



## W. Harbor Boulevard

Located on W. Harbor Boulevard, the award-winning San Diego Convention Center opened in 1989 and serves as a hub for regional, national, and international trade shows and conventions.





## SPECIAL TAXES AND FEES

In 2006-07, the BOE 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 BOE administers more than half of the special taxes programs in cooperation with other state agencies.

### Revenues

BOE-administered special taxes program revenues totaled \$8.0 billion in 2006-07, an increase of 0.9 percent from 2005-06 total revenues of \$7.93 billion. Fuel taxes totaled \$3.42 billion, while alcohol and tobacco taxes totaled \$1.42 billion.

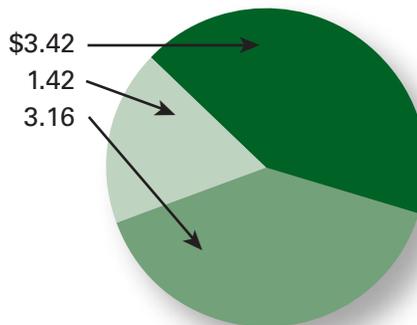
Revenue information for each program is found in the next section of this chapter and in the [foldout chart](#) inside the back cover.

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#### 2006-07 Special Taxes and Fees Revenues

*Billions of dollars*

Fuel taxes	\$3.42
Alcohol and tobacco	1.42
Other special taxes	3.16



## Programs

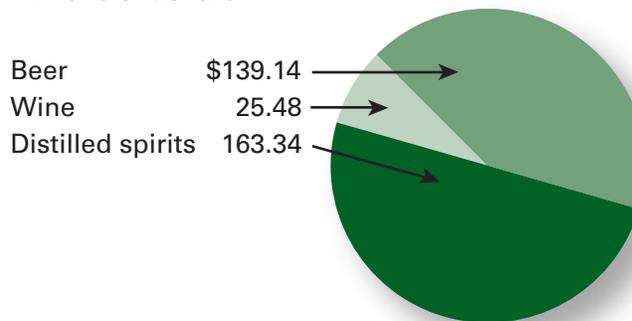
This section includes information regarding program revenue, significant program highlights, and the number of program registrants. More detailed information regarding individual tax and fee programs is found in the [foldout tax chart](#) inside the back cover of this report. The chart includes information 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 \$333.8 million in 2006-07, a 4.0 percent increase from 2005-06. Program registrants numbered 4,766 at the end of the fiscal year.

#### 2006-07 Alcoholic Beverage Tax Revenue

*Millions of dollars*



### California Tire Fee

Revenues totaled \$58.5 million in 2006-07. At fiscal year end, 12,733 businesses were registered for the program that the BOE administers in cooperation with the California Integrated Waste Management Board.

### Childhood Lead Poisoning Prevention Fee

In 2006-07, fee collections totaled \$9.31 million. At the end of the fiscal year, 921 feepayers were registered for the program. The BOE administers this fee in cooperation with the Department of Health Services.

### Cigarette and Tobacco Products Licensing Program

This program requires statewide licensing of all manufacturers, importers, distributors, wholesalers, and retailers of cigarette and tobacco products.

License revenues for 2006-07 totaled \$2.18 million. During the fiscal year, the Excise Taxes Division issued licenses to 92 manufacturers and importers, 646 distributors, 438 wholesalers, and 37,995 retailers. The division also processed 1,161 citations; and conducted 206 appeal hearings. BOE's Investigations Division conducted compliance inspections at 10,130 of those businesses in 2006-07. BOE 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 \$1.08 billion in 2006-07, including \$1.02 billion from cigarettes and \$79.9 million from other tobacco products. These taxes are collected from cigarette and tobacco products distributors. At the end of June 2007, 1,846 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 30 on [page A-43](#).

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

Combined revenues from diesel and use fuel taxes totaled \$574.9 million for 2006-07, including \$81.2 million from the interstate user tax.

**Diesel fuel tax.** There were 32,683 businesses and individuals registered for the diesel fuel tax program as of June 30, 2007. Most are registered for fuel tracking or refund purposes. One hundred and ninety-two (192) diesel fuel suppliers paid more than 85 percent of the 2006-07 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 18,536 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 1,089 of these non-IFTA carriers registered as of June 30, 2007.

**Use fuel tax.** At the end of the fiscal year, 849 alternative fuel users and 188 fuel vendors were registered with the BOE.

### **Electronic Waste Recycling Fee**

Revenue totaled \$79.3 million in 2006-07. As of June 30, 2007, 18,362 retailers of specified new or refurbished electronic equipment were registered for this program. These retailers sell Covered Electronic Devices (CEDs) that are subject to the fee. BOE 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 2006-07 were \$112.2 million. As of June 30, 2007, 451 telephone service suppliers were registered with the BOE.

### **Energy Resources Surcharge**

Revenues totaled \$56.4 million in 2006-07. At the end of the fiscal year, program registrants included 86 electric utilities and 12 consumers.

### **Hazardous Substances Tax**

The BOE administers five hazardous waste fee programs in cooperation with the Department of Toxic Substances Control. Fee revenues for 2006-07 and the number of businesses registered at the end of the fiscal year are shown below.

**Activity fees.** Revenue: \$719,000. Entities pay the fees based on permit applications and modifications and other applications. They are not required to be registered with the BOE on an ongoing basis.

**Disposal fee.** Revenue: \$6.63 million; registered facilities: 10.

**Environmental fee.** Revenue: \$33.09 million; registered organizations: 42,580.

**Facility fee.** Revenue: \$4.78 million; registrants: 207 facilities.

**Generator fee.** Revenue: \$22.63 million; registrants: 6,513 fee payers with a total of 16,800 sites in the state.

### **Insurance Tax**

Revenue from this tax, levied against insurance companies in lieu of most other California taxes, totaled \$1.98 billion for 2006 business. As of June 30, 2007, 1,958 insurance companies were registered to pay the tax and 476 surplus line brokers were registered for administrative purposes. The BOE, the State Controller's Office, and the Department of Insurance share administrative responsibilities.

### **Integrated Waste Management Fee**

Revenues totaled \$57.61 million in 2006-07. As of June 30, 2007, 204 facilities were registered for the program, which is jointly administered by the BOE and the California Integrated Waste Management Board.

### **Marine Invasive Species Fee**

Revenue for this program, administered in cooperation with the State Lands Commission, totaled \$2.79 million for 2006-07. Registration totaled 2,681 as of June 30, 2007. 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 \$2.85 billion for 2006-07. There were 252 businesses registered in the program at the end of the fiscal year: 121 suppliers and 131 other accounts.

**Aircraft jet fuel tax.** Aircraft jet fuel tax collections for the year totaled \$3.04 million, based on the taxable sale or use of 150 million gallons of jet fuel. As of June 30, 2007, 227 jet fuel dealers were registered with BOE.

### **Natural Gas Surcharge**

Surcharge revenue totaled \$440.4 million in 2006-07. As of June 30, 2007, eight 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 2006-07 were \$3.13 million. At the end of the fiscal year, 16,344 feepayers were registered for this program. BOE 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 29 program registrants in 2006-07 because the Oil Spill Response Trust Fund reached its maximum \$50 million level in 1991-92. BOE administers the fee in cooperation with the Department of Fish and Game.

**Oil spill prevention and administration fee.** Revenues for 2006-07 totaled \$28.1 million. The number of registrants for the program totaled 34 at the end of the fiscal year.

### **Underground Storage Tank Maintenance Fee**

Revenues totaled \$251.1 million in 2006-07. As of June 30, 2007, 7,016 feepayers with 12,423 tank locations were registered for this program, which BOE administers in cooperation with the State Water Resources Control Board.

### **Water Rights Fee**

Revenues totaled \$7.72 million in 2006-07. As of June 30, 2007, 13,377 feepayers were registered for this program, which is administered in cooperation with the State Water Resources Control Board.

### **Operations**

Staff in the BOE's Fuel Taxes Division, the Excise Taxes Division, and the Environmental Fees Division provide direct assistance to the businesses that pay special taxes and fees. The BOE processed 436,315 special taxes program returns during the 2006-07 fiscal year, including 165,926 environmental fee returns, 126,799 excise tax returns, and 143,590 fuel tax returns.

### **Audits**

Staff in the Fuel Taxes Division, the Excise Taxes Division, and the Environmental Fees Division have the primary responsibility for auditing special taxes program accounts. This year, special taxes audits revealed more than \$14.2 million in net tax and fee deficiencies. The audit staff also identified more than \$1.6 million in refunds due.

### **Compliance Activities**

BOE 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 personnel 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 2006-07, BOE's investigative program issued audit billings of \$13,050,072 related to cigarette and tobacco products tax evasion disclosed by the investigative staff.

### Fuel Tax Compliance

BOE 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. BOE 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

BOE continued 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 on the Tobacco Directory maintained by the Office of the State Attorney General. In 2006-07, 32.7 percent of seizures contained product not listed on the Tobacco Directory, a drop of approximately 9 percent from the prior fiscal year.



*The Pacific Coast Highway between San Francisco and Los Angeles offers some of California's finest views: sea cliffs, surf, sandy coves, wildlife, and historic towns.*

## Legislation

### **Expansion of the Environmental Fee**

Expands the environmental fee to include other types of business organizations besides corporations, including limited liability companies, limited partnerships, limited liability partnerships, general partnerships, and sole proprietorships. Also clarifies the change will first apply at the beginning of the 2007 calendar year.

*Assembly Bill 1803, Chapter 77, Statutes of 2006;  
effective July 18, 2006*

*Assembly Bill 1813, Chapter 344, Statutes of 2006;  
effective September 20, 2006*

### **Tire Recycling Fee**

Repeals the reduction of the tire fee to \$1.50 and sets the fee at \$1.75 per tire until January 1, 2015.

*Assembly Bill 1803, Chapter 77, Statutes of 2006;  
effective July 18, 2006*

### **Marine Invasive Species Act**

Makes the Marine Invasive Species Act permanent by deleting the repeal date of January 1, 2010.

*Senate Bill 497, Chapter 292, Statutes of 2006;  
effective January 1, 2007*

### **Payment Deferral for Cigarette Stamp and Meter Register Settings**

Indefinitely extends a cigarette distributor's twice-monthly deferred payment option for amounts owed for stamps and meter register settings purchased on a deferred basis by deleting the January 1, 2007 repeal date. Also extends the corresponding reduced security amount.

*Assembly Bill 2001, Chapter 70, Statutes of 2006;  
effective January 1, 2007*

## Regulations

### **Motor Vehicle Fuel Tax Two-Party Exchange**

Regulation 1123, *Supplier*, was amended to clarify that the delivering supplier, under a two-party exchange remains primarily liable for the motor vehicle fuel tax due on removal of motor vehicle fuel from the terminal rack if the requirements for a two-party exchange pursuant to Regulation 1125 are not met.

*Title 18, California Code of Regulations, section 1123;  
effective October 8, 2006*

Regulation 1125, *Two-Party Exchange*, was added to provide a general description of a two-party exchange and the reasons for a two-party exchange; to explain the conditions that must be met in order to relieve the delivering supplier of the motor vehicle fuel tax liability; and to explain the reporting requirements of the terminal operator, delivering supplier, and receiving supplier.

*Title 18, California Code of Regulations, section 1125;  
effective October 8, 2006*

### **Diesel Fuel Tax Two-Party Exchange**

Regulation 1420, *Supplier*, was amended to clarify that the delivering supplier, under a two-party exchange remains primarily liable for the diesel fuel tax due on removal of diesel fuel from the terminal rack if the requirements for a two-party exchange pursuant to Regulation 1423 are not met.

*Title 18, California Code of Regulations, section 1420;  
effective October 8, 2006*

Regulation 1423, *Two-Party Exchange*, was added to provide a general description of a two-party exchange and the reasons for a two-party exchange; to explain the conditions that must be met in order to relieve the delivering supplier of the diesel fuel tax liability; and to explain the reporting requirements of the terminal operator, delivering supplier, and receiving supplier.

*Title 18, California Code of Regulations, section 1423;  
effective October 8, 2006*

### **Cigarette and Tobacco Products Licensing Act of 2003**

Regulation 4500, *Definitions*, was added to provide additional definitions to clarify the BOE's implementation of the Cigarette and Tobacco Products Licensing Act of 2003 (Act).

*Title 18, California Code of Regulations, section 4500;  
effective April 21, 2007*

## Regulations (Continued)

**Cigarette  
and Tobacco  
Products  
Licensing Act  
of 2003**  
(Continued)

Regulation 4501, *Citations*, was added to clarify that the BOE's Investigations Division may issue a civil or criminal citation to a licensee or unlicensed person if the licensee or unlicensed person is determined to be in violation of any provision of the Act and to set out requirements for the content and service of civil and criminal citations.

*Title 18, California Code of Regulations, section 4501;  
effective April 21, 2007*

Regulation 4502, *Denial of License*, was added to provide a description of the circumstances under which an applicant may not be issued a new license.

*Title 18, California Code of Regulations, section 4502;  
effective April 21, 2007*

Regulation 4503, *Issuance of License – Transfer of Business*, was added to clarify that, when purchasing a business that has a license subject to a civil or criminal citation, a new license will be issued if the applicant acquired the business pursuant to an arm's length transaction after the violations contained in the citation were committed.

*Title 18, California Code of Regulations, section 4503;  
effective April 21, 2007*

Regulation 4504, *Determination of Arm's Length Transaction*, was added to clarify that the BOE's Excise Taxes Division will determine if a business was acquired pursuant to an arm's length transaction, according to the criteria set out in Regulations 4505 and 4506.

*Title 18, California Code of Regulations, section 4504;  
effective April 21, 2007*

Regulation 4505, *Transfers or Sales Between Related Parties*, was added to define related parties with respect to a transfer of a business between related parties that is presumed to be not at arm's length, and to explain that this presumption may only be rebutted by clear and convincing evidence to the contrary and that the purchaser has the burden of proof.

*Title 18, California Code of Regulations, section 4505;  
effective April 21, 2007*

**Cigarette  
and Tobacco  
Products  
Licensing Act  
of 2003**

(Continued)

Regulation 4506, *Evidence of a Non-arm's Length Transaction*, was added to provide a description of the type of evidence that shows that a transfer of a business was a non-arm's length transaction.

*Title 18, California Code of Regulations, section 4506;  
effective April 21, 2007*

Regulation 4507, *Request for Information and Records*, was added to explain that the parties to a transfer or sale of a business where the license has been suspended, revoked, or is subject to civil or criminal citation must provide all relevant information on the transfer or sale to the BOE's Excise Taxes Division.

*Title 18, California Code of Regulations, section 4507;  
effective April 21, 2007*

Regulation 4508, *Appeal – Denial of License*, was added to describe the process by which an applicant may appeal a determination by the BOE's Excise Taxes Division that a new license should not be issued pursuant to Regulation 4503.

*Title 18, California Code of Regulations, section 4508;  
effective April 21, 2007*

Regulation 4509, *Non-Arm's Length Transfer – Sales*, was added to explain that, if it is determined that transfer of a business with a suspended or revoked license was not at arm's length, the BOE's Investigations Division may issue a citation for violation of Business and Professions Code section 22980.2, subdivision (c), if the business is found selling cigarettes or tobacco products without a license or after notification that the license was suspended or revoked.

*Title 18, California Code of Regulations, section 4509;  
effective April 21, 2007*

Regulation 4600, *Issuance and Contents of a Notice of Violation or Warning Notice*, was added to require that the BOE's Investigations Division forward to the Excise Taxes Division a copy of a citation that it has issued, and that the Excise Taxes Division must prepare and mail a notice to the cited licensee or unlicensed person.

*Title 18, California Code of Regulations, section 4600;  
effective April 21, 2007*

Regulation 4601, *Service of a Notice of Violation or Warning Notice*, was added to describe the procedures for serving a notice on a licensee or unlicensed person.

*Title 18, California Code of Regulations, section 4601;  
effective April 21, 2007*