California State Board of Equalization, Legislative Division

LEGISLATIVE BULLETIN

SALES AND USE TAX LEGISLATION
2000
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This measure authorizes the City of Sebastopol, subject to two-thirds voter approval, to levy a transactions and use tax at a rate of 1/8 percent for general revenue purposes.

Sponsor: City of Sebastopol

Law Prior to Amendment:

The Bradley-Burns Uniform Local Sales and Use Tax Law (commencing with Section 7200 of the Revenue and Taxation Code) authorizes counties to impose a local sales and use tax. The rate of tax is fixed at 1 1/4 percent of the sales price of tangible personal property sold at retail in the county, or purchased outside the county for use in the county. All counties within California have adopted ordinances under the terms of the Bradley-Burns Law and levy the 1 1/4 percent local tax.

Under this Bradley-Burns Uniform Local Sales and Use Tax Law, the 1/4 percent tax rate is earmarked for county transportation purposes, and 1 percent may be used for general purposes. Cities are authorized to impose a sales and use tax rate of up to 1 percent, which is credited against the county rate so that the combined local tax rate under the Bradley-Burns Law does not exceed 1 1/4 percent.

Under the existing Transactions and Use Tax Law (commencing with Section 7251 of the Revenue and Taxation Code), counties are additionally authorized to impose a transactions and use tax rate of 1/4 percent, or multiple thereof, if the ordinance imposing that tax is approved by the voters. Under this law, the maximum allowable rate of transactions and use taxes levied by any district may not exceed 1 1/2 percent, with the exception of San Francisco and San Mateo, whose combined rates may not exceed 1 3/4 and 2 percent, respectively.

Section 7285 of the Transactions and Use Tax Law additionally allows counties to levy a transactions and use tax rate of 1/4 percent, or multiple thereof, for general purposes with the approval of a majority of the voters. Section 7285.5 permits a county to form a special purpose authority which may levy a transactions and use tax at the rate of either 1/4 or 1/2 percent, with majority voter approval. Section 7288.1 also allows counties to establish a Local Public Finance Authority to adopt an ordinance to impose a transactions and use tax rate of 1/4 or 1/2 percent for purposes of funding drug abuse prevention, crime prevention, health care services, and public education upon majority voter approval. (Board legal staff have taken the position that a special purpose
authority may only impose a transactions and use tax if the authority meets the requirements of the section but obtains approval of two-thirds votes rather than a majority vote of the qualified electors of the authority.) Finally, Section 7286.59 allows counties to levy a transactions and use tax rate of 1/8 or 1/4 percent for purposes of funding public libraries, upon two-thirds voter approval.

In addition to county authorization to levy a tax, through specific legislation, some cities have received authorization to impose a transactions and use tax. The following cities are so authorized: Avalon, Calexico, Clearlake, Clovis, Fort Bragg, Fresno (and its sphere of influence), Lakeport, Madera, North Lake Tahoe (within boundaries established in legislation), Placerville, Truckee, Woodland, and the town of Yucca Valley (the cities of Calexico, Clearlake, Placerville, Truckee, and Woodland are currently imposing a tax). Fresno had imposed a tax for the period 7/1/93 through 3/21/96, however, this tax ceased to be operative, as it was declared unconstitutional in Howard Jarvis Taxpayers’ Association v. Fresno Metropolitan Projects Authority (1995) 40 Cal.App.4th 1359, mod.(1996) 41 Cal.App.4th 1523a.

The City of Sebastopol is located in Sonoma county, which imposes a 1/4 percent countywide transactions and use tax for open space. Under the Bradley-Burns Law, Sebastopol imposes a sales and use tax rate of .975 percent, which is credited against Sonoma County’s one percent rate. The combined state and local tax rate in Sonoma County is 7 1/2 percent. Effective January 1, 2001, that rate and the rates in all local jurisdictions statewide, will be reduced by ¼ percent, as required by Revenue and Taxation Code Section 6051.4, because state reserves exceeded four percent of general fund revenues in two consecutive years.

The Board performs all functions in the administration and operations of the ordinances imposing the Bradley-Burns Uniform Local Sales and Use Tax and the Transactions and Use Taxes and all local jurisdictions imposing these local taxes are required to contract with the Board for administration of these taxes.

In General:

Many special districts in California impose an additional tax that is administered by the Board. These taxes are commonly referred to as transactions and use taxes. In Sacramento County, for example, a transactions and use tax of 1/2 percent is levied by the Sacramento County Transportation Authority for purposes of funding transportation projects. The first special tax district of this sort was created in 1970 when voters approved the San Francisco Bay Area Rapid Transit District to pay for bonds and notes issued for construction of the BART system. The tax rate in these special taxing districts varies from district to district. Currently, the County of Stanislaus imposes the lowest transactions and use tax rate of 1/8 of one percent. San Francisco City and County has the highest transactions and use tax rate of 1 1/4 percent. The remaining districts impose rates in between these ranges.
There have been several bills in prior years that would authorize cities to impose transactions and use taxes. The Board is generally opposed to extending this authorization to cities, arguing that multiple rates covering multiple jurisdictions within a single county make record-keeping for retailers more complex, resulting in a larger margin of error. During the 1997-98 Legislative Session, the Board voted to oppose SB 355 (Monteith), which allows the city of Madera to levy a 1/4 percent sales tax for public safety services; AB 1472 (Thomson), which allows the City of Woodland to impose a transactions and use tax rate of 1/4 or 1/2 percent, upon voter approval, for general revenue purposes; SB 1424 (Maddy) which allows the City of Clovis to levy a 0.3 percent sales tax for police and fire facilities; and SB 781 (Maddy) which allows the City of Placerville to levy a 1/8 or 1/4 percent sales tax for police services. The Board was also opposed to AB 1371 (Granlund) in 1999, which allows the Town of Yucca Valley to levy a ¼ percent tax, or multiple thereof, for transportation and the town’s parks. However, the Governor signed those bills: SB 355 (Chapter 409), AB 1472 (Chapter 712), SB 1424 (Chapter 158), SB 781 (Chapter 234), and AB 1371 (Chapter 110).

**Comments:**

1. **Purpose.** To enable the City of Sebastopol to raise additional revenues for general purposes.

2. **Proliferation of locally-imposed taxes creates problems.** In 1955, the Bradley-Burns Uniform Local Sales and Use Tax Law was enacted in an effort to put an end to the problems associated with differences in the amount of sales tax levied among the various communities of the state. The varying rates between cities prior to the enactment of this uniform law created a very difficult situation for retailers, confused consumers, and created fiscal problems for the cities and counties. The retailer was faced with many situations that complicated tax collection, reporting, auditing, and accounting. Because of the differences in taxes between areas, the retailer was affected competitively. Many retailers advertised "no city sales tax if you buy in this area." This factor distorted what would otherwise have been logical economic advantages or disadvantages. With the enactment of the Bradley-Burns Law, costs to the retailer were reduced, and illogical competitive situations were corrected.

The Transactions and Use Tax Law is becoming as complicated as the local tax laws were before the enactment of the Bradley-Burns Law, and retailers and consumers are again experiencing the confusion caused by varying tax rates in varying communities. Prior to 1991, all districts imposing a transactions and use tax had boundaries equal to their respective county lines. In 1991, legislation was enacted for the first time to allow a city to impose a transactions and use tax. That city was Calexico. With the enactment of this measure, fourteen cities have now gained such authorization. The proliferation of tax rates dependent on the area in which the sale is made compounds compliance problems for retailers doing business in several
districts and makes record-keeping more complex, resulting in a larger margin of error and increased Board administrative costs.

3. **Legislature should consider revising the Transactions and Use Tax Law to parallel the Uniform Local Tax Law.** There are over 470 cities in California. As more cities gain authorization to levy their own local taxes, the administration of these taxes becomes exceedingly complicated. Considering the increasing number of measures approved by the Legislature authorizing cities to impose transactions and use taxes, strong consideration should be given to revising the Transactions and Use Tax Law so that its provisions parallel the Bradley-Burns Uniform Local Sales and Use Tax Law. In that way, all taxable sales attributable to a retailer located within that special taxing district would be subject to the district tax, regardless of where the property is delivered (unlike the state and Bradley-Burns uniform local sales and use tax, the transactions tax does not apply to gross receipts from the sale of property to be used outside the district when the property is shipped to a point outside the district). This would minimize the problems associated with districts that are not coterminous with county boundaries. However, retailers in varying communities with various tax rates could continue to be affected competitively.

4. **It may not be cost effective for some cities to impose a transactions and use tax.** The Board’s total administrative costs are driven by the workload involved in processing returns, and are relatively fixed. The cost of administering these taxes is not related to the revenue generated by the tax. However, the ratio of such costs to the amount of revenue generated by a tax varies widely. Therefore, if the tax rate or volume is very low, the ratio will be high. Revenue and Taxation Code Section 7273, as amended by Chapter 890, Statutes of 1998 (AB 836, Sweeney, et al.) and again by Chapter 865, Statutes of 1999 (SB 1302, Rev & Tax Committee) requires the Board to cap administrative costs based on the lessor of the ratio during the first year the tax is in effect, or a predetermined amount based on the tax rate and applied to the revenues generated in the taxing jurisdiction.
Assembly Bill 330 (Floyd & Lewis) Chapter 617
“Engaged in business in this state” – convention and trade show activities


This bill provides that a retailer would not be regarded as a “retailer engaged in business in this state” if that retailer’s sole physical presence in this state is to engage in convention and trade show activities for not more than 15 days in this state during any 12-month period, and the retailer did not derive more than $100,000 of net income from those activities in this state during the prior calendar year.

Sponsor: Industry Council for Tangible Assets

Law Prior to Amendment:

Existing law, Section 6051 of the Sales and Use Tax Law, provides that retail sales of tangible personal property in California are subject to sales tax, measured by gross receipts, unless specifically exempt by statute. When sales tax does not apply, such as when sales take place outside of California, the use tax, measured by the sales price of the property sold, applies to the use of property purchased from a retailer for storage, use, or other consumption in California. Although the purchaser owes the use tax, Section 6203 currently provides that a retailer engaged in business in this state is required to collect the use tax from the purchaser and pay it to the state.

Section 6203 defines “retailer engaged in business in this state” for purposes of the Sales and Use Tax Law to include, among other activities, any retailer having any representative, agent, salesperson, canvasser, independent contractor, or solicitor operating in this state under the authority of the retailer or its subsidiary for the purpose of selling, delivering, installing, assembling, or the taking of orders for any tangible personal property. However, under the provisions of Section 6203, a retailer is not regarded as engaged in business in this state if that retailer’s sole physical presence in California is to engage in convention and trade show activities for not more than 7 days during a 12-month period, and the retailer did not derive more than $10,000 of gross income from those activities during the prior year. The law provides, however, that the retailer is liable for tax on any sales occurring at the show, or pursuant to an order taken at the show.
Background:
The provisions of Section 6203 relating to trade and convention show activities were added by AB 258 (Floyd & Lewis), Chapter 621, Statutes of 1997. The Board had taken a “neutral” position on that measure.

Prior to the enactment of AB 258, the Board relied upon former subdivision (b) of Section 6203 (now subdivision (c)(2)) to determine whether a trade show participant in California would be regarded as a “retailer engaged in business in this state.” At that time, a participant would have been regarded as engaged in business in this state (and thus liable for tax on all sales to California consumers whether at the show or subsequent to the show) even if he or she attended a single show and even if the participant made no actual sales at the show, but just demonstrated the products.

A similar measure which addressed this issue for purposes of the Bank and Corporation Tax Law was enacted in the 1996 Legislative Session (SB 1550, Lewis, Ch. 286). That measure added Section 23104 to the law to provide that any corporation that is not incorporated in California and whose sole activity in this state is engaging in similar convention and trade show activities in this state for 7 or fewer days during the year and that does not derive more than $10,000 of reportable gross income to this state from those activities is not a corporation doing business in this state for purposes of the franchise tax (the franchise tax is not a tax on income, but rather, it is measured by net income for the privilege of doing business in this state. The tax rate is currently 9.3 percent of net income, or the minimum franchise tax of $800, whichever is greater). The corporation is still, however, subject to corporation income tax, also set at 9.3 percent.

Comments:
1. Purpose. The seven-day limit in current law falls short of providing exhibitors with adequate opportunities to participate in conventions and trade shows in California without being regarded as engaged in business in this state. The author’s office notes that California is losing additional business activity, as it is uneconomical for exhibitors to participate in these trade shows when the tax burden is excessive.

2. The bill increases the number of days that a convention or trade show participant can engage in activities in California. This bill enables a person to engage in convention and trade show activities for 15 or fewer days, rather than the 12 or fewer days provision contained in the previous version, before being regarded as engaged in business in California. According to the author’s office, the 12-day limitation period would not have assisted some participants of coin shows, as these shows typically last for a 7-day period, and generally occur twice a year.

3. Should there be a separate standard between the Bank and Corporation Tax Law and the Sales and Use Tax Law for what is considered “engaged in business in this state” and “doing business in this state”? Under Section 23104 of the Bank and Corporation Tax Law, corporations engaging in convention and trade show activities for 7 or fewer days and that do not derive more than $10,000 of gross
income reportable to this state from those activities during that income year are not considered doing business in California for purposes of the Bank and Corporation Tax Law and are thus, no longer required to register with the Secretary of State or pay the $800 minimum franchise tax. This bill, on the other hand, regards these same corporations, as well as others, as not engaged in business in this state for purposes of the Sales and Use Tax Law when they engage in convention and trade show activities for 15 or fewer days and derive no more than $100,000 or more in net income during the prior calendar year. The rationale for separate standards between these tax laws is unclear.

4. **The burden of proof in meeting the criteria for the net income threshold should be placed onto the retailer.** In order for the Board to properly administer the provisions related to the net income threshold, the Board staff recommended that the bill incorporate a provision that places the burden onto the retailer to establish that he or she did not derive more than $100,000 in net income. This would have eliminated the necessity of sales and use tax auditors having to become experts in the income tax laws for purposes of determining what constitutes “net income.”
This bill, among other things, provides a 5 percent state General Fund sales and use tax exemption beginning January 1, 2001, for purchases of tangible personal property, as defined, by eligible entities, as determined by the California Infrastructure and Economic Development Bank (CIEDB) board within the Trade and Commerce Agency. The bill requires the CIEDB board to develop a program to determine who is eligible to receive the partial exemption, monitor entities for compliance with the requirements of the exemption, and notify the Board of Equalization of any entities that have not fulfilled the requirements of the exemption. The exemption will expire on January 1, 2006.

The bill, among other things, defines “eligible entity” as one that complies with all of the following:

- The entity locates or expands a business in a California county with an average annual unemployment rate 5 percentage points or more above the statewide average, as specified.
- The entity makes a new investment of at least $150 million in the county and maintains that level of investment for at least 24 months after the CIEDB board certifies that the entity is eligible.
- The entity employs at least 175 new full-time employees and at least 500 employees must be directly or indirectly employed within the county for a period of 24 months after the CIEDB board certifies that the entity is eligible.

The bill defines “tangible personal property” to mean machinery and equipment, including component parts, and specifies that “tangible personal property” does not include property used in administration, general management, or marketing; furniture, inventory, or equipment used to store products; or any property for which an income tax credit is claimed under Sections 17053.49 or 23649 of the Revenue and Taxation Code.

The bill specifies that, notwithstanding the three-year statute of limitations in the Sales and Use Tax Law, if the Board of Equalization is notified by the CIEDB board
that an entity has not fulfilled the requirements of the exemption, the Board shall, within one year of that notification, examine the books and records of the entity, and issue a determination of any liabilities due.

Sponsor: Senate Legislative leadership

Law Prior to Amendment:

Under existing law, the sales or use tax applies to the sale or use of tangible personal property in this state, unless otherwise exempted or excluded by statute. Under the law, a base state and local sales and use tax rate of 7 ¼ percent is imposed as noted below:

- 5 percent state tax allocated to the state’s General Fund (Section 6051, 6051.3, 6201 and 6201.3).
- 1/2 percent state tax allocated to the Local Revenue Fund which is dedicated to local governments for program realignment (Section 6051.2 and 6201.2).
- 1/2 percent state tax allocated to the Local Public Safety Fund which is dedicated to local governments to fund public safety services (Sec. 35 of Article XIII of the California Constitution).
- 1 1/4 percent Bradley-Burns Uniform Local Sales and Use Tax which is allocated to cities and counties (Part 1.5, commencing with Section 7200).

In addition, the law authorizes a 1/8 to 1 1/4 percent Transactions and Use Tax which is allocated to special taxing jurisdictions in various counties and cities within the state (Part 1.6, commencing with Section 7252).

Under Section 6377 of the Sales and Use Tax Law, a 5 percent sales and use tax exemption is extended to purchases of tangible personal property, as specified, by new manufacturing businesses for use in the course of their manufacturing or research activities. A similar 5 percent sales and use tax exemption is also available for purchases of tangible personal property, as defined, by establishments primarily engaged in teleproduction and post production activities.

Comments:

1. Purpose. To encourage investment in rural counties having higher unemployment rates.

2. Bill does not appear to be problematic to administer. Since the CIEDB board will be responsible for determining the eligibility of the exemption and monitoring entities for compliance with the requirements of the exemption, the impact on this Board should be minimal.

This bill does the following:

- Allows entities affiliated with a retailer to claim a bad debt deduction on accounts found worthless that the retailer originally reported as taxable sales on the retailer’s sales and use tax returns.
- Allows a lender, as described, or a retailer, to make an election, as specified, to claim a bad debt deduction or refund for accounts that were reported as taxable by the retailer but subsequently found to be worthless.
- Specifies that the contract between the retailer and the lender contain an irrevocable relinquishment of all rights to the account from the retailer to the lender.
- Requires the party making the election to claim the deduction or refund to file a claim in a manner prescribed by the Board.
- Specifies that if the retailer claimed the bad debt deduction, and collects in whole or in part any account, the retailer shall report that amount on its next sales and use tax return.
- Specifies that if the lender claimed a refund or deduction, and collects in whole or in part any account, the lender shall pay the tax in accordance with Section 6451.

Sponsors: GE Capital Corporation
California Retailers Association

Law Prior to Amendment:

Under existing law, all retailers are required to report their sales tax liability on an accrual basis. Sections 6055 and 6203.5 of the Sales and Use Tax Law, however, relieve a retailer from the liability for sales or use tax on transactions that were reported on a retailer’s sales tax return but which were subsequently found to be worthless and written off for income tax purposes. If a retailer is not required to file income tax returns, the law allows a bad debt deduction if the amount has been charged off in accordance with generally accepted accounting principles. The law specifies that if a retailer subsequently collects any amounts for which a bad debt deduction is claimed, the amount so collected is required to be reported and paid to the Board on the first return subsequently filed with the Board.
**In General:**

Businesses involved with credit sales often sell their receivables or use “private label credit cards.” Accounts receivable can be sold with recourse or without recourse. “With recourse” means the purchaser of the debt may give the debt back to, or has recourse against, the retailer if the debt cannot be collected. Generally, sellers selling accounts with recourse receive a better price for these accounts receivable than accounts sold without recourse because there is less risk to the purchaser. Accounts receivable sold with recourse and later returned to a retailer are allowable as a bad debt deduction to the retailer for any portion of the loss on the sale which represents a previously reported taxable sale.

Accounts sold “without recourse” are debts in which the purchaser of the accounts receivable (assignee) accepts all the risks for collecting the debt and cannot return the debt to the seller. The sale of the debt is a separate financial arrangement between a retailer and an assignee, and the Sales and Use Tax Law does not recognize any accounts subsequently not collected by the assignee as amounts qualifying as “bad debts” of the retailer. In other words, since the retailer sells the debt and does not suffer any losses by virtue of nonpayment by the customer to the assignee, there can be no bad debt deduction claimed by the retailer, even if the customer fails to pay the full amount due to the assignee. Further, an assignee of an account is not entitled to a bad debt deduction for amounts uncollected because the assignee was not involved in the retail sales transaction.

This is true in cases where a retailer uses a “private label credit card.” Private label credit cards generally are credit cards in which a financing company extends credit to the customers of a retailer, with the name of the retailer shown on the face of the card. The financing company mails statements, collects the payments, finances and owns the receivables, and suffers any losses in the collection processes. Under current law, the retailer is not be entitled to claim a bad debt deduction when an account is determined to be worthless by the financing company.

**Background:**

A similar measure was considered in the 1997-98 Legislative Session. That measure, AB 1229 (Migden) was held in the Senate Appropriations Committee. The Board voted to support AB 1229.

**Comments:**

1. **Purpose.** To correct the current competitive disadvantage for those retailers who sell their receivables without recourse or who use private label credit cards. Since the selling price of the accounts includes the sales tax, a lender’s or assignee’s loss on nonrecourse debt is, on average, 7.89% higher than the loss to a retailer, who can at least recoup the sales tax through a deduction or a refund of the sales tax on those accounts found to be worthless. This measure is intended to allow a lender to obtain
a refund of sales and use tax on uncollectible accounts, if the contract between the retailer and lender so provides. This effectively reduces the lender’s bad debt losses by an average of 7.89%, which would, in turn, allow the retailer to either obtain a higher selling price for the nonrecourse debt it sells, or incur a lower cost in using a private label credit card system.

2. **Reasoning behind current bad debt provisions.** For the privilege of selling tangible personal property at retail, current law imposes a tax upon a retailer. The retailer is responsible for reporting and paying the retail sales tax. Current law allows a retailer to claim a bad debt deduction for previously reported taxable sales if he or she does not receive total compensation for the retail sale transaction. If a retailer only collected a portion of the amount reported as taxable, a partial deduction may also be claimed for that portion found to be uncollectible.

3. **Currently, lenders and purchasers of accounts receivable are generally not required to register with the Board.** An assignee is a person who purchases the rights to a debt and thereby becomes the person to whom a debt is owed. A lender, as defined in the bill, includes both assignees and persons who hold a retail account pursuant to a contract with a retailer. These entities are generally not engaged in the business of selling tangible personal property and therefore are not registered with the Board as sellers.
Assembly Bill 1016 (Briggs) Chapter 438

Protections of confidential taxpayer communications


This measure is similar to the federal provisions of the Internal Revenue Service Restructuring and Reform Act of 1998, and 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 to the extent the communication would be considered a privileged communication if it were between a client and an attorney. For purposes of the bill, "federally authorized tax practitioner" means any individual who is authorized under federal law to practice before the IRS if the practice is subject to regulation. These individuals include attorneys, CPA’s, enrolled agents, and enrolled actuaries who are required to abide by the Standards of Ethical Conduct as published in U.S. Treasury Department Circular 230. “Tax advice” is defined as advice given by an individual with respect to a matter that is within the scope of the individual’s authority to practice. Under the provisions of the bill, the confidentiality protection only applies to the extent that the communication would be considered a privileged communication if it were between a client and an attorney, and only in non-criminal tax matters before the specified state agencies. The privilege does not apply to any written communication between a federally-authorized tax practitioner and a director, shareholder, officer, or employee, agent, or representative of a corporation in connection with the promotion of the direct or indirect participation of that corporation in any tax shelter, or in any proceeding to revoke or otherwise discipline any license or right to practice by any governmental agency. These provisions remain in effect until January 1, 2005 unless another statute is enacted that extends that date.

Sponsor: California Society of Certified Public Accountants

Law Prior to Amendment:

Confidential communications between a client and an attorney are protected from disclosure to third parties, under certain circumstances (Evidence Code sections 950 – 962). Under the Internal Revenue Service Restructuring and Reform Act of 1998, the attorney-client privilege is extended to tax advice, as defined, that is furnished to a client-taxpayer by any individual who is authorized to practice before the IRS as well as any federal court, if the IRS is a party to the proceeding.
Background:
The attorney-client privilege extends to the client the privilege to refuse to disclose and to prevent any other person from disclosing confidential communications between the client and his/her attorney. Such privilege protects communications between the attorney and client made for purposes of furnishing or obtaining professional legal advice or assistance. The privilege also permits an attorney to refuse to testify as to communications from the client.

Comments:
1. **Purpose.** To mirror the IRS Restructuring and Reform Act with respect to confidentiality privileges.

2. **Extending these privileges to BOE matters could preclude the discovery and use of any correspondence from a federally-authorized tax practitioner to the taxpayer.** If the privilege also applies or is expanded to court proceedings, it would be much more difficult to prove fraud if the taxpayer files suit in superior court. There has been at least one instance where, if this bill had been in effect, a taxpayer could have successfully prevented the Board from viewing a letter at a Board hearing, which may have precluded the imposition of fraud and failure to file penalties.

3. **The privilege is no broader than the attorney/client privilege, only applies to non-criminal proceedings, and affords CPAs the same privilege that is extended to attorneys when discussing similar issues.** The recent trend toward attorneys joining accounting firms has blurred the distinction between legal advice and guidance provided by accountants. This bill makes that distinction insignificant with respect to confidentiality privileges.
Assembly Bill 1965 (Leach) Chapter 962
Distribution of permit holder information

Effective January 1, 2001. Amends Sections 1798.61 and 1798.75 of, and adds Section 1798.69 to the Civil Code.

This measure prohibits the release of names and addresses of individuals who are registered with or are holding licenses or permits issued by the Board. This restriction only applies to information about individuals (sole proprietors). The names and addresses of entities such as partnerships, corporations, or other business organizations would remain accessible for commercial purposes pursuant to the Public Records Act. This measure also clarifies that disclosure of information as necessary to verify resale certificates or to administer the tax and fee provisions of the Revenue and Taxation Code will continue to be permitted, and does not prohibit the release by the Board to, or limit the use by, any federal or state agency, or local government, of any data collected by the Board that is otherwise authorized by law.

Sponsor: Board of Equalization

Law Prior to Amendment:

Section 1 of Article I of the California Constitution states:

All people are by nature free and independent and have inalienable rights. Among these are enjoying and defending life and liberty, acquiring, possessing, and protecting property, and pursuing and obtaining safety, happiness, and privacy.

The Information Practices Act, or IPA (commencing with Section 1798 of the Civil Code), provides that state agencies shall only maintain necessary personal information in their records, as specified, and shall not disclose any personal information in a manner that would link the information disclosed to the individual to whom it pertains, with certain exceptions. For example, the IPA specifically permits the Board to sell names and addresses of permit holders to commercial users of the information, provided that any related state costs be paid from fees received by the Board for the sale. The Board also provides information to confirm the existence of seller’s permits, or resale certificates, to individuals requesting it. The IPA is modeled after the Federal Privacy Act of 1974, and became effective in 1978.

Personal information may be disclosed pursuant to the Public Records Act, or PRA (commencing with Section 6250 of the Government Code), which provides for public access to any record maintained by a state and local agency, unless there is a statutory
exemption that allows or requires the agency to withhold the record. Confidential information, as specified within each tax or fee program, is exempt from disclosure under the PRA and may not be released unless specifically authorized by the Governor or with the taxpayer’s consent. The PRA is modeled after the Federal Freedom of Information Act, and became effective in 1968.

In General:
Currently, in accordance with the IPA, the Board provides customized “mailing” lists of the names and addresses of persons who are registered with the Board under the Sales and Use Tax Law, and also has a “searching service” that provides nonconfidential taxpayer information. Both services are provided to private sector requestors for a fee that allows the Board to recoup the costs associated with providing these services.

Requestors of mailing lists, who largely consist of direct-mail marketers, must specify the media option (computer printout, labels, magnetic tape, etc.) and the selection option (by geographic area, business code, or tax program). The information provided by the Board includes the business name, owner’s name (or corporation name), and mailing address. Additional information such as the account number, business address (if different than the mailing address), business code, ownership designation (sole proprietor, partnership, corporation), start date, and tax area may be provided depending on the media option selected. This information is also available on a weekly basis, printed on 3 x 5 cards, and may specify new accounts, changes, close-outs, reinstatements, or any combination.

The BOE searching service is a fee-based method by which taxpayers, organizations, and individuals may obtain a business owner’s name, business address, and account status (open or closed). The overlying authority that allows this service to be provided is the PRA. Personal or confidential data and copies of file materials are not available through the searching service. Requests for the searching service may come from collection agencies, attorneys, banks and mortgage companies, and wholesalers (attempting to verify resale certificates). Resale certificate validation is also available free of charge on the BOE website.

The BOE also enters into agreements with other state, local, and federal agencies and private organizations (such as the Federation of Tax Administrators and the Multistate Tax Compact) to furnish or exchange data. These agreements allow agencies to assist one another with tax enforcement and administration.

The Board currently provides cities, counties, and special taxing jurisdictions on a monthly basis with records of the businesses in their jurisdictions that have been issued seller’s permits. The Board encourages these entities, through both written and oral communications, to compare their lists of entities having business licenses with the Board’s list of seller’s permits issued, and to notify the Board of any businesses that have been issued a business license for sales of goods that are not on the seller’s permit...
list. In addition, the Board’s publication - Pamphlet 28 - "Tax Information for City and County Officials," instructs cities and counties on how to compare the Board’s seller’s permit registration data with their data in order to both insure correct local tax allocation, and to identify persons who should have a seller’s permit.

**Background:**

The IPA was added by SB 170, Chapter 709 of 1977, effective July 1, 1978. As originally enacted, the IPA prohibited the commercial sale or distribution of names and addresses of individuals, defined as natural persons (sole proprietors were considered natural persons for purposes of the IPA).

Effective September 19, 1978, an urgency statute (SB 1429, Chapter 874 of 1978) was enacted that changed the definition of “individual” to mean “a natural person acting in his or her individual and private capacity.” By changing the definition of individual, the sale of all permittee names and addresses was again allowed as it had been prior to the enactment of SB 170.

Effective January 1, 1981, the IPA was amended (AB 502, Chapter 174 of 1980) to again define the term “individual” to mean “a natural person,” so that the name and address of any person registered with the Board as an individual owner (sole proprietor) would be subject to the restrictions of the IPA. This change once again prohibited the Board from selling names and addresses of individual permit holders, until the enactment of AB 1355 (Chapter 1001 of 1982) effective January 1, 1983, which remains in effect today.

**Comments:**

1. **Purpose.** The Board has received complaints from permit holders who do not want their names and addresses made available to direct mail marketers. In particular, individuals who work from their homes have complained to both the Board and the Legislature about the public release of their home addresses. The Board collects information from permit holders for use in the tax collection system and, in order to protect the privacy of taxpayer information, the Board Members believe that this information should not be released, except to verify the existence of a resale certificate and to administer the tax and fee provisions of the Revenue and Taxation Code.

2. **This bill again prohibits the Board from selling names and addresses of individual permit holders.** The prohibition protects the privacy of these businesses and may eliminate or reduce the unsolicited mailings sent to individual permit holders (sole proprietors). Data collected by the Board will still be available to federal, state, and local government agencies.

This bill, among other things, states the intent of the Legislature to do both of the following:

(a) Eliminate the requirement that the rate of interest accruing on overpayments of sales and use tax be based on the rate of 13-week treasury bills issued by the federal government.

(b) Require, subject to certain modifications, that the rate of interest accruing on both overpayments and underpayments of sales and use tax be determined in accordance with the rate of interest determined under Section 6621(a)(2) of the Internal Revenue Code for underpayments of federal taxes.

Sponsor: California Manufacturers and Technology Association

Law Prior to Amendment:

Under existing law, persons who are late in payment of their tax obligations are required to pay a penalty of 10 percent of the tax, plus interest on the unpaid tax from the date the tax was due to the date upon which it was paid. Persons who have overpaid their tax to the state are granted credit interest on the overpayment (when it is determined that the overpayment was not intentional or a result of carelessness) from the first day of the calendar month following the month during which the overpayment was made to the last day of the month following the date upon which the refund is approved by the Board.

Prior to July 1, 1991, there was no difference between the rate of interest paid by the Board to taxpayers on overpayments of tax and the rate of interest paid by taxpayers to the Board on underpayments of tax. However, AB 2181 and SB 179 (Chs. 85 and 88, respectively, Stats. of 1991) significantly changed the computation of credit interest on overpayments of tax. Those measures provided that interest on underpayments is calculated based on specified provisions of the Internal Revenue Code, plus three percentage points. As of January 1, 2000, that rate is set at 11 percent. Interest on overpayments of tax is based on the bond equivalent rate of 13-week treasury bills auctioned. Effective January 1, 2000, that rate is 5 percent. Therefore, under current law, there is a 6 percent difference in the rate of interest paid on overpayments and the rate of interest assessed on underpayments.
Background:

The July 1, 1991 legislation that revised the method of computing interest was proposed by the Department of Finance as part of the Governor's package to resolve the budget deficit. This legislation was prompted by a 1990 landmark decision involving new sales and use tax issues for U.S. Government contractors (Aerospace) in California. As a result of that decision, U.S. Government contractors would be entitled to refunds of overpayments of taxes previously paid to the Board on specified transactions with the U.S. Government. Because of the potentially significant amount of tax and the period of time the overpayments occurred, it was recognized that these refunds would include a very significant amount of credit interest. With the reduced rate of interest, naturally, the state would not lose such a significant amount of revenue.

Provisions similar to Section 1 of this bill have been introduced in the past: AB 2972 (Mays, 1992 Legislative Session), AB 2083 (Takasugi, 1993 Legislative Session), AB 3487 (Andal, 1994 Legislative Session), AB 1189 (Takasugi, 1995 Legislative Session), AB 222 (Takasugi, 1997-98 Legislative Session), AB 464 (Maldonado, 1999 Legislative Session) and AB 1208 (Assembly Revenue and Taxation Committee).

The interest equalization provisions were amended out of Assembly Bill 1208 on January 3, 2000 in the Senate Appropriations Committee, and AB 464 was held in suspense in the Assembly Appropriations Committee. AB 222 was amended early in 1998 to instead provide for a one percent increase in the credit interest rate, and, with that amendment, was held in the Senate Appropriations Committee. AB 2083 and AB 3487 both failed passage in the Assembly Revenue and Taxation Committee; and AB 1189 failed passage in the Senate Appropriations Committee. AB 2972 passed the Legislature, but was vetoed by the Governor. In his veto message, Governor Wilson stated, “Legislation enacted last year (Chapter 85, Statutes of 1991) established a separate, lower rate for state and local sales tax refund liability. Chapter 85 was enacted to minimize the impact of accruing interest as a result of the Aerospace decision. This bill would reverse that legislation, thereby reinstating the higher rate on refund liability.

“Imposing a lower rate for refunds minimizes the impact on the state in the event of large taxpayer refund liability. Imposing a higher rate on amounts owed by taxpayers serves as an incentive for taxpayers to remit those amounts in a timely manner as well as to comply with the law. I do not wish to change these incentives.”

Comments:

1. **Purpose.** To eliminate the 6-point disparity that currently exists in the rate of interest charged on late payments and the rate of interest paid on refunds. Since the interest on U.S. government contractor refunds has been settled, it seems logical and equitable to reestablish prior law and equalize the interest rates between refunds
and liabilities. This would address the concerns of many taxpayers who view this disparity as extremely unfair.

2. **Other major taxing agencies don’t have such a disparity.** According to the Franchise Tax Board, its interest rate on both underpayments and overpayments is the same--currently, 8 percent compounded daily. The Internal Revenue Service has only a 1 point disparity in interest rates for corporations – currently, 8 percent is compounded daily on underpayments and 7 percent on overpayments, and no disparity for noncorporate taxpayers.

3. **The intent of this provision is not to change interest charged on late payments of taxes.** The Governor’s veto message on AB 2972 (referred to above) indicates that interest provides an incentive to pay as well as to comply with the law and that he does not want to change these incentives. The intent of this bill is not to change the rate of interest charged on late payments of tax. It is only intended to address the interest rate paid on overpayments. Therefore, the incentives provided in the law to encourage prompt payment of taxes would remain intact and would not be affected if the interest rate differential were eliminated.

4. **The justification for the interest rate differential no longer exists.** The entire basis for the lower credit interest rate was to reduce the amount of interest associated with the Aerospace refunds. Since the settlement agreement on repayment of the refunds has been finalized, there is simply no justification now to have the 6-point discrepancy in the credit interest rate.
For the sales and use tax program, this Board of Equalization sponsored measure accomplishes the following:

- Allows a purchaser 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 his or her qualifying and nonqualifying fuel purchases under specified circumstances (§§ 6011, 6012, and 6245.5).

- Authorizes the Board to prescribe a method to authenticate electronic returns and applications filed with the Board which allows the Board to begin accepting returns and applications filed electronically (§§ 6066, 6452 and 6479.31).

- Makes technical changes to conflicting laws providing a sales and use tax exemption for the sale or lease of aircraft by air common carriers (§§ 6366 and 6366.1).

- Eliminates the requirement that settlement disputes totaling less than $5,000 for Sales and Use Tax administered by the Board be presented to the Attorney General for review. This bill delegates this authority jointly to the Board’s Executive Director and Chief Counsel (§ 7093.5).
Law Prior to Amendment (Sections 6011, 6012, and 6245.5):

Under existing law, the amount of any federal manufacturers’ or importers’ excise tax imposed pursuant to specified provisions of the Internal Revenue Code for which the purchaser certifies that he or she is entitled to either a direct refund or credit against his or her income tax for the federal excise tax paid is excludable from the measure of sales and use tax. The certificate can be issued only when purchasing qualifying fuel, that is, fuel for which the purchaser expects to use in a manner exempt from the federal excise tax. Thus, when a purchaser purchases fuel in bulk, the use of some of which will qualify for the exemption but not all, the purchaser may not issue an exemption certificate and will be required, instead, to pay sales tax reimbursement or use tax on the entire purchase. This will include payment of tax or tax reimbursement on federal excise tax for which the purchaser will later obtain a refund from the Internal Revenue Service (IRS). A claim for refund of the overpaid sales or use tax on the amount of the federal excise tax may thus be filed. The claim for refund must be supported by proof of the exempt use of the fuel (as for example, off-road use) and of the refund or credit of the federal excise tax by the IRS to the purchaser. When the applicable tax was sales tax, it is the vendor who must file the claim for refund, and then refund the amount of the excess sales tax reimbursement collected from the purchaser upon refund of the overpaid sales tax to the vendor.

Comments:

This bill enables the purchaser to issue an exemption certificate to the fuel vendor for an amount equal to the sales or use tax on the federal manufacturers’ or importers’ excise tax imposed on his or her entire fuel purchase when purchasing both qualifying and nonqualifying fuel if at least 50 percent of his or her fuel purchase qualifies for the exemption from federal excise tax. This bill requires that the purchaser have a seller’s permit and also requires that the purchaser self-report any tax due for fuel purchased under an exemption certificate.

Several construction and utility companies who purchase qualifying and nonqualifying fuel in bulk purchases have expressed concern over the long process currently required to receive credit for the sales tax reimbursement remitted to their fuel vendors on their purchases of fuel qualifying for an exemption from the federal manufacturers’ or importers’ excise tax. The process is especially long, since, in order for a refund to be processed by the Board, the purchaser must first file for a refund or credit for the excise tax paid with the IRS and obtain the refund or credit. When the original sale was subject to sales tax, the purchaser must then show proof to his or her vendor of the credit or refund obtained, and then request the vendor to file a claim for refund with the Board. The vendor, in turn, is then actually required to file the claim for refund with the Board on behalf of the purchaser, provide proof to the Board that the purchaser obtained a credit or refund from the IRS, and provide proof that the fuel was used in an exempt manner. This can take a period of several months from the time the purchaser
remitted the tax reimbursement to his or her vendor until the time the Board initiates a refund. Fuel purchasers have also indicated that it is difficult to issue an exemption certificate to the fuel vendor for only the qualifying portion of the fuel purchase. This bill eliminates the need for many fuel purchasers to go through the long refund process and instead allows the qualified purchaser to purchase the fuel without payment of the sales or use taxes on the federal excise taxes included in the price of the fuel purchased.

**Law Prior to Amendment (Section 7093.5)**

Existing law permits the Board of Equalization and the Franchise Tax Board to “settle” tax disputes without recourse to litigation. This process is intended to avoid the costs and the uncertainty of future litigation for both the state and the taxpayer. Under the settlement process, the BOE and the FTB staff can negotiate a settlement with a taxpayer. In general, the negotiated settlement is reviewed by the Attorney General, who must advise the agency within 30 days whether the proposed settlement is reasonable from an overall perspective. The actual Board of Equalization or Franchise Tax Board then has 45 days in which to act. If no action is taken to reject the proposed settlement, the settlement is deemed to be approved. The entire process is confidential and there is no limit on the amount of disputed tax liability that can be settled. However, for settlements involving a reduction of $500 or more in tax, a public record is required to be filed in the office of the executive directors of the respective agencies showing 1) the names of the parties, 2) the amount involved, 3) the amount settled upon, 4) the reasons why the settlement is in the best interests of the state, and 5) the Attorney General’s conclusion as to whether the settlement is reasonable. At no time in the settlement process may the members of the BOE or the FTB participate, other than to approve or reject the proposed settlement.

**Comments:**

This bill eliminates the requirement that settlement disputes involving a reduction in tax and penalties of $5,000 or less for sales and use tax administered by the Board be presented to the Attorney General for review. Instead, this bill delegates this authority jointly to the Board’s Executive Director and Chief Counsel.

This settlement authority was originally authorized by Assembly Bill 3225, effective September 15, 1992, and was extended indefinitely by Assembly Bill 3308, effective July 7, 1994. With the enactment of AB 3308, the Executive Officer and Chief Counsel of the Franchise Tax Board were provided with the authority to jointly approve settlement disputes involving a reduction in tax and penalties of $5,000 or less without the approval or review by the Attorney General. However, this measure did not grant similar approval authority to the settlement program under the tax and fee programs administered by the Board of Equalization. The Board of Equalization sponsored legislation (Senate Bill 1302) during the 1999 legislative session that would have granted the board settlement authority similar to the settlement authority afforded the Franchise Tax Board. However, Senate Bill 1302 (Chesbro, et al.) was amended to exclude the settlement provisions sought by the Board.
The purpose of this bill is to streamline the Board’s settlement program for smaller cases. Approximately 40 percent of all settled cases are under the $5,000 or less threshold. This bill allows staff to settle these smaller cases more quickly and efficiently – taxpayers could have their cases resolved approximately 6 weeks sooner. In addition, staff time currently devoted to preparing the detailed recommendations to be reviewed by the Attorney General on these smaller cases can be more productively spent in processing the more significant settlement cases.
This bill contains Board of Equalization-sponsored provisions that strengthen and update the California Taxpayers’ Bill of Rights for the taxes and fees administered by the Board. Specifically, for the sales and use tax program, the bill does the following:

- Authorizes the Board to grant equitable relief to innocent spouses under procedures prescribed by the Board if the facts and circumstances warrant (§6456)
- Authorizes the Board to establish criteria to provide relief of the late payment penalty in a more efficient manner (§6592, et al.)
- 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 (§6704, et al.)
- Provides relief of the late payment penalty in cases where the taxpayer enters into and successfully complies with an installment payment agreement (§6832, et al.)
- Prohibits the disclosure of confidential taxpayer information by tax preparers (§7056.6, et al.)
- Extends the sunset date for the managed audit program for an additional 2 years (§7076.7)
- Changes the effective date for which reimbursement of fees and expenses may be awarded so that taxpayers may claim reimbursement commencing from the date the notice of determination, jeopardy determination, or denial of claim for refund is issued (§7091, et al.)

For the consumer use tax program, the bill does the following:

- Requires the Board to provide notice to purchasers who have incurred a use tax liability, as specified, of the Board’s authorization to enter into installment payment agreements (§6832.6)
Sponsor: Board of Equalization

Background:

The Harris-Katz California Taxpayers’ Bill of Rights was enacted in 1988 (Ch. 1574), effective January 1, 1989, to place certain guarantees in the California Sales and Use Tax Law to ensure that the rights, privacy, and property of California taxpayers are adequately protected during the process of the assessment and collection of taxes. The Katz-Harris Taxpayers’ Bill of Rights, also enacted in 1988, placed similar guarantees in the California Personal Income Tax Law and the Bank and Corporation Tax Law. Conforming taxpayer rights were added to the Board-administered Special Taxes programs in 1992 by Chapter 438.

On July 30, 1996, Congress enacted the federal Taxpayer Bill of Rights 2 to provide an additional set of taxpayer protections under the federal income tax laws. As a conformity measure, the Franchise Tax Board sponsored AB 713 (Ch. 600, Stats. 1997) to conform many of its bill of rights provisions to the 1996 federal changes.

In 1998, the Board sponsored Assembly Bill 821 (Ch. 612, Takasugi) to conform California sales and use tax laws to the Franchise Tax Board’s AB 713. Effective January 1, 1999, AB 821 expanded, modified and supplemented the Katz-Harris Taxpayers’ Bill of Rights Act with respect to relief of interest, installment payment agreements, interest on erroneous refunds, education and information programs, reimbursement of certain fees and expenses, return of levied property, and release of liens to facilitate collection or when it is in the best interest of the state and taxpayer.

Also in 1998, Congress enacted the Internal Revenue Service Restructuring and Reform Act of 1998. In addition to providing for a massive reorganization of IRS and the way it does business, this Act included various taxpayer rights protections, including greater relief of liability for innocent spouses, statute of limitations relief for financially disabled taxpayers, increased tax agency notification requirements, and many others.

In 1999, California conformed its Sales and Use Tax and Personal Income and Bank and Corporation Tax Laws to several of the taxpayer rights provisions in the IRS Act through the enactment of AB 1638 (Chapter 929, Statutes of 1999) and SB 94 (Chapter 931, Statutes of 1999).

Law Prior to Amendment (Section 6456):

Under Section 6456 of the Sales and Use Tax Law, the Board is authorized to relieve an innocent spouse of liability for unpaid or understated liabilities attributable to the other spouse. To be relieved of liability, the spouse claiming relief must establish that he or she did not know of, and had no reason to know of, that understatement, or nonpayment. Whether or not the spouse claiming relief significantly benefited directly
or indirectly from the understatement or nonpayment of the liability is also required to be taken into account when considering relief of liability.

Comment:

This provision, which conforms with both the innocent spouse provisions in the IRS Restructuring and Reform Act of 1998 and the Franchise Tax Board’s SB 94 (Ch. 931, Stats. 1999), authorizes the Board to relieve an innocent spouse under procedures prescribed by the Board, if, in light of all the facts and circumstances, it is inequitable to hold that spouse liable for any unpaid tax or any deficiency (or any portion of either) attributable to any item for which relief is not otherwise available.

Law Prior to Amendment (Sections 6592, et al.):

Under Section 6592 of the Sales and Use Tax Law, and similar statutes in the Board’s special taxes and fees program, the Board is authorized to relieve persons of the penalty imposed for a person’s failure to make a timely return or payment, when the Board finds that the failure was due to a reasonable cause. To be relieved of the penalty, the law requires that the person seeking relief file a statement under penalty of perjury setting forth the facts upon which his or her claim for relief is based.

Comment:

This provision enables the Board to establish criteria that would allow for a more efficient process to provide relief of penalty, by for example, eliminating the requisite statement under penalty of perjury from the person seeking relief under the established criteria.

Law Prior to Amendment (Sections 6704, et al.):

Under Section 6703 of the Sales and Use Tax Law, and similar statutes in the Board’s other tax and fee programs, if a retailer or other person liable for the tax is delinquent in his or her payment of amounts due, the Board is authorized to take administrative collection action. One such action is the issuance of earnings withholding orders for taxes or fees pursuant to the Code of Civil Procedure. These orders require employers to withhold delinquent taxes or fees from an employee’s earnings and remit the withheld amount to the Board. This situation arises when the taxpayer, at the time of this action, is employed by another, as for example, a purchaser of an aircraft who is delinquent in his or her payment of use tax to the Board. In cases where the employer fails to remit the withheld amount to the Board, the employee continues to remain liable to the Board for the amounts withheld and, other than obtaining a civil action against the employer, the Board has no authority to take administrative collection action against the employer. Under existing law, the Board has no authority to credit the account of the tax or feepayer for the amount the employer withheld and failed to remit. In
addition, the Board does not have authority to stop collection action against the tax or feepayer.

**Comment:**

This provision, which is consistent with the authority granted to the Franchise Tax Board by SB 94 (Ch. 931, Stats. 1999), provides relief to a tax or feepayer whose employer withheld delinquent taxes or fees from the tax or feepayer’s pay pursuant to an earnings withholding order, but failed to remit the amounts to the Board. Specifically, this provision:

- Eliminates the tax or feepayer’s liability for the unremitted amount by allowing the Board to credit the taxpayer’s account for the unremitted amount.
- Holds the employer liable for the unremitted amount by allowing the Board to administratively assess an amount equal to the unremitted amount against the employer.
- Stops collection action against the tax or feepayer for the amount.

**Law Prior to Amendment (Sections 6832, et al.):**

Under current law, the Board may enter into a written installment payment agreement with a person for the payment of any taxes or other amounts due over an agreed period. Generally, if a taxpayer is late in payment of those taxes, a penalty of 10% of the tax is added.

**Comment:**

This provision provides that, if a person enters into a written installment payment agreement with the Board within 45 days of the date of the Board’s notice of determination or redetermination becomes final, the taxpayer may be relieved of the late payment penalty, provided the taxpayer satisfactorily completes the installment payment proposal.

**Law Prior to Amendment (Sections 6832.6):**

Under existing law, as added by AB 821 (Ch. 612, Stats. 1998), the Board is authorized to enter into installment payment arrangements with taxpayers when they are financially unable to pay their liabilities in full. Current law does not require that the Board notify taxpayers of the Board’s authorization to enter into these agreements.

Under current law, purchasers of used vehicles, vessels, aircraft from private parties, and purchasers of goods from foreign countries are generally held liable for the use tax. The Board has an organized program of collecting the use tax directly from California consumers with respect to these purchases.
This consumer use tax collection program is feasible because substantial sales prices are generally involved and a source of information is available upon which to base the use tax assessments. Information with respect to aircraft purchases is obtained from the Federal Aviation Administration. Information with respect to vessel purchases is obtained from the Department of Motor Vehicles and the United States Coast Guard. Information with respect to vehicle purchases is obtained from the Department of Motor Vehicles, which also is authorized to act as an agent of the Board and collect use tax from the purchaser at the time of registration of the vehicle. Information with respect to foreign purchases is obtained from the United States Customs Service declarations completed by returning travelers at ports of entry.

Comment:
This provision requires the Board to provide consumers with information concerning the Board’s authorization to enter into installment payment agreements when the Board mails a use tax return, a notice of determination, or a notice of redetermination for payment of use tax. Because use tax liabilities on these transactions are often unanticipated by the consumer, providing consumers with this information from the outset could greatly assist some taxpayers in knowing that they have an option to satisfy their use tax liabilities through a payment plan. Interest would accrue on any portion of the unpaid tax amount over the life of the installment payment agreement (currently at a rate of 11 percent). As such, probably only those consumers that truly cannot afford to pay the liability in full would opt to enter into such agreements.

Law Prior to Amendment (Sections 7056.6):
Among the inalienable personal rights listed in Article I of the California Constitution, is the right to privacy. Consistent with this provision, current law prohibits the Board and its employees from divulging confidential information about the business affairs of taxpayers registered with the Board. Any violation of these laws is a misdemeanor, punishable by a fine of not less than $1,000 and not more than $5,000, or imprisonment not to exceed one year in the county jail, or both a fine and imprisonment, at the discretion of the court. Current law does not prohibit tax preparers from divulging tax or fee information relating to taxes and fees collected by the Board.

Comment:
This provision, which is consistent with Section 7216 of the United States Code for purposes of the Federal Income Tax Law, and Section 17530.5 of the Business and Professions Code for purposes of federal or state income tax returns, makes it a misdemeanor for any person who is engaged in the business of preparing or providing services in connection with the preparation of Board-administered tax or fee returns, to disclose any information furnished to him or her for, or in connection with the
preparation of any such return, or to use any such information for any purpose other than to prepare, or assist in preparing, any such return.

Law Prior to Amendment (Sections 7076.7):

Under existing law, as added by Board-sponsored SB 1104 (Ch. 686, Stats. 1997, effective January 1, 1998), the Board is authorized to determine which taxpayer accounts are eligible to participate in a Managed Audit Program (MAP) and to enter into MAP Participation Agreements with eligible taxpayers. This measure also requires the Board on or before February 1, 2001, to submit a report to the Legislature that evaluates the programmatic and fiscal benefits of the managed audit program. The statutes authorizing the MAP will be repealed on January 1, 2001.

Comments:

This provision extends the sunset date for an additional 2 years, so that authorization for the managed audit program would continue through January 1, 2003. The purpose of extending the program is to prevent a premature expiration of a laudable program, as discussed below, and to provide the Board with additional time to meet with interested parties to explore alternative ways to increase taxpayers’ participation in the program.

Managed audits are essentially self-audits. Accounts selected as part of the Board’s routine audit program are reviewed to determine if the taxpayer is eligible for MAP. If the taxpayer is eligible, the auditor provides the taxpayer with written and oral instructions to enable the taxpayer to perform the audit verification and prepare the working paper schedules necessary to complete a particular portion of the audit.

Under the law, eligible taxpayers are those whose accounts meet all of the following criteria:

- The taxpayer has not received written notification pursuant to Section 6471 that he or she is required to make prepayments of tax (currently, those taxpayers with a measure of tax liability averaging $17,000 or more per month);
- The taxpayer’s business involves few or no exemptions;
- The taxpayer’s business involves a single or small number of clearly defined taxability issues;
- The taxpayer agrees to participate in the MAP; and,
- The taxpayer has the resources to comply with the managed audit instructions provided by the Board.

The advantages of the MAP for the Board and for taxpayers can include:

- Resolution of questions about taxability during the audit process, thus reducing the number of audits requiring resolution through the administrative appeals process.
• More efficient allocation of audit resources to audits and other revenue-generating activities.
• Reduction in litigation of protested audits.
• Decreased disruption of a taxpayer’s regular business activities since an auditor is likely to spend fewer hours at the taxpayer’s place of business.
• Promotion of an ongoing cooperative relationship between the taxpayer and the Board.
• Increased understanding on the part of the taxpayer about the application of sales and use tax to his or her business.

As an added incentive to participate in the program, interest on a tax liability disclosed as a result of an approved MAP audit is computed at one-half the normal statutory interest rate for the total unreported tax liability. This is the case even if the entire audit is not performed under a MAP audit and even if the portion performed by the auditor results in a tax liability. In addition, MAP audits that result in a credit or refund compute interest using the standard running balance method. That is, if the audit has both debit and credit periods, the one-half interest rate would apply for debit periods and the full statutory credit interest rate applies for credit periods.

The Board conducted the first MAP audits during 1999. Staff completed 20 MAP audits and five others remained in process at the end of the year. Since the Board initiated 15,636 sales and use tax audits in 1999, MAP audits were less than one-half of one percent of audits initiated during the year.

However, the 20 MAP audits completed during 1999 appeared to meet the goals intended by the legislation. That is, the audits enhanced taxpayer education and compliance, and saved Board resources. Most taxpayers enjoyed participating in the audit process and were very cooperative with staff. The taxpayers also believed their work reduced their tax liability and felt that the process lead to their becoming more aware of applicable regulations affecting their businesses. In addition, quarterly amounts reported by these taxpayers rose by 248% in the year following audit. To the extent this increase resulted from the MAP program, it appears taxpayer participation may have lead to increased compliance in future reporting periods.

The results for the Board were also generally positive. Underreported sales found by MAP audits ranged from $2,885 to $1,411,841. Ninety-six percent of the taxable understatement found on these audits was derived from the taxpayers’ work. The districts also saved approximately 485 audit hours, time that was used to reallocate resources to other revenue-generating activities.

In conclusion, although participation in the MAP has been limited, completed MAP audits have met the goals of the program. The survey indicates that limited participation has resulted from constraints placed on eligibility and taxpayer reticence.
to participate in the program. Staff will be meeting with interested parties to consider means by which taxpayers can participate more fully in the MAP process. An extension of the sunset date will provide the Board with the necessary time to more fully develop this program to achieve the maximum benefits it can provide to both the State and taxpayers.
Effective July 7, 2000. Amends Sections 14524, 14525, 14526, 14527, 14529, 65080, 65082, and 65083 of, and to add Chapter 4.5 (commencing with Section 14556) to Part 5.3 of Division 3 of Title 2 of, the Government Code, to amend, repeal, and add Section 7102 of, to add Section 10754.2 to, and to add and repeal Section 7104 of, the Revenue and Taxation Code, and to amend Sections 164.6, 182.6, and 182.7 of, and to add Sections 182.8, 183.1, 2182, and 2182.1 to, the Streets and Highways Code to, the Revenue and Taxation Code.

This measure creates the Traffic Congestion Relief Fund and the Transportation Investment Fund. This measure also provides that specific sales and use tax revenues shall be allocated quarterly to the Traffic Congestion Relief Fund. Specifically, this bill requires the following on a quarterly basis during the 2000-01 fiscal year only:

- Transfer to the Traffic Congestion Relief Fund all revenues, less refunds, from the 5 percent state sales tax imposed on the rate of tax imposed pursuant to the Motor Vehicle Fuel License Tax Law (first $.09 per gallon only) on motor vehicle fuel.
- Transfer to the Traffic Congestion Relief Fund all revenues, less refunds, from the 5 percent state sales tax imposed on the rate of federal excise tax imposed pursuant to Section 4081 of Title 26 of the Internal Revenue Code.
- Transfer to the Traffic Congestion Relief Fund all revenues, less refunds, from the 5 percent state sales tax imposed on the sale, storage, use or other consumption in this state of motor vehicle fuel.

The amount transferred to the Traffic Congestion Relief Fund is limited to $125 million in any quarter.

Additionally, the Board is required to estimate on a quarterly basis the amount that is transferred to the General Fund attributable to revenue collected for the sale, storage, use, or other consumption in this state of motor vehicle fuel. The Board is also required to notify the Controller in writing of the amount estimated above.

Sponsor: Assembly Member Torlakson

This measure makes various findings and declarations regarding the rapidly changing technology and its impact on California’s economy, and states “There is a need to reevaluate our entire system of tax policies and collection mechanisms in light of the new economy.” This measure creates the California Commission on Tax Policy in the New Economy, comprised of nine voting members, five appointed by the Governor, two appointed by the President pro Tempore, and two appointed by the Speaker of the Assembly. In addition, ex officio members of the Commission include the chair of the BOE, the executive officer of the Franchise Tax Board, the Director of Employment Development, the chair of the California Public Utilities Commission, the Director of Finance, the Controller, a public member of the California Economic Strategy Panel, and the chairs of both the Senate and Assembly Revenue and Taxation Committees.

The Commission is charged with conducting public hearings to address Internet taxation, and study and make recommendations regarding specified elements of the California system of state and local taxes, including, but not limited to, the sales and use tax, telecommunications taxes, income taxes, and property taxes.

With respect to the sales and use tax, this bill requires the Commission to (1) examine the impact that economic transitions have had on the sales and use tax, (2) determine whether uneven treatment with respect to the method of sales, the type of commodity, and the location of the buyer and the seller may occur and the extent to which they may have led to tax-generated distortions in economic decisionmaking and disadvantages for certain businesses and economic sectors, and (3) examine the extent to which the allocation and distribution of sales and use taxes impact local decisionmaking on land use and whether alternative methods may be more appropriate.

The commission must submit an interim report to the Governor and the Legislature at least 12 months from its first public meeting, and a final report with recommendations at least 24 months from its first public meeting.

This bill will be repealed on January 1, 2004.

Sponsor: Senator John Vasconcellos
Law Prior to Amendment:
The federal Internet Tax Freedom Act imposed a three-year moratorium, which expires in October 2001, on new Internet access taxes or other levies on electronic commerce. That legislation also created the Advisory Commission on Electronic Commerce (ACEC) to study federal, state, local, and international taxation and tariffs on transactions using the Internet and Internet access. The ACEC’s 19 members include three governors, heads of several major information technology corporations, and other government and business leaders from across the nation, including Board of Equalization Chair Dean Andal. The Commission issued a report to Congress on April 3, 2000.

Comments:
1. **Purpose.** To address the collection and administration of taxes in the 21st century technology-dependent economy.

2. **The ACEC was created by Congress to study this issue.** The ACEC obtained at least majority approval on the following concepts: (1) Extend the current moratorium on multiple and discriminatory taxation of electronic commerce for an additional five years, through 2006. (2) Prohibit taxation of digitized goods and their non-digitized counterparts to protect consumer privacy on the Internet and prevent the taxation of all services, entertainment, and information in the U.S. economy (both on the Internet and on Main Streets across America). (3) Make permanent the current moratorium on Internet access taxes, including those access taxes grandfathered under the Internet Tax Freedom Act. (4) Establish “bright line” nexus standards for American businesses engaged in interstate commerce, since the cyber economy has blurred the application of many nexus rules, and American businesses need clear and uniform tax rules and definitions before being exposed to business activity and sales and use tax collection obligations. (5) Encourage state and local governments to work with the National Conference of Commissioners on Uniform State Laws to simplify their own telecommunications and sales tax systems to ease burdens on interstate commerce. (6) Respect and protect consumer privacy in crafting any laws pertaining to online commerce generally and in imposing any tax collection and administration burdens on the Internet specifically. Their final report is available on-line at http://www.ecommercecommission.org/report.htm.

3. **Other organizations have already been formed to address tax administration in the new economy.** In addition to the ACEC, the Multistate Tax Commission (MTC), of which the BOE is a member, developed the Sales Tax Simplification Project to address sales tax simplification for all sales tax states. The minutes from these conferences are posted on the MTC website (http://www.mtc.gov). The Organization for Economic Cooperation and Development (OECD), which is comprised of the United States and 28 other countries, is actively addressing taxation issues related to e-commerce from an international perspective (http://www.oecd.org). The National Tax Association (NTA), an association of
government officials, tax practitioners, business representatives, and academicians includes a Communications and Electronic Commerce Tax Project that issued its final report in September 1999 (http://www.ntanet.org). The Electronic Commerce Advisory Council (ECAC), which was created by Governor Pete Wilson by Executive Order W-175-98, released a report in November 1998 (http://www.e-commerce.ca.gov). And the Legislative Analysts Office issued its report, California Tax Policy and the Internet, in January 2000 (http://www.lao.ca.gov). In addition, many other states and organizations have become involved in Internet tax policy and numerous reports, with varying conclusions and recommendations, have been published on the topic.
Senate Bill 2084 (Polanco) Chapter 861
Commercial Vehicle Registration Act of 2001

Effective September 29, 2000. Amends Section 13340 of, and adds Sections 29145 and 43402 to, the Government Code, amends Sections 10752, 10753.1, 10753.2, and 10753.9 of, and adds Sections 225 and 11006 to, the Revenue and Taxation Code, and amends Sections 260, 4000, 4004, 4150.1, 4458, 5000, 5011, 5014, 5015, 5016, 5017, 5101, 5103, 5106, 5108, 5204, 5301, 5302, 5305, 5902, 6275, 6285, 6291, 6293, 6367, 8000, 8054, 9250.7, 9250.8, 9250.10, 9250.13, 9250.14, 9250.19, 9260, 9261, 9400, 9406, 9408, 36010, and 36109 of, and adds Sections 288, 289, 468, 4000.6, 5014.1, 9400.1, 9406.1, 9554.2, 27910, and 42030.1 to, and repeals Sections 6851 and 6851.5 of, and amends and renumbers Section 390 of, the Vehicle Code.

This bill enacts the Commercial Vehicle Registration Act of 2001 to replace the current registration system (fees based on unladen weights and vehicle license fees) for commercial trailers with a permanent trailer plate identification program.

Sponsor: Department of Motor Vehicles

Law Prior to Amendment:

Current Revenue and Taxation Code Sections provide that the sales or storage, use, or other consumption of vehicles required to be registered under the Vehicle Code are subject to sales or use tax.

Comment:

Purpose. To allow California to conform to federal law regarding membership in the International Registration Plan Agreement for the purpose of collecting registration fees for commercial trucks that operate on an interstate basis. Certain commercial vehicles will no longer be subject to registration under the Vehicle Code, but will instead be subject to identification under the Vehicle Code.

Sales and Use Tax Impact. The author adopted Board staff suggested amendments to conform this bill with current law and keep the sale or storage, use, or other consumption of vehicles subject to identification under the Commercial Vehicle Registration Act of 2001 subject to sales or use tax.
Senate Bill 2174 (Committee on Revenue and Taxation) Chapter 256

Board-sponsored housekeeping measure

Effective January 1, 2001. Amends Sections 6066, 6366, 6366.1, 6452, 6479.31 and 6480.1 of the Revenue and Taxation Code.

For the sales and use tax program, this Board of Equalization sponsored measure accomplishes the following:

- Authorizes the Board to prescribe a method to authenticate electronic returns and applications filed with the Board which allows the Board to begin accepting returns and applications filed electronically (§§ 6066, 6452 and 6479.31).

- Makes technical changes to conflicting laws providing a sales and use tax exemption for the sale or lease of aircraft by air common carriers (§§ 6366 and 6366.1).

- Provides an exemption from the prepayment of sales tax on motor vehicle fuel if the gasoline is sold pursuant to a contract with the State of California or its instrumentalities (§6480.1).

Sponsor: Board of Equalization

Law Prior to Amendment (Sections 6480.1):

Under existing law, distributors and brokers of motor vehicle fuel (gasoline) are required to collect a prepayment of sales tax from the person to whom the motor vehicle fuel is transferred. When the person acquiring the motor vehicle fuel resells that fuel, the person is entitled to claim credit for the prepayment paid to the supplier on the return for the period in which the fuel is resold. The tax prepayment rate for gasoline is determined by the Board based upon 80% of the combined state and local tax rate multiplied by the arithmetic average selling price (excluding tax) of all grades of gasoline sold through self-service gasoline stations. The law provides that if the price of gasoline decreases or increases, and the established rate results in prepayments that consistently exceed or are significantly lower than the retailers’ sales tax liability, the Board may readjust the rate.

Comments:

This bill provides an exemption from these prepayment requirements if the gasoline sold is pursuant to a contract with the State of California or its instrumentalities.

This issue was brought to the attention of the Board at the November 18, 1998 Business Taxpayers’ Bill of Rights hearing by Ms. Severina Mazorra, representing Severina’s Aviation and Fuel Service. In this particular case, Ms. Mazorra entered into contracts...
with the California Highway Patrol to furnish gasoline. When Ms. Mazorra acquired the fuel from her supplier, she was required to pay her supplier the sales tax prepayment, which is currently at the rate of 8 ½ cents per gallon. However, when the retail selling price of gasoline dropped, as was the case in 1998 and early 1999, her retail selling price of the gasoline to the CHP was significantly below the prepayment rate per gallon. Consequently, the sales tax prepayment paid to her supplier exceeded her sales tax liability on her sales to the CHP. As a result, over several quarters, Ms. Mazorra filed credit returns with the Board and had to wait for the Board to issue refunds for the overpayment – a situation that created significant hardship for this taxpayer.
## Table of Sections Affected

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### Civil Code

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| §1798.75 | Amend | AB 1965 | Ch. 962 | Distribution of permit holder information. |
| §1798.69 | Add  | AB 1965 | Ch. 962 | Distribution of permit holder information. |