

Special Taxes and Fees

In 2005-06, the Board administered 20 special tax and fee programs that encompass a broad range of activities and transactions. Revenues from the insurance tax, 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.

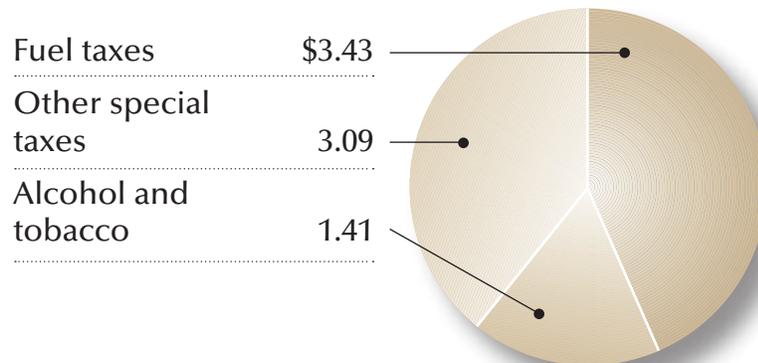
Revenues

Board-administered special taxes program revenues totaled \$7.93 billion in 2005-06, an increase of 2.4 percent from 2004-05 total revenues of \$7.74 billion. Fuel taxes totaled \$3.43 billion, while alcohol and tobacco taxes totaled \$1.41 billion.

Revenue information for each program is found in the next section of this chapter and in the [foldout chart](#) inside the back cover.

2005-06 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 revenues from each program are used on behalf of California residents.

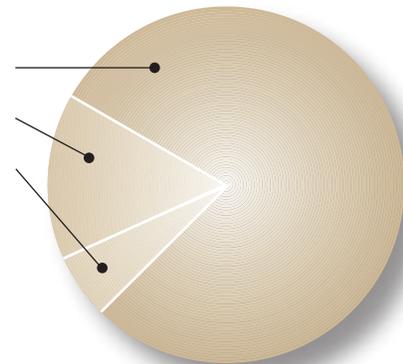
Alcoholic Beverage Tax

Alcoholic beverage tax revenues totaled \$318.28 million in 2005-06, a 1.3 percent increase from 2004-05. Program registrants numbered 4,881 at the end of the fiscal year.

2005-06 Alcoholic Beverage Apparent Consumption

Millions of gallons

Beer	635.38
Wine	116.08
Distilled spirits	48.65



California Tire Fee

Revenues totaled \$59.95 million in 2005-06. At fiscal year end, 12,563 businesses were registered for the program, which the Board administers in cooperation with the Integrated Waste Management Board.

Childhood Lead Poisoning Prevention Fee

In 2005-06, fee collections totaled \$9.97 million. At the end of the fiscal year, 941 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

This program requires statewide licensing of all distributors, wholesalers, and retailers of cigarette and tobacco products as well as cigarette manufacturers and importers. License revenues for 2005-06 totaled \$1.86 million. At the end of the fiscal year, registration totaled 49 manufacturers and importers, 635 cigarette and tobacco products distributors, 372 cigarette and tobacco products wholesalers, and 38,084 cigarette and tobacco products retailers. The Board's Investigations Division conducted compliance inspections at 11,084 of those businesses in 2005-06. 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 \$1.09 billion in 2005-06, including \$1.02 billion from cigarettes and \$67.35 million from other tobacco products. At the end of June 2006, 1,854 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. Consumption data is found in Appendix Table 30B, on [page A-43](#).

Diesel and Use Fuel Taxes

Combined revenues from diesel and use fuel taxes totaled \$550.81 million for 2005-06, including \$80.19 million from the interstate user tax.

Diesel fuel tax. There were 32,491 businesses and individuals registered for the diesel fuel tax program as of June 30, 2006. Most are registered for fuel tracking or refund purposes. One hundred and fifty diesel fuel suppliers paid more than 86 percent of the 2005-06 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 16,965 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 1,010 of these non-IFTA carriers registered as of June 30, 2006.

Use fuel tax. At the end of the fiscal year, 879 alternative fuel users and 181 fuel vendors were registered with the Board.

Electronic Waste Recycling Fee

Revenue from this new fee totaled \$78.32 million in 2005-06. As of June 30, 2006, 20,000 retailers of specified new or refurbished electronic equipment were registered for this program. The Board administers the program for the California Integrated Waste Management Board in cooperation with the Department of Toxic Substances Control.

Emergency Telephone Users Surcharge

Total revenues for 2005-06 were \$130.91 million. As of June 30, 2006, 453 telephone service suppliers and three consumers were registered with the Board.

Energy Resources Surcharge

Revenues totaled \$51.64 million in 2005-06. At the end of the fiscal year, program registrants included 87 electric utilities and 12 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 2005-06 and the number of businesses registered at the end of the fiscal year are shown below.

Activity fees. Revenue: \$714,000. 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: \$6.58 million; registered facilities: 10.

Environmental fee. Revenue: \$31.70 million; registered corporations: 42,581.

Facility fee. Revenue: \$4.75 million; registrants: 217 facilities.

Generator fee. Revenue: \$22.46 million; registrants: 6,578 fee payers with a total of 16,720 sites in the state.

Insurance Tax

Revenue from this tax, levied against insurance companies in lieu of most other California taxes, totaled \$2 billion for 2005 business. As of June 30, 2006, 1,939 insurance companies were registered to pay the tax and 452 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 \$61.17 million in 2005-06. As of June 30, 2006, 174 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 \$3 million for 2005-06. Registration totaled 3,039 as of June 30, 2006. 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 2005-06. There were 251 businesses registered in the program at the end of the fiscal year: 119 suppliers and 132 other accounts.

Aircraft jet fuel tax. Aircraft jet fuel tax collections for the year totaled \$3.12 million, based on the taxable sale or use of 153 million gallons of jet fuel. As of June 30, 2006, 218 jet fuel dealers were registered with the Board.

Natural Gas Surcharge

Surcharge revenue totaled \$346.17 million in 2005-06. As of June 30, 2006, ten public utility gas corporations and three consumers who purchase gas through interstate pipelines were registered for the program.

Occupational Lead Poisoning Prevention Fee

Total revenues for 2005-06 were \$3.09 million. At the end of the fiscal year, registration totaled 16,530 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 28 program registrants in 2005-06 because 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 2005-06 totaled \$28.76 million. The number of registrants for the program totaled 33 at the end of the fiscal year.

Underground Storage Tank Maintenance Fee

Revenues totaled \$241.57 million in 2005-06. As of June 30, 2006, 6,862 feepayers with 12,690 tank locations were registered for this program, which the Board administers in cooperation with the State Water Resources Control Board.

Water Rights Fee

Revenues totaled \$7.79 million in 2005-06. As of June 30, 2006, 13,517 feepayers were registered for this program, which is administered in cooperation with the State Water Resources Control Board.

Operations

Staff in the Board's Fuel Taxes Division and the Excise Taxes and Fees Division provide direct assistance to the businesses that pay special taxes and fees. The Board processed 293,816 special taxes program returns during the 2005-06 fiscal year, including 68,116 environmental programs returns, 99,193 excise tax returns, 75,238 electronic waste recycling fee returns, and 126,507 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 \$36.9 million in net tax and fee deficiencies. The audit staff also identified more than \$2.7 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.

Tax Evasion

Tax evasion makes up a large part of California's "underground economy." In fiscal year 2005-06 the Board's investigative program issued audit billings of \$46,332,663 related to cigarette and tobacco products tax evasion disclosed by the investigative staff.

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 non-compliance 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

The Board revitalized its efforts to identify out-of-state sellers of cigarettes who sell to California consumers through the mail or over the Internet. The out-of-state vendors are required by the federal Jenkins Act to report to this state's tobacco tax administrator information regarding these sales if the cigarette excise tax is not paid. California consumers who buy unstamped cigarettes in this manner are responsible for the excise and use tax on these purchases.

In California, it is illegal to sell cigarettes unless the brand is included in the Master Settlement Agreement list maintained by the State Attorney General. In 2005-06, the Board's investigative staff seized approximately 22,000 packs of product not on the list.

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 2005-06 appeals, see "Appeals," which begins on [page 55](#).

Court Decisions

Morning Star Granted Relief

The Morning Star Company sued the Board and the Department of Toxic Substances Control (Department) to obtain a refund for environmental fees paid by the company. The Court granted relief to Morning Star based on a procedural issue—that a Department determination in applying the fee amounted to a regulation under the Administrative Procedure Act (APA). The Supreme Court’s decision allows the collection of the environmental fee to continue. In granting relief, the Court directed the Superior Court to issue an order for the Department to comply with the APA. In the meantime, all proceedings are stayed. Once the Department’s compliance with the APA is complete, the Board is to re-decide Morning Star’s refund by reference to the new, formally adopted regulations the Department promulgates.

Morning Star Company v. State Board of Equalization (2006)
38 Cal.4th 324

Legislation

Covered Electronic Waste Recycling Fee; Vendors

Authorizes a retailer who leases electronic devices to consumers to choose to pay the covered electronic waste recycling fee to the vendor of those devices instead of collecting the fee from the consumers/lessees, if certain conditions are met.

Assembly Bill 575, Chapter 59, Statutes of 2005;
effective July 18, 2005

Wine Direct Shipper Permit

Allows any person who is currently licensed in this state or any other state as a winegrower and who obtains a wine direct shipper permit to sell and ship wine directly to a resident of California. The winegrower is allowed to ship wine directly to a resident of California who is at least 21 years of age for the resident’s personal use and not for resale.

Senate Bill 118, Chapter 157, Statutes of 2005;
effective January 1, 2006

Alcoholic Beverage Control Licensee Information

Requires the Alcoholic Beverage Control Board to transmit electronically to the Board quarterly reports on the alcoholic beverage licenses issued or transferred, as specified, at no cost.

Senate Bill 322, Chapter 172, Statutes of 2005;
effective January 1, 2006

Regulations

Cigarette Stamps

Regulation 4055, Where Purchased; Distributors' Discount, was amended to require that tax stamps be purchased by licensed distributors through stamp orders submitted to the Board. It also specifies that tax stamp orders must include the distributor's account number, name and address, the quantity of stamps for each denomination, order date, and signature of the authorized purchaser.

Title 18, California Code of Regulations, section 4055; effective March 11, 2006.

Regulation 4056, Units of Sales; Minimum Sales, was amended to reflect that cigarette stamps designated for packages containing 10 cigarettes, 20 cigarettes, and 25 cigarettes will be sold in rolls containing 1,200 or 30,000 stamps. And that stamps will be sold in full rolls only with the smallest sale being one roll.

Title 18, California Code of Regulations, section 4056; effective March 11, 2006.

A bartender in a lounge car offers a wide selection of refreshments. The lounge car was a big part of the first class travel experience, and made it easy to talk with other passengers.



Regulations (Continued)

**Cigarette Stamps
(Continued)**

Regulation 4057, Cash Sales of Tax Stamps or Meter Register Settings, was amended to provide that distributors desiring to purchase the new tax stamps must file an application to register the individual authorized to purchase cigarette stamps. The distributor shall identify, and authorize in writing, the individual(s) who may order stamps for this distributor's account and include the signature of the individual(s) authorized to submit the tax stamp order. A separate application is required for each individual(s) authorized to order cigarette tax stamps. In addition, the amendments reflect that the distributor's authorization for individual(s) to purchase stamps shall continue in effect until written notice of revocation of the authority is delivered to the Board by registered mail or until written acknowledgement of receipt of the revocation is given by the Board.

*Title 18, California Code of Regulations, section 4057;
effective March 11, 2006.*

Regulation 4058, Application for Credit Purchases, was amended to clarify requirements for distributors that may elect, under Revenue and Taxation Code section 30168, to make payments on a twice-monthly basis.

*Title 18, California Code of Regulations, section 4058;
effective March 11, 2006.*

Regulation 4059, Authorization for Credit Purchases, was amended to clarify that the distributor shall file an application to register the individual(s) authorized to order cigarette tax stamps on behalf of the distributor. The distributor shall identify and authorize in writing the individual(s) who may place orders to make purchases of tax stamps for this distributor's account and include the signature of the individual(s) authorized to submit cigarette tax stamp orders. If a distributor wishes to allow multiple individuals to submit orders, a separate application form shall be submitted for each individual. In addition, the distributor shall file an application to register the individual(s) authorized to order cigarette tax stamps on behalf of the distributor. The distributor shall identify and authorize in writing the individual(s) who may place orders to make purchases of tax stamps for this distributor's account and include the signature of the individual(s) authorized to submit cigarette tax stamp orders. If a distributor wishes to allow multiple individuals to submit orders, a separate application form shall be submitted for each individual.

*Title 18, California Code of Regulations, section 4059;
effective March 11, 2006.*

Regulations (Continued)

**Cigarette Stamps
(Continued)**

Regulation 4060, Payment for Credit Purchases, was amended to reflect that payment for all deferred purchases of tax stamps or meter register settings made during each calendar month must be made to the Board or the Board's designee by the 25th day of the calendar month following the month in which the purchases were made.

*Title 18, California Code of Regulations, section 4060;
effective March 11, 2006.*

Regulation 4061, Unused Stamps and Unused Meter Settings, was amended to define and describe the criteria for when the new tax stamp, designed in accordance with the provisions of Revenue and Taxation Code section 30162, will qualify as an unused stamp.

*Title 18, California Code of Regulations, section 4061;
effective March 11, 2006.*