

**BOARD OF EQUALIZATION
BUSINESS TAXES COMMITTEE MEETING MINUTES**

HONORABLE JOHN CHIANG, COMMITTEE CHAIR

450 N STREET, SACRAMENTO

MEETING DATE: SEPTEMBER 27, 2006, TIME: 9:30 A.M.

ACTION ITEMS & STATUS REPORT ITEMS**Agenda Item No: 1****Title: Proposed revisions to Regulation 1603, *Taxable Sales of Food Products*, regarding the application of tax to charges for tips and gratuities.****Issue/Topic:**

Should Regulation 1603, *Taxable Sales of Food Products*, be amended to clarify the application of tax to charges for mandatory and optional gratuities?

Committee Discussion:

Interested parties addressed the Committee in support of their alternatives and explained the reasons why they do not support the staff's proposed language. Staff explained that its proposed language clarifies the current application of tax and provides a bright line regarding the application of tax to charges for tips, gratuities and service charges. Staff and interested parties addressed several issues raised by Committee members regarding staff's and interested parties' proposed alternatives and restaurant operations.

Ms. Yee recommended that the basic framework of staff's proposed language be maintained while this issue is revisited. She suggested that examples be added to the proposed regulation so that restaurants know what is expected of them in audit situations.

Committee Action/Recommendation/Direction:

A motion was made by Ms. Yee to direct the staff and the interested parties to work together and provide a clear bright-line to clarify what would and would not be considered taxable tips and gratuities, and to develop examples to guide restaurants for compliance and in audit situations. The motion included that the revised amendments return to the Committee in November.

The motion was seconded by Ms. Mandel and passed by the Committee without objection.

