



Los Angeles

SALES AND USE TAXES

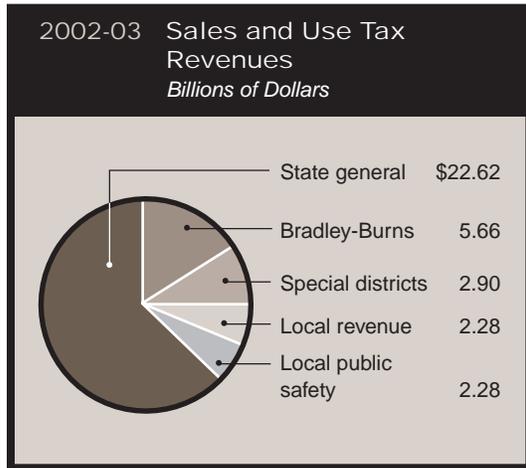
Revenues

In 2002-03, California sales and use tax revenue totaled \$35.7 billion, an increase of 3.9 percent from the 2001-02 total of \$34.4 billion. Sales and use tax revenue included:

- \$27.2 billion from the 6.00 percent state sales tax, with
 - \$22.6 billion allocated to the state's General Fund; tax rate of 5.00 percent.
 - \$2.28 billion allocated to the state's Local Revenue Fund; tax rate of 0.50 percent.
 - \$2.28 billion allocated to the Local Public Safety Fund; tax rate of 0.50 percent.
- \$5.66 billion from the 1.25 percent Bradley-Burns Uniform Local Sales and Use Tax, allocated among all of the state's 58 counties and 478 cities.

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- \$2.90 billion in special district transactions (sales) and use tax; rates vary by district.
- \$22.6 billion in sales and use tax revenues were allocated to the state General Fund, 4.8 percent more than in 2001-02.



Programs

Retailers engaged in business in California pay the state’s sales tax, which applies to all retail sales of goods and merchandise except those sales specifically exempted by law. The use tax generally applies to the storage, use, or other consumption in California 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, telephone, or Internet.

The sales and use tax rate in a given California location has three parts: the state tax rate, the local tax rate, and any district tax rate that may be in effect. The statewide combined sales and local tax rate was 7.25 percent in

fiscal year 2002-03 (6.00 percent state tax rate and 1.25 percent local tax rate).

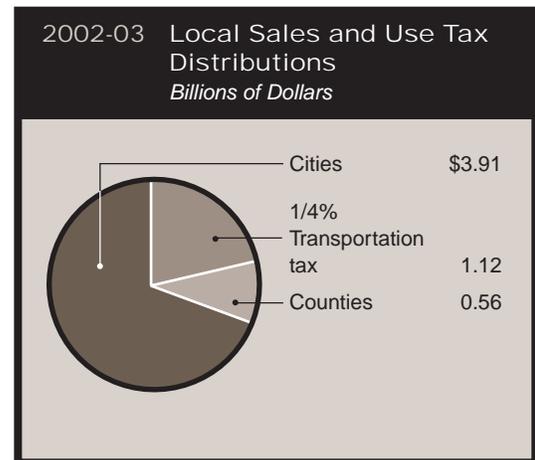
State sales and use taxes provide revenue to the state’s General Fund, to cities and counties through specific state fund allocations, and to other local jurisdictions.

Local Sales and Use Tax

The Board of Equalization collects and allocates the 1.25 percent Bradley-Burns Uniform Local Sales and Use Tax on behalf of all California cities and counties. For each sale, 0.25 percent of the local tax is allocated to the county where the sale occurs, for transportation projects. The remaining 1.00 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](#).

Redevelopment Agencies. Between 1981 and 1994, cities could 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. As of June 30, 2003, 33 redevelopment projects in 26 California cities were receiving sales and use tax revenue.

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 throughout the state. The districts fund a range of local services and infrastructure, including transportation projects, open space, hospitals, 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 2002-03 fiscal year, there were 38 special district taxes in effect, with rates ranging from 0.125 percent to 0.50 percent. Two additional district taxes went into effect on April 1, 2003: the 0.125 percent City of Sebastopol Transactions and Use Tax and the 0.50 percent City of West Sacramento Transactions and Use Tax.

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 [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. These include an exemption for sales shipped to a location outside the district for use in that location and special requirements for sales of aircraft, registered vehicles, and undocumented vessels.

Operations

The Board encourages voluntary tax law compliance and offers sales and use tax assistance through its Sacramento headquarters and 27 field offices located across the state. Board staff in the agency's New York, Chicago, and Houston offices assist taxpayers located outside California who are registered to do business in this state.

The number of registered sellers increased this fiscal year, totaling 1,044,444 as of June 30, 2003. The agency processed more than 3.1 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 2002-03, compliance staff collected more than \$600 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. In 2002-03, revenues totaled \$636.5 million, including funds collected by the Board and

- \$566.8 million collected by the Department of Motor Vehicles.
- \$7.7 million collected by the Department of Housing and Community Development.

Consumer use tax revenues this fiscal year increased by 1.6 percent over 2001-02.

Audit Program

The Board maintains an effective audit program to ensure that businesses report neither more nor less tax than required. The program audits nearly 1.5 percent of active accounts each year, concentrating on those considered most likely to be inaccurate in their tax reporting. In fiscal year 2002-03, the sales and use tax audit program disclosed net deficiencies of more than \$363.4 million. Taxpayers received nearly \$127.1 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.

Failing to pay use tax on purchases from out-of-state vendors was again the most frequent and costly category of taxpayer noncompliance. More than one in five taxpayer errors occurred in that category. This area of noncompliance made up more than 37.8 percent of net sales and use tax audit deficiencies (less refunds), totaling more than \$102 million in unpaid tax. Unsupported sales for resale was once more the second most frequent and costly error, representing more than one in ten taxpayer errors. This noncompliance category accounted for more than 26.8 percent of all net sales and use tax audit deficiencies (less refunds), or more than \$72 million in unpaid tax.

The charts on [the next page](#) summarize the Board's findings on the types of taxpayer

noncompliance for fiscal year 2002-03 and provide other tax compliance information required by the Taxpayers' Bill of Rights.

Appeals

Taxpayers who disagree with Board audit results or other decisions regarding the application of sales or use tax may take advantage of the Board's administrative appeals process. For information on appeals filed in 2002-03, see chapter 6, "Appeals," which begins on [page 47](#).

Significant Court Decisions

Bulk Sale of a Business

In purchasing a business in a bulk sale, filing an interpleader action to resolve creditor claims under the bulk sales law does not satisfy the withholding requirement of Revenue and Taxation Code section 6811 or enable the buyer to avoid personal liability for sales and use tax due. The provisions of the bulk sales law (Cal. U. Com. Code, section 6202 et seq.) do not take priority over the successor liability statutes. Business buyers who do not obtain a receipt from the Board stating that the seller's taxes have been paid are liable for the unpaid tax.

Schnyder v. California State Board of Equalization (2002) 101 Cal.App. 4th 538

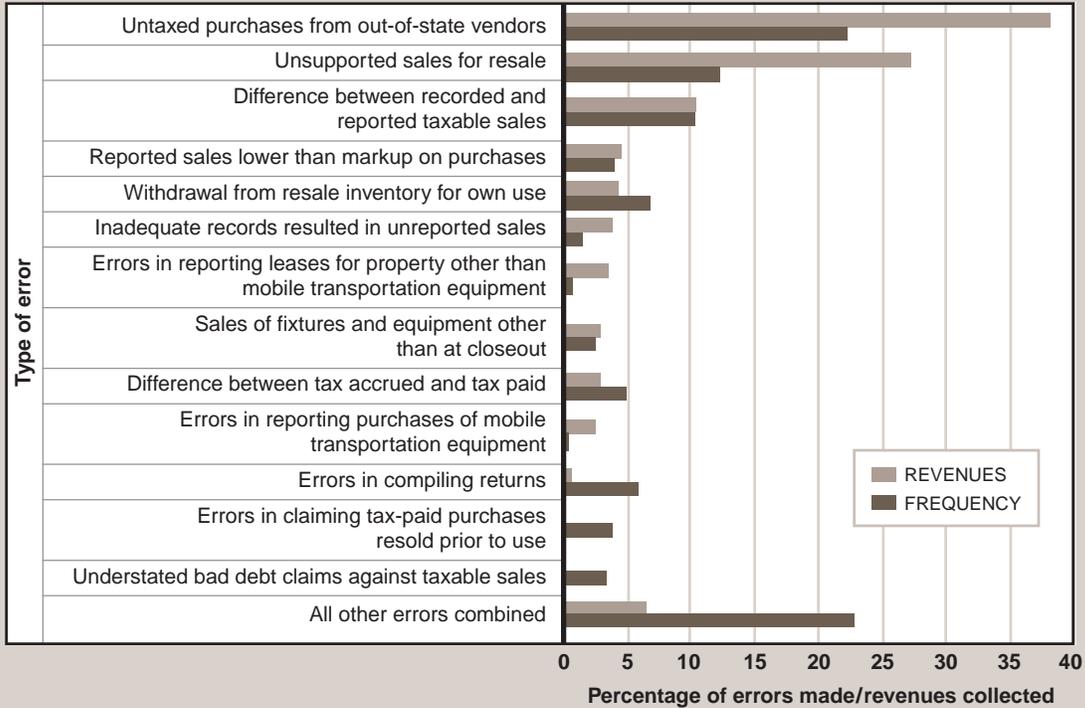
Waiver of Sovereign Immunity

When the Board of Equalization files a proof of claim in a bankruptcy case, it waives sovereign immunity with respect to a bankruptcy adversary proceeding brought against it arising from the same transaction or occurrence as the claim.

In re Harleston (9th Cir. 2003) 331 F.3d 699

Analysis of Noncompliance, 2002-03

Types of Noncompliance
Frequency of Errors/Revenues Collected



Types of Business Making Error
Ranked by Revenues Collected

Type of Business	Percentage	Rank for 2001-02
Publishers; Producers and Distributors of Light Industrial Equipment	16.75	1
Manufacturers and Wholesalers of Electronic Equipment	16.10	4
Public Utilities, Transportation, and Allied Services	7.24	3
Manufacturers and Wholesalers of Store and Office Equipment	6.85	11
Office Stores and School Furniture Equipment Stores	6.30	5
Construction Contractors and Sellers of Building Materials	4.26	6
Manufacturers and Wholesalers of Drugs and Chemicals	4.23	8
Gasoline Stations	3.53	10
Full-Time Specialty Stores	3.46	36
Repair and Hand Trade Shops	2.80	2
All Other Businesses	28.48	
Total	100.00	

Legislation

Offers in Compromise

This Board-sponsored bill provides the Board with administrative authority to compromise a tax or fee debt under the Sales and Use Tax Law, comparable to the authority provided the Franchise Tax Board. Allows the Board to compromise reductions in tax up to \$10,000.

Assembly Bill 1458, Chapter 152, Statutes of 2002; effective January 1, 2003

Waiver of Interest and Penalties for Certain Eligible Taxpayers

Authorizes the Board, for the period beginning October 1, 2002, and ending June 30, 2003, to identify eligible taxpayers with high-risk collection accounts and offer those taxpayers the opportunity to satisfy their

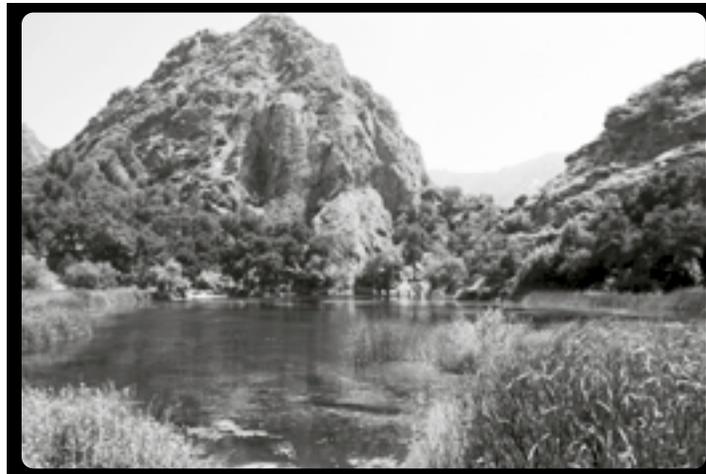
unpaid tax liability by paying the tax in full and receiving a waiver of interest and penalties. Defines eligible taxpayers and limits the provision to any final sales or use tax liability owed as of October 1, 2002.

Assembly Bill 2065, Chapter 488, Statutes of 2002; effective September 12, 2002

Tribal Taxes Imposed by Indian Tribes

Provides that a tax imposed by an Indian tribe is not included in the amount subject to tax in a taxable sale of merchandise. Applies only to Indian tribes that are substantially complying with the Sales and Use Tax Law and when the tribal tax is based on a percentage of the sales or purchase price of the merchandise.

Assembly Bill 2701, Chapter 593, Statutes of 2002; effective January 1, 2003



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Diesel Fuel Prepayment Exemption

Exempts certain sales of diesel fuel from the sales tax prepayment requirements. The exemption applies when a retailer purchases the diesel fuel for resale to farming and food processing businesses that qualify for the agricultural exemption under Revenue and Taxation Code section 6357.1.

Senate Bill 1901, Chapter 446, Statutes of 2002; operative October 9, 2002

Local Tax on Leased Vehicles

This Board-sponsored bill amends the definition of “motor vehicle” in Revenue and Taxation Code section 7205.1 to clarify that the allocation of local use tax on leased vehicles is limited to passenger vehicles other than a house car and pickup trucks rated less than one ton.

Senate Bill 2092, Chapter 775, Statutes of 2002; effective January 1, 2003

District Tax Authorizations

City of Davis

Authorizes the City of Davis, upon either two-thirds or majority voter approval, depending on how the revenues will be spent, to levy a 0.25 percent or 0.50 percent transactions and use tax.

Assembly Bill 7, Chapter 330, Statutes of 2002; effective January 1, 2003

Qualified Cities

Authorizes the Cities of Clearlake, Fort Bragg, Point Arena, Ukiah, and Willits, upon two-thirds voter approval, to each levy a 0.25 percent, 0.50 percent, 0.75 percent, or 1.00 percent transactions and use tax for funding city roads.

Assembly Bill 902, Chapter 331, Statutes of 2002; effective January 1, 2003

City of Salinas

Authorizes the City of Salinas, upon two-thirds voter approval, to levy a 0.25 percent transactions and use tax for identifiable capital facilities, furnishings, and equipment.

Assembly Bill 2061, Chapter 338, Statutes of 2002; effective January 1, 2003

City of Visalia

Authorizes the City of Visalia, upon two-thirds voter approval, to levy a 0.25 percent transactions and use tax for improving public safety, fire, and law enforcement services.

Assembly Bill 2758, Chapter 346, Statutes of 2002; effective January 1, 2003

City of Redding

Authorizes the City of Redding, upon majority voter approval, to levy a 0.25 percent transactions and use tax for general governmental purposes.

Senate Bill 1889, Chapter 119, Statutes of 2002; effective January 1, 2003

Regulations

Computers, Programs, and Data Processing

Regulation 1502, *Computers, Programs and Data Processing*, was amended to specify that for an optional software maintenance agreement, 50 percent of a lump sum charge for the agreement is a taxable sale and 50 percent is a nontaxable repair charge; to make nonsubstantive format and language revisions; to delete references to obsolete computer processes; and to conform the definition of digital prepress instructions to the language used in recent amendments to

Regulations 1540, *Advertising Agencies and Commercial Artists*, and 1541, *Printing and Related Arts*.

Title 18, California Code of Regulations, section 1502; effective January 9, 2003, but operative in part January 1, 2003

Technology Transfer Agreements

Regulation 1507, *Technology Transfer Agreements*, was added to interpret and explain how tax applies to sales involving technology transfer agreements.

Title 18, California Code of Regulations, section 1507; effective July 6, 2002

Manufacturing Equipment

Regulation 1525.2, *Manufacturing Equipment*, was amended to modify the exemption certificate to explain that the partial tax exemption on a qualified lease applies for six years from the inception of the lease, as stated in Regulation 1525.3, section (c), and to correct clerical errors.

Title 18, California Code of Regulations, section 1525.2; operative December 3, 2002

Rural Investment Tax Exemption

Regulation 1525.7, *Rural Investment Tax Exemption*, was added to interpret and explain how tax applies to the sale and use of equipment and machinery by an eligible entity certified by the California Infrastructure and Economic Development Bank Board.

Title 18, California Code of Regulations, section 1525.7; effective July 7, 2002

Commercial Photographers

Regulation 1528, *Photographers, Photocopiers, Photo Finishers and X-Ray Laboratories*, was

amended to advise commercial photographers who act as commercial artists to refer to Regulation 1540 for information regarding how tax applies to their transactions.

Title 18, California Code of Regulations, section 1528; effective September 19, 2002

Liquefied Petroleum Gas

Regulation 1533, *Liquefied Petroleum Gas*, was added to interpret and explain how tax applies to the sales and use of liquefied petroleum gas, as set forth in Revenue and Taxation Code section 6353.

Title 18, California Code of Regulations, section 1533; effective July 7, 2002, but operative September 1, 2001

Farm Equipment and Machinery

Regulation 1533.1, *Farm Equipment and Machinery*, was added to interpret and explain the partial tax exemption for the sale and use of specified farm machinery and equipment set forth in Revenue and Taxation Code section 6356.5.

Title 18, California Code of Regulations, section 1533.1; effective July 7, 2002, but operative September 1, 2001

Diesel Fuel Used in Farming or Food Processing

Regulation 1533.2, *Diesel Fuel Used in Farming Activities or Food Processing*, was added to interpret and explain the partial tax exemption for certain sales and uses of diesel fuel for farming or food processing set forth in Revenue and Taxation Code section 6357.1.

Title 18, California Code of Regulations, section 1533.2; effective August 3, 2002, but operative September 1, 2001

Timber Harvesting Equipment and Machinery

Regulation 1534, *Timber Harvesting Equipment and Machinery*, was added to interpret and explain the partial tax exemption for certain sales and uses of off-road commercial timber harvesting equipment, machinery, and parts set forth in Revenue and Taxation Code section 6356.6.

Title 18, California Code of Regulations, section 1534; effective October 3, 2002, but operative September 1, 2001

Racehorse Breeding Stock

Regulation 1535, *Racehorse Breeding Stock*, was added to interpret and explain the partial tax exemption for the sale and purchase of racehorse breeding stock set forth in Revenue and Taxation Code section 6358.5.

Title 18, California Code of Regulations, section 1535; effective January 9, 2003, but operative September 1, 2001

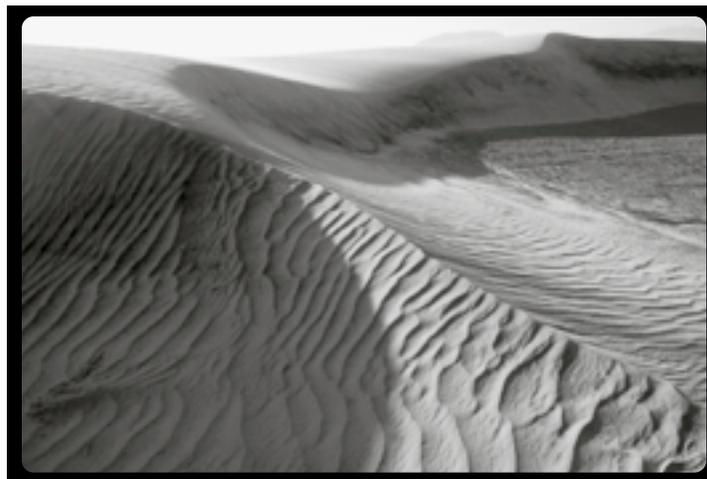
Advertising Agencies, Commercial Artists and Designers; Printing and Related Arts

Regulation 1540, *Advertising Agencies, Commercial Artists and Designers*, and Regulation 1541, *Printing and Related Arts*, were amended to conform to April 2000 revisions to each regulation regarding lump-sum billings for artwork and nontaxable services, to replace the confusing terminology of “ultimately subject to tax” with a clear explanation of how tax applies, and to reformat the discussion of special printing aids.

Title 18, California Code of Regulations, sections 1540 and 1541; effective October 3, 2002

Publishers

Regulation 1543, *Publishers*, was amended to provide cross-references to Regulations 1540, *Advertising Agencies, Commercial Artists and Designers*, and 1541, *Printing and Related Arts*, and to reflect amendments made to those



San Diego

regulations in 1999 and 2002 as well as recent changes in statutory and case law.

Title 18, California Code of Regulations, section 1543; effective September 18, 2002

Miscellaneous Repair Operations

Regulation 1553, *Miscellaneous Repair Operations*, was amended to clarify that repairers are consumers of parts used in repairing watches and jewelry and that the repairers owe tax on the cost of the parts, with two exceptions: the repairer is not the consumer if the retail value of the part is more than ten percent of the total charge or if the repairer charges separately for the repair part.

Title 18, California Code of Regulations, section 1553; effective June 26, 2003

Federal Areas

Regulation 1616, *Federal Areas*, was amended to clarify that American Indian operators of eating and drinking establishments are not required to collect use tax on their sale of meals, food, or beverages intended for consumption on an Indian reservation.

Title 18, California Code of Regulations, section 1616; effective March 6, 2003

Interest and Penalties

Regulation 1703, *Interest and Penalties*, was amended to declare the applicable burden of proof for a finding of fraud to be “clear and convincing evidence.”

Title 18, California Code of Regulations, section 1703; effective January 1, 2003

Electronic Funds Transfer

Regulation 1707, *Electronic Funds Transfer* was added to provide guidance to taxpayers who make electronic tax payments.

Title 18, California Code of Regulations, section 1707; effective June 26, 2003

Bradley-Burns Uniform Local Tax

Local Tax Reallocation Inquiries

Regulation 1807, *Process for Reviewing Local Tax Reallocation Inquiries*, was added to interpret and explain the process for reviewing local tax reallocation inquiries.

Title 18, California Code of Regulation, section 1807; effective February 22, 2003