

Memorandum

To : Honorable Jerome E. Horton, Chairman
Honorable Michelle Steel, Vice Chair
Honorable Betty T. Yee, First District
Senator George Runner (Ret.), Second District
Honorable John Chiang, Controller

Date: June 15, 2012

From : Jeffrey L. McGuire, Deputy Director
Sales and Use Tax Department



Subject : **Overview of the Customs Program and Process Improvements**
Item 2 – Customer Service and Administration Efficiency Committee

Background

The BOE's Customs Program began under a pilot program in 2005, with a staff of one and limited database capacity using data received from U.S. Customs and Border Control. The program focuses on items brought into California for storage or use by commercial ships through California's ports of entry. Any items hand carried through borders are not included in this program. In June 2007, the BOE's Custom Program became permanent, staff was increased to 16.5 positions, and the BOE began development of a new computer program with a database capable of handling the large volume of import data.

Implementation

In 2009, the new computer program became operational. Prior import data dating back from 2004, that was never uploaded or processed by staff due to staffing and database limitations, was loaded into the new database. This resulted in import data from as early as 2004 being reviewed and processed by staff for the first time in 2009. We continue to receive new data quarterly from U.S. Customs and Boarder Control. The data is matched with BOE data to identify people likely to owe use tax.

The Customs Program sends approximately 5,000 initial contact letters each year advising purchasers/consignees of a possible use tax liability for property imported from abroad. The current policy is to send the initial contact letters to purchasers/consignees after the April 15th income tax due date to allow taxpayers the opportunity to report their use tax liability on their income tax return. The Customs Program processes import data based on high dollar amounts first.

Recommended Changes

While we do have general education and outreach on use tax, currently there is no proactive compliance for this program. Consequently, purchasers/consignees may be unaware of their use tax liability until contacted by the Customs Program. We have implemented a proactive component with the following changes:

1. Mail letters to purchasers/consignees without a seller's permit *before* the April 15th income tax due date advising of a possible use tax liability.
2. Evaluate the number of years staff may go back and process data (current policy is five years prior).

The BOE continues its efforts to educate and inform taxpayers, consumers, and tax practitioners about use tax through published information, news releases, and responses to use tax inquiries. The BOE meets with groups, holds classes and seminars, sends letters, and offers online video information as part of its education efforts.

JLM:sm

cc: Ms. Regina Evans-Jarrett
Mr. Joel Angeles
Mr. Alan LoFaso
Mr. Sean Wallentine
Ms. Marcy Jo Mandel
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