



*Bixby Bridge, Big Sur*

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## Special Taxes and Fees

In 2003-04, the Board administered 20 special tax and fee programs that encompass a broad range of activities and transactions. Revenues from the insurance tax and alcoholic beverage tax and a portion of cigarette tax receipts are allocated to the state's General Fund. Other special taxes and fees fund specific state services, from highway construction to recycling programs. The Board administers more than half of the special taxes programs in cooperation with other state agencies.

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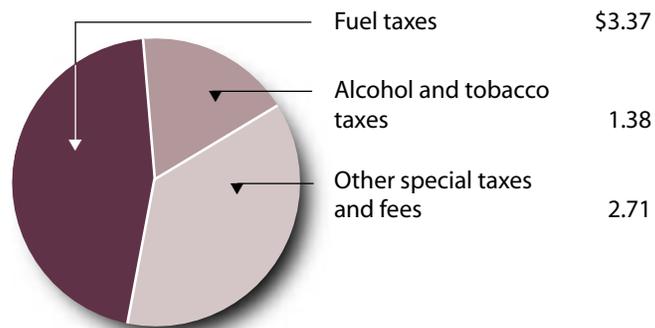
### Revenues

Board-administered special taxes program revenues totaled \$7.47 billion in 2003-04, an increase of 5.9 percent from 2002-03 total revenues of \$7.05 billion. Fuel taxes totaled \$3.37 billion, while alcohol and tobacco taxes totaled \$1.38 billion.

Revenue information for each program is found in the next section of this chapter and in the foldout chart inside the back cover of this report. While the special taxes program revenue total above includes revenues from the insurance tax, which is collected by the State Controller's Office, those revenues are not included in the total Board revenue figures found elsewhere in this report.

#### 2003-04 Special Tax and Fee Revenues

Billions of Dollars



## Programs

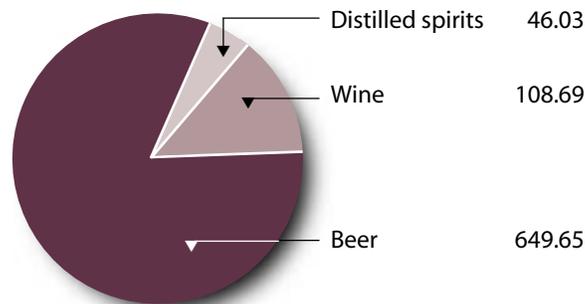
This section includes information regarding program revenue, significant program highlights, and the number of program registrants. More detailed information regarding individual tax and fee programs is found in the [foldout tax chart](#) inside the back cover of this report. The chart includes information on what is taxed or licensed, who pays, tax and fee rates, year-to-year revenue changes, and how tax revenues from each program are used on behalf of California residents.

### Alcoholic Beverage Tax

Alcoholic beverage tax revenues totaled \$293.38 million in 2003-04, a 1.0 percent increase from 2002-03. Program registrants numbered 3,908 at the end of the fiscal year.

### 2003-04 Alcoholic Beverage Apparent Consumption

Millions of Gallons



### California Tire Fee

Revenues totaled \$33.18 million in 2003-04. At fiscal year end, 12,434 businesses were registered for the program, which the Board administers in cooperation with the Integrated Waste Management Board.

### Childhood Lead Poisoning Prevention Fee

In 2003-04, fee collections totaled \$13.34 million. At the end of the fiscal year, 970 fee payers were registered for the program. The Board administers this fee in cooperation with the Department of Health Services.

### Cigarette and Tobacco Products Licensing Program

On January 1, 2004, the Board began administering this program, which requires statewide licensing of all distributors, wholesalers, and retailers of

cigarette and tobacco products as well as cigarette manufacturers and importers (see page 43). License revenues for 2003-04 totaled \$18.48 million. At the end of the fiscal year, registration totaled 47 manufacturers and importers, 585 cigarette and tobacco products distributors, 318 cigarette and tobacco products wholesalers, and 34,601 cigarette and tobacco products retailers. The Board administers the licensing program in cooperation with the Department of Health Services and the Office of the State Attorney General.

### **Cigarette and Tobacco Products Taxes**

Combined revenues for these taxes totaled \$1.07 billion in 2003-04, including \$1.02 billion from cigarettes and \$44.17 million from other tobacco products. At the end of June 2004, 1,831 taxpayers held permits under this program. This registration figure does not include California cigarette or tobacco product consumers who are required to pay tax on their out-of-state (Internet or mail order) purchases because they do not hold permits on an ongoing basis. Apparent consumption data is found in Appendix Table 30B, on page A-41.

### **Diesel and Use Fuel Taxes**

Combined revenues from diesel and use fuel taxes totaled \$501.23 million for 2003-04, including \$61.80 million from the interstate user tax.

**Diesel fuel tax.** There were 35,610 businesses and individuals registered for the diesel fuel tax program as of June 30, 2004. Most are registered for fuel tracking or refund purposes. One hundred twenty-three diesel fuel suppliers paid more than 97 percent of the 2003-04 diesel fuel tax.

**Interstate user tax.** Most interstate motor carriers who travel on California highways pay the state's interstate user tax through the International Fuel Tax Agreement (IFTA), an agreement among 48 states and 10 Canadian provinces. The vast majority of IFTA revenue comes from diesel fuel use. There were 13,692 California-based IFTA licensees at the end of the fiscal year. Carriers who travel only between California and Mexico also pay the interstate user tax. There were 903 of these nonIFTA carriers registered as of June 30, 2004.

**Use fuel tax.** At the end of the fiscal year, 1,137 alternative fuel users and 201 fuel vendors were registered with the Board.

### **Emergency Telephone Users Surcharge**

Total revenues for 2003-04 were \$136.12 million. As of June 30, 2004, 574 telephone service suppliers and three consumers were registered with the Board.

### **Energy Resources Surcharge**

Revenues totaled \$58.17 million in 2003-04. At the end of the fiscal year, program registrants included 90 electric utilities and 25 public institutions, water districts, and irrigation districts.

### **Hazardous Substances Tax**

The Board administers five hazardous waste fee programs in cooperation with the Department of Toxic Substances Control. Fee revenues for 2003-04 and the number of businesses registered at the end of the fiscal year are shown below.

**Activity fees.** Revenue: \$524,000. Entities pay the fees based on permit applications and modifications and other applications. They are not required to be registered with the Board on an ongoing basis.

**Disposal fee.** Revenue: \$5.54 million; registered facilities: 10.

**Environmental fee.** Revenue: \$30.37 million; registered corporations: 42,487.

**Facility fee.** Revenue: \$4.51 million, including tiered permit fees for facilities that handle small quantities of waste; program registrants: 136 facilities and 129 tiered permit facilities.

**Generator fee.** Revenue: \$23.43 million; registrants: 7,037 fee payers with a total of 18,354 sites in the state.

### **Insurance Tax**

Revenue from this tax, levied against insurance companies in lieu of most other California taxes, totaled \$1.83 billion for 2003 business. As of June 30, 2004, 1,909 insurance companies were registered to pay



*Al Zampa Memorial Bridge, Carquinez Strait*

the tax and 416 surplus line brokers were registered for administrative purposes. The Board, the State Controller's Office, and the Department of Insurance share administrative responsibilities.

### **Integrated Waste Management Fee**

Revenues totaled \$56.29 million in 2003-04. As of June 30, 2004, 182 facilities were registered for the fee, which is jointly administered by the Board and the Integrated Waste Management Board.

### **Marine Invasive Species Fee**

Revenue for this program, administered in conjunction with the State Lands Commission, totaled \$1.89 million for 2003-04. Registration totaled 2,393 as of June 30, 2004. Prior to January 1, 2004, the fee was known as the ballast water management fee.

### **Motor Vehicle Fuel Tax**

Motor vehicle fuel tax revenue totaled \$2.87 billion for 2003-04. There were 239 businesses registered for the program at the end of the fiscal year: 111 suppliers and 128 other accounts.

**Aircraft jet fuel tax.** Aircraft jet fuel tax collections for the year totaled \$2.19 million, based on the taxable sale or use of 135.7 million gallons of jet fuel. As of June 30, 2004, 226 jet fuel dealers were registered with the Board.

### **Natural Gas Surcharge**

Surcharge revenue totaled \$262.61 million in 2003-04. As of June 30, 2004, nine public utility gas corporations and four consumers who purchase gas through interstate pipelines were registered for the program.

### **Occupational Lead Poisoning Prevention Fee**

Total revenues for 2003-04 were \$2.70 million. At the end of the fiscal year, registration totaled 17,016 businesses. The Board works with the Department of Health Services in administering this fee program.

### **Oil Spill Response, Prevention, and Administration Fees**

**Oil spill response fee.** Oil spill response fees were not collected from the 36 program registrants in 2003-04 (the Oil Spill Response Trust Fund reached its maximum \$50 million level in 1991-92). The Board administers the fee in cooperation with the Department of Fish and Game.

**Oil spill prevention and administration fee.** Revenues for 2003-04 totaled \$33.20 million. The number of registrants for the program totaled 30 at the end of the fiscal year.

**Underground Storage Tank Maintenance Fee**

Revenues totaled \$211.57 million in 2003-04. As of June 30, 2004, 6,967 feepayers with 12,157 tank locations were registered for this program, which the Board administers in cooperation with the State Water Resources Control Board.

**Water Rights Fee**

Revenues from this new fee totaled \$6.80 million in 2003-04. As of June 30, 2004, 13,464 feepayers were registered for this program, which is administered in cooperation with the State Water Resources Control Board.

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**Operations**

Staff in the Board's Fuel Taxes Division and the Excise Taxes and Fees Division, located in the agency's Sacramento Headquarters, provide direct assistance to the businesses that pay special taxes and fees. The Board processed more than 288,700 special taxes program returns during the 2003-04 fiscal year, including 74,569 environmental program returns, 78,028 excise tax returns, and 136,135 fuel tax returns.

**Audits**

Staff in the Fuel Taxes Division and the Excise Taxes and Fees Division have the primary responsibility for auditing special taxes program accounts. This year, special taxes audits revealed more than \$20.5 million in net tax and fee deficiencies. The audit staff identified more than \$4.8 million in refunds due.

**Compliance Activities**

Board compliance staff ensure proper registering and licensing of businesses, assist taxpayers in interpreting tax and fee laws and regulations, and provide help with tax and fee returns. Compliance staff also collect delinquent tax and fee payments while referring suspected tax evasion or fraud cases to the agency's Investigations Division.

**Fuel Tax Compliance**

Board staff members at California Highway Patrol (CHP) Truck Inspection Facilities enforce the state's fuel tax laws. They ensure that motor carriers traveling into California without current fuel tax licenses or fuel trip permits are brought into compliance before traveling on the state's highways. Staff assess penalties for noncompliance and collect outstanding taxes. Board personnel at the CHP inspection facilities also identify

goods and equipment being shipped into California that may be subject to sales or use tax.

### **Cigarette Tax Compliance and Enforcement**

According to current Board estimates, cigarette tax evasion costs California up to \$292 million a year in unpaid tax. A significant portion of the loss is due to the use of counterfeit cigarette tax stamps. This fiscal year, Board staff worked with vendors in developing a new, high-tech, counterfeit-resistant tax stamp, as required by Senate Bill 1701 (Stats. 2002, ch. 881). The stamp will feature encrypted data that can be read only with a special electronic scanner. Use of the stamp is expected to dramatically reduce the tax loss from counterfeit cigarette stamps while making it easy for vendors to identify properly taxed products.

In addition to developing the new stamp, staff in the Board's Excise Taxes Section continued their efforts to identify out-of-state sellers who sell and ship cigarettes to California consumers. Those consumers are liable for the excise and use taxes on their purchases.

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## **Appeals**

The Board's administrative appeals process is available for those who disagree with audit results or other Board decisions regarding the application of a tax or fee. For details on 2003-04 appeals, see the "Appeals" chapter, which begins on [page 47](#).

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## **Court Decisions**

There were no significant court decisions for special taxes programs in 2003-04.

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## **Legislation**

### **Cigarette and Tobacco Products Licensing**

Creates the California Cigarette and Tobacco Products Licensing Act of 2003, which requires licensing of all California distributors, wholesalers, and retailers of cigarettes and tobacco products, as well as manufacturers and importers of cigarettes. Also

- Authorizes the Board's Investigations Division staff to issue citations and serve warrants.
- Authorizes Board staff to receive engraved pictures and photographs from the Department of Motor Vehicles.

- Prohibits attaching a cigarette tax stamp or meter impression to a package of cigarettes or paying tax on a tobacco product defined as a cigarette unless the tobacco manufacturer and brand family are included on the Attorney General's Master Settlement Agreement compliance list.
- Requires the Board to submit a report to the Legislature that among other things, evaluates the average actual costs for applying cigarette tax indicia or impressions, bonding, warehousing, and leasing stamping equipment.
- Provides that the tax, interest, and penalties on all cigarettes or tobacco products distributed by an unlicensed cigarette or tobacco products distributor are immediately due and payable; facilitates the seizure and sale of assets to satisfy liens.
- Increases penalties for possessing fraudulent tax stamps or meter impressions with intent to evade the taxes.
- Clarifies that penalties relating to possessing unstamped cigarettes do not apply to licensed distributors.
- Revamps the penalty for any person who possesses, sells or offers to sell, or buys or offers to buy, any false or fraudulent stamps or meter impressions.
- Extends the statute of limitations for prosecutions.
- Allows recovery of costs incurred in criminal investigations.

*Assembly Bill 71, Chapter 890, Statutes of 2003; effective January 1, 2004*

#### **Marine Invasive Species Fee**

Among other things, this bill

- Renames the "Ballast Water Management Fee Law" as the "Marine Invasive Species Fee Collection Law."
- Extends the sunset date for the fee from January 1, 2004, to January 1, 2010.
- Requires the Board to collect the fee from the owner or operator of each vessel that arrives at a California port or location from outside the state.

*Assembly Bill 433, Chapter 491, Statutes of 2003; effective January 1, 2004*

#### **Cigarette and Tobacco Product Distributor Reporting Requirements**

Among other things, this bill

- Allows a distributor to choose to pay for stamps and meter-register settings once or twice a month when purchasing on a deferred basis.
- Reduces the required security from 70 percent to 50 percent of the stamp and meter-register setting amount when a distributor chooses the twice-monthly payment option.

- Allows a tobacco products distributor to choose to file returns and pay tax either once or twice a month.

*Assembly Bill 1666, Chapter 867, Statutes of 2003; effective January 1, 2004*

**Cigarette and Tobacco Products Licensing Act Housekeeping Measure**

To address administrative issues related to Assembly Bill 71, this measure

- Authorizes the Board to issue a temporary cigarette and tobacco products license to a retailer.
- Requires the Board to include on its website the name of any wholesaler or distributor whose license has been suspended or revoked under the Cigarette and Tobacco Products Licensing Act of 2003.
- Allows the Board to collect fees, civil fines, and penalties consistent with the Fee Collection Procedures Law.
- Revises the requirements for notice of the seizure and forfeiture of cigarettes and tobacco products.
- Makes other technical and clarifying changes to the Licensing Act and to the Cigarette and Tobacco Products Tax Law.

*Assembly Bill 2491, Chapter 82, Statutes of 2004; effective June 30, 2004*

**Remote Cigarette Sales**

Requires an out-of-state cigarette seller who makes remote sales to California customers to comply with the federal Jenkins Act. Also requires the Board to provide information to the California Attorney General regarding a seller's failure or attempt to comply with the Jenkins Act.

*Senate Bill 1016, Chapter 603, Statutes of 2003; effective January 1, 2004*

**Water Rights Fee**

Requires the Board to assess and collect various fees from water rights owners to fund programs of the State Water Resources Control Board.

*Senate Bill 1049, Chapter 741, Statutes of 2003; effective January 1, 2004*

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**Regulations**

The Board did not adopt or amend any special tax or fee program regulations in 2003-04.