation.

Analysis of Noncompliance, 2000-01

Types of Noncompliance

Frequency of Errors/Revenues Collected



Types of Business Making Error

Ranked by Revenues Collected

Type of Business	Percentage	Rank for 1999-00
Publishers and Distributors of Light Industrial Equipment	22.97	1
Manufacturers and Wholesalers of Electronic Equipment	9.44	2
Public Utilities, Transportation, and Allied Services	8.05	73
Business Services Concerns	5.44	3
Repair and Hand Trade Shops	5.42	10
Producers and Distributors of Heavy Industrial Equipment	4.21	9
Eating and Drinking Places Without Alcoholic Beverages	4.07	17
Manufacturers and Wholesalers of Drugs and Chemicals	3.63	6
Office Stores and School Furniture Equipment Stores	3.24	8
Construction Contractors and Sellers of Building Materials	3.22	4
All Other Businesses	30.31	
Total	100.00	

This noncompliance category accounted for more than 29.5 percent of all net sales and use tax audit deficiencies, or more than \$77.4 million in unpaid tax.

The charts on the previous page summarize the Board's findings on the types of taxpayer noncompliance for fiscal year 2000-01 and provide other tax compliance information required by the Taxpayers' Bill of Rights.



Oil well, Signal Hill

Appeals

Taxpayers who disagree with Board audit results or other decisions regarding the application of sales and use tax may seek resolution through the Board's administrative appeals process. For information on appeals filed in 2000-01, see chapter 6, "Appeals," which begins on [page 49](#).

The agency also offers a settlement program as an alternative method of tax dispute resolution. In 2000-01, staff settled 285 sales and use tax cases. The total settlement amount was \$18.07 million. Board staff reduced the case processing time for most settlements to six months.

Court Decisions

Copyright Interest and Technology Transfer Agreement

The transfer of a copyright interest and copyrighted tangible personal property as part of a written agreement that contemplated the copying and selling of the copyrighted property is a technology transfer agreement, as defined in Revenue and Taxation Code sections 6011 and 6012. Tax applies only to those amounts attributable to the transfer of the tangible personal property and not to the copyright interest.

Heather Preston v. SBOE (2001) 25 Cal.4th 197

Supplies Used by Retailer

A taxpayer's sales of supplies such as sandpaper, masking tape, and paint thinner to auto body repair shops were not sales for resale because the body shops used the supplies in the repair process and did not furnish them to the ultimate customer. Since the taxpayer was the retailer of the supplies it was not entitled to relief of sales tax liability on a motion for summary judgment. The matter was

remanded to the trial court to determine the effect of the resale certificates on the retailer's liability.

Modern Paint and Body Supply, Inc. v. SBOE (2001) 87 Cal.App.4th 703

Signs as Fixtures

A taxpayer's signs are fixtures for purposes of the sales and use tax law. Since the fixtures are tangible personal property in the hands of the construction contractor who installs them, the contractor is making taxable retail sales of tangible personal property.

Richard Boyd Industries, Inc. v. SBOE (2001) 89 Cal.App.4th 706

Sales on Reservation Land

The Eleventh Amendment did not divest the district court of jurisdiction in an Indian tribe's action. The tribe sought declaratory relief against the imposition of state sales and use tax on food and beverage purchases made on reservation land by people other than tribal members.

Agua Caliente Band of Cabuilla Indians v. Hardin, Klehs, Andal, Dronenberg, Chiang (2000) 223 F.3d 1041

Legislation

California Taxpayers' Bill of Rights

This Board-sponsored bill, which strengthens the California Taxpayers' Bill of Rights,

- Authorizes the Board to grant equitable relief of tax, interest or penalty to an innocent spouse if, in light of all the facts and circumstances, it is inequitable to hold the innocent spouse liable for any unpaid tax or deficiency.
- Extends the managed audit program for two additional years.

- Authorizes the Board to establish criteria to more efficiently provide relief of the late payment penalty.
- Provides relief to a taxpayer whose employer withheld delinquent taxes or fees from the taxpayer's pay but failed to remit the amounts to the Board.
- Provides relief of the 10 percent penalty for late payments of taxes in cases where the taxpayer enters into and successfully complies with an installment payment agreement.
- Makes it a misdemeanor for a tax preparer to disclose confidential taxpayer information.
- Establishes the date of the original notice to the taxpayer as the effective starting date for reimbursement of fees and expenses available when the Board finds that staff acted in an unreasonable manner.

Assembly Bill 2898, Chapter 1052, Statutes of 2000; effective January 1, 2001

Board-Sponsored Technical and Housekeeping Measure

This bill

- Allows a fuel purchaser, under specified circumstances, to issue an exemption certificate to a fuel vendor for an amount equal to the sales or use tax on the federal manufacturers' or importers' excise tax imposed on the fuel purchase.
- Authorizes the Board to prescribe a method to authenticate electronic returns and applications.
- Makes technical changes to conflicting laws providing a sales and use tax exemption for the sale or lease of aircraft by air common carriers.
- Eliminates the requirement that settlement disputes totaling less than \$5,000 be presented

to the attorney general for review and delegates this authority jointly to the Board's executive director and chief counsel.

Assembly Bill 2894, Chapter 923, Statutes of 2000, effective January 1, 2001

Assignees of Accounts Receivable

Authorizes entities affiliated with a retailer to claim a bad debt deduction or refund on accounts found worthless that the retailer originally reported as taxable sales. These provisions apply to tax paid on or after January 1, 2000.

Assembly Bill 599, Chapter 600, Statutes of 2000; effective January 1, 2001

Out-of-State Retailers Selling at Conventions and Trade Shows

Provides that a retailer will not be regarded as "engaged in business in this state" and therefore will not be required to hold a seller's permit if two conditions are met. First, the retailer must be physically present in the state solely to engage in convention and trade show activities for not more than 15 days during any 12-month period. Second, the retailer must not have derived more than \$100,000 of net income from those activities in this state during the prior calendar year. The retailer remains liable for collection of use tax on sales made as a result of orders taken at or during those conventions or trade shows.

Assembly Bill 330, Chapter 617, Statutes 2000; effective September 24, 2000, but operative January 1, 2001

Partial Exemption for Businesses in High-Unemployment Counties

Creates a 5 percent state sales and use tax exemption from January 1, 2001, through December 31, 2005, for purchases of machinery and equipment by defined eligible entities. The entities must locate or expand a business in a California county with a specified unemployment rate and be found eligible by the California Infrastructure and Economic Development Bank board.

Assembly Bill 511, Chapter 107, Statutes of 2000; effective July 10, 2000

Confidentiality Provisions for Tax Practitioners

Until January 1, 2005, provides that with respect to tax advice, certain protections of confidentiality that apply to a communication between a client and an attorney shall also apply to a communication between a taxpayer and any federally authorized tax practitioner, as specified.

Assembly Bill 1016, Chapter 438, Statutes of 2000; effective January 1, 2001

Transactions and Use Tax—City of Sebastopol

Authorizes the City of Sebastopol, subject to two-thirds voter approval, to levy a transactions and use tax at a rate of one-eighth (0.125) percent for general revenue purposes.

Assembly Bill 147, Chapter 264, Statutes of 2000; effective August 31, 2000

Limits on Distribution of Permit-Holder Information

Generally prohibits the public release of names and addresses of individuals who are registered with or holding licenses or permits issued by the Board.

This restriction applies only to information for sole proprietors and husband and wife co-owners.

Assembly Bill 1965, Chapter 962, Statutes of 2000; effective January 1, 2001

Regulations

Hospitals, Institutions, and Care Homes

Regulation 1503, *Hospitals, Institutions and Homes for the Care of Persons* was amended to change the definition of meals, to include additional medical service facilities, and to delete the distinction between administered and nonadministered medical supply items. That latter change makes all facilities consumers of items they use in providing medical services and retailers of items they furnish for patients to take home.

Title 18, California Code of Regulations, section 1503; effective June 1, 2001

Miscellaneous Service Enterprises

Regulation 1506, *Miscellaneous Service Enterprises*, was amended to clarify the application of tax to the transactions of architects and others who provide architectural services.

Title 18, California Code of Regulations, section 1506; effective September 15, 2000

Manufacturing Equipment

Regulation 1525.2, *Manufacturing Equipment*, was amended in 2000 to permit claims for refund when the partial exemption was not originally claimed in a timely manner. Later, the regulation was amended to conform to Revenue and Taxation Code sections 6051.3, 6051.4, 6201.3, and 6201.4. The changes



Gas pumps, Bodie

were related to the 0.25 percent reduction in the state sales tax rate that occurred on January 1, 2001 (see “Programs,” [page 28](#)).

Title 18, California Code of Regulations, section 1525.2; effective July 7, 2000 and January 1, 2001

Teleproduction or Other Postproduction Service Equipment

Regulation 1532, *Teleproduction or Other Postproduction Service Equipment* was amended to conform to Revenue and Taxation Code sections 6051.3, 6051.4, 6201.3, and 6201.4. The changes were related to the 0.25 percent reduction in the

state sales tax rate that occurred on January 1, 2001 (see “Programs,” page 28).

Title 18, California Code of Regulations, section 1532; effective February 13, 2001

Membership Fees

Regulation 1584, *Membership Fees*, was amended to increase the threshold for the “nominal amount” to \$45, reflecting changes in the California Consumer Price Index.

Title 18, California Code of Regulations, section 1584; effective January 1, 2001

Medicines and Medical Devices

Regulation 1591, *Medicines and Medical Devices*, was amended to provide that specified items of liquid nutrition are “substances and preparations” and that dental bone screws and abutments qualify as “medicines” within the meaning of the prescription medicine exemption.

Title 18, California Code of Regulations, section 1591; effective April 12, 2001

Occasional Sales—Sales of a Business

Regulation 1595, *Occasional Sales—Sales of a Business*, was amended to clarify how tax applies when a person who has not been required to hold a seller’s permit makes a series of sales that triggers the seller’s permit requirement. The first two sales are now considered “occasional sales” and are not taxable. The third sale in the series, and any subsequent sales in the next 12 months, are taxable unless otherwise exempt.

Title 18, California Code of Regulations, section 1595; effective February 4, 2001

Interstate and Foreign Commerce

Regulation 1620, *Interstate and Foreign Commerce*, was amended to specify the criteria under which aircraft used in interstate commerce will be regarded as being purchased for use in California, to clarify that the recent amendments regarding purchases of trucks and buses for use in this state do not supersede the general rules for determining when property in general is regarded as purchased for use in California, and to correct typographical errors.

Title 18, California Code of Regulations, section 1620; effective December 17, 2000

Returns, Defects, and Replacements

Regulation 1655, *Returns, Defects, and Replacements*, was amended to provide that a warrantor is liable for any tax or tax reimbursement that would otherwise be payable by the customer as the result of a deductible payment, unless the warranty contract specifically states otherwise. New subdivision (b)(2) provides dealers and manufacturers with regulatory guidelines for reporting “Lemon Law” transactions.

Title 18, California Code of Regulations, section 1655; effective January 18, 2001

Mobile Transportation Equipment

Regulation 1661, *Mobile Transportation Equipment*, was amended to provide that houseboats that are at least 30 feet long are mobile transportation equipment, and to incorporate into the regulation the statutory list of the types of items that qualify as mobile transportation equipment.

Title 18, California Code of Regulations, section 1661; effective December 1, 2000

Suspended Corporations

Regulation 1702.6, *Suspended Corporations*, was amended to implement existing Board practices regarding responsible individuals' liability for the sales tax owed by suspended corporations, and to extend those practices to similar use tax liabilities.

Title 18, California Code of Regulations, section 1702.6; effective October 18, 2000

Relief from Liability

Regulation 1705, *Relief from Liability*, was amended to allow certain purchasers to propose a use tax reporting methodology in writing and to allow the Board to approve the use of the proposed method subject to certain conditions. The Board's approval of the proposed method will be considered "written tax advice," which provides the taxpayer with relief

from tax, penalty, and interest if following the approved method results in underpayment of tax.

Title 18, California Code of Regulations, section 1705; effective June 22, 2001

Drop Shipments

Regulation 1706, *Drop Shipments*, was adopted to provide, beginning January 1, 2001, that the retail selling price of drop-shipped property is presumed to be cost plus 10 percent, and that the drop shipper may accept a resale certificate from the customer only if that person has a California seller's permit.

Title 18, California Code of Regulations, section 1706; effective December 28, 2000