

Regulation History

Type of Regulation: Sales and Use Tax

Regulation: 1807 & 1828

Title: 1807. ~~Process for Reviewing Local Tax Reallocation Inquiries~~
[Proposed] 1807. Petitions for Reallocation of Local Tax
1828. ~~Process for Reviewing Transactions and Use Tax Distribution Inquiries~~
[Proposed] 1828. Petitions for Distribution or Redistribution of Transaction and Use Tax

Preparation: Windie Scott

Legal Contact: Lisa Andrews

Proposed amendments to Regulations 1807 and 1828 would streamline the appeals process by eliminating two unneeded levels of review. The proposed revisions would also notify a jurisdiction of a decision that substantially affects it and allow that jurisdiction to also appeal to the next level within the same administrative proceeding. Thus, under the proposed regulations, there would be three levels of review: by Allocation Group, by Appeals Division and by Board Members.

History of Proposed Regulation:

May 28, 2008	Public hearing
April 28, 2008	45-day public comment period ends
March 14, 2008	OAL publication date; 45-day public comment period begins; IP mailing
March 4, 2008	Notice to OAL
January 31, 2008	BTC Board Authorized Publication
December 10, 2007	Last day for IP to respond to Initial Discussion Paper
November 27, 2007	Second IP meeting
November 16, 2007	Second Discussion Paper mailing
October 26, 2007	Last day for IP to respond to Initial Discussion Paper
October 10, 2007	First Interested Parties (IP) meeting

Sponsor: NA

Support: NA

Oppose: NA



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

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March 14, 2008

To Interested Parties:

**Notice of Proposed Regulatory Action
by the
State Board of Equalization**

**Proposed to Adopt Regulation 1807, Petitions for Reallocation of Local Tax, and
Regulation 1828, Petitions for Distribution or Redistribution of Transaction and Use Tax**

NOTICE IS HEREBY GIVEN

The State Board of Equalization (Board), pursuant to the authority vested in it by section 15606, subdivision (a), of the Government Code, proposes to amend sections 1807, Process for Reviewing Local Tax Reallocation Inquiries and 1828, Process for Reviewing Transactions and Use Tax Distributions, in Title 18, Division 2, Chapter 4, Articles 19 and 20 of the California Code of Regulations, relating to regulatory changes to the processes for reviewing petitions for local tax reallocations and transition and use tax redistributions. A public hearing on the proposed regulations will be held in Room 121, 450 N Street, Sacramento, at 1:30 p.m., or as soon thereafter as the matter may be heard, on Wednesday, May 28, 2008. At the hearing, any person interested may present statements or arguments orally or in writing relevant to the proposed regulatory action. The Board will consider written statements or arguments if received by May 28, 2008.

INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW

Sales and Use Tax Regulation 1807 provides the process for reviewing requests by local jurisdictions for investigation of suspected misallocation of local taxes imposed under the Bradley-Burns Uniform Local Sales and Use Tax Law. Procedures for processing such requests were adopted by the Board in 1996. Based in part on these procedures, the Board adopted Regulation 1807 in August 2002 to formalize procedures for reviewing appeals for reallocation of local tax. The process for reviewing appeals of distributions of taxes imposed under the Transactions and Use Tax Law (commonly called "district taxes") is explained in Regulation 1828, which was adopted in March 2004, based in large part on Regulation 1807.

Regulations 1807 and 1828 currently provide for five levels of review: by Allocation Group, by Refund Section Supervisor, by Local Tax Appeals Auditor, by Board Management and by Board

Members. Board staff met with interested parties on October 10, 2007, and November 27, 2007, to discuss proposed revisions to Regulations 1807 and 1828. Based on comments from interested parties, staff proposed specified revisions to the regulations. As proposed, Regulations 1807 and 1828 would streamline the appeals process by eliminating two unneeded levels of review. The proposed revisions would also notify a jurisdiction of a decision that substantially affects it and allow that jurisdiction to also appeal to the next level within the same administrative proceeding. Thus, under the proposed regulations, there would be three levels of review: by Allocation Group, by Appeals Division and by Board Members.

COST TO LOCAL AGENCIES AND SCHOOL DISTRICTS

The State Board of Equalization has determined that the proposed amendments do not impose a mandate on local agencies or school districts. Further, the Board has determined that the amendments and regulations will result in no direct or indirect cost or savings to any State agency, any costs to local agencies or school districts that are required to be reimbursed under Part 7 (commencing with section 17500) of Division 4 of Title 2 of the Government Code or other non-discretionary costs or savings imposed on local agencies, or cost or savings in federal funding to the State of California.

EFFECT ON BUSINESS

Pursuant to Government Code section 11346.5, subdivision (a)(8), the Board of Equalization makes an initial determination that the adoption of the amendments to Regulations 1807 and 1828 will have no significant statewide adverse economic impact directly affecting business.

The adoption of the proposed amendments to these regulations will neither create nor eliminate jobs in the State of California nor result in the elimination of existing businesses nor create or expand business in the State of California.

The amendments to the regulations as proposed will not be detrimental to California businesses in competing with businesses in other states.

The proposed regulations may affect small business.

COST IMPACT ON PRIVATE PERSON OR BUSINESSES

The Board is not aware of any cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action.

SIGNIFICANT EFFECT ON HOUSING COSTS

No significant effect.

FEDERAL REGULATIONS

Regulations 1807 and 1828 and the proposed changes have no comparable federal regulations.

AUTHORITY

Section 7051, Revenue and Taxation Code.

REFERENCE

Sections 7209, 7223 and 7270, Revenue and Taxation Code.

CONTACT

Questions regarding the substance of the proposed regulation should be directed to Ms. Windie O. Scott, telephone: (916) 323-2267, e-mail Windie.Scott@boe.ca.gov or by mail at State Board of Equalization, Attn: Ms. Windie Scott, MIC:82, P.O. Box 942879, 450 N Street, Sacramento, CA 94279-0082.

Written comments for the Board's consideration, notice of intent to present testimony or witnesses at the public hearing, and inquiries concerning the proposed administrative action should be directed to Ms. Mira Tonis, Regulations Coordinator, telephone (916) 319-9518, fax (916) 324-3984 , e-mail Mira.Tonis@boe.ca.gov or by mail at State Board of Equalization, Attn: Mira Tonis, MIC:81, P.O. Box 942879, 450 N Street, Sacramento, CA 94279-0080.

ALTERNATIVES CONSIDERED

The Board determined that no reasonable alternative considered by it or that has been otherwise identified and brought to its attention would be more effective in carrying out the purpose for which this action is proposed, or be as effective and less burdensome to affected private persons than the proposed action.

AVAILABILITY OF INITIAL STATEMENT OF REASONS AND TEXT OF PROPOSED REGULATION

The Board has prepared an initial statement of reasons and an underscored and strikeout version (express terms) of the proposed regulation. Both of these documents and all information on which the proposal is based are available to the public upon request. The Rulemaking file is available for public inspection at 450 N Street, Sacramento, California. The express terms of the proposed regulation are available on the Internet at the Board's Web site: <http://www.boe.ca.gov>.

AVAILABILITY OF FINAL STATEMENT OF REASONS

The final statement of reasons will be made available on the Internet at the Board's Web site following its public hearing of the proposed regulation. It will also be available for public inspection at 450 N Street, Sacramento, California.

ADDITIONAL COMMENTS

Following the hearing, the State Board of Equalization may, in accordance with the law, adopt the proposed regulations if the text remains substantially the same as described in the text

March 14, 2008

originally made available to the public. If the State Board of Equalization makes modifications which are substantially related to the originally proposed text, the Board will make the modified text, with the changes clearly indicated, available to the public for fifteen days before adoption of the regulation. The text of any modified regulation will be mailed to those interested parties who commented on the proposed regulatory action orally or in writing or who asked to be informed of such changes. The modified regulation will be available to the public from Ms. Tonis. The State Board of Equalization will consider written comments on the modified regulation for fifteen days after the date on which the modified regulation is made available to the public.

Sincerely,

A handwritten signature in cursive script, appearing to read "Diane G. Olson".

Diane G. Olson, Chief
Board Proceedings Division

DGO:reb

Enclosures

INITIAL STATEMENT OF REASONS NON-CONTROLLING SUMMARY

**Sales and Use Tax Regulations 1807, ~~Process for Reviewing Local Tax Reallocation Inquiries~~
[Proposed] 1807. Petitions for Reallocation of Local Tax
1828. ~~Process for Reviewing Transactions and Use Tax Distribution Inquiries~~
[Proposed] 1828. Petitions for Distribution or Redistribution of Transaction and Use Tax**

Specific Purpose

The purpose of the proposed amendments to California Code of Regulations, title 18, sections 1807, *Process for Reviewing Local Tax Reallocation Inquiries*, and 1828, *Process for Reviewing Transactions and Use Tax Distribution*, respectively, is to institute regulatory changes to the processes for reviewing petitions for local tax reallocations and transition and use tax redistributions. The proposed amendments also include a transition rule for requests filed prior to January 1, 2003 (Regulation 1807), and July 1, 2004 (Regulation 1828).

Necessity

The Board needs to jointly revise Regulations 1807 and 1828 to provide for a more comprehensive process for review of petitions for local tax reallocation, to restructure the request for extension process, and to provide notification of substantially affected jurisdictions at an earlier level in order that a single process will resolve disputes.

The proposed amendments will eliminate unnecessary review levels, update terminology, and reorganize the regulations to prevent misinterpretation and improve readability.

The proposed amendments also retain transition rule language, which preserves the open status of certain cases and retains the ability for similar arguments to be made in respect to other pending matters.

Factual Basis

Sales and Use Tax Regulation 1807 provides the process for reviewing requests by local jurisdictions for investigation of suspected misallocation of local taxes imposed under the Bradley-Burns Uniform Local Sales and Use Tax Law. Procedures for processing such requests were adopted by the Board in 1996. Based in part on these

procedures, the Board adopted Regulation 1807 in August 2002 to formalize procedures for reviewing appeals for reallocation of local tax. The process for reviewing appeals of distributions of taxes imposed under the Transactions and Use Tax Law (commonly called “district taxes”) is explained in Regulation 1828, which was adopted in March 2004, based in large part on Regulation 1807.

Regulations 1807 and 1828 currently provide for five levels of review:

1. **Allocation Group** – The initial review and investigation of reallocation requests is performed by the Allocation Group of the Audit Determination and Refund section (within the Sales and Use Tax Department).
2. **Refund Section Supervisor** – a decision of the Allocation Group may be appealed to the Supervisor of the Audit Determination and Refund Section (Refund Section Supervisor).
3. **Local Tax Appeals Auditor** – A decision of the Refund Section Supervisor may be appealed the “Local Tax Appeals Auditor” (who was also within the Sales and Use Tax Department when these regulations were adopted but is now part of the Appeals Division).
4. **Board Management** – A decision of the Local Tax Appeals Auditor may be appealed to “Board Management.” (This level of review was originally introduced when there was no recourse to the Board after the Sales and Use Tax Department had completed its review, and it was felt that some additional review beyond that by the Sales and Use Tax Department was necessary.)
5. **Board Members** – A decision by Board Management may be appealed to the Board with notification to any jurisdiction that could be “substantially affected” by the Board’s decision (i.e., a jurisdiction whose allocation would increase or decrease by five percent or more of its average quarterly allocation or by \$50,000).

Compliance Policy and Procedures Manual Chapter 9, Miscellaneous, and publication 28, *Tax Information for City and County Officials*, contain additional information regarding the administration of local and district tax reallocations.

In 2005, the position of the Local Tax Appeals Auditor was moved from the Sales and Use Tax Department into the Appeals Division. As part of its assumption of these duties and in conjunction with the Board’s project to revise its Rules of Practice (culminating in the Board’s recent adoption of the Board of Equalizations Rules for Tax

Appeals), the Appeals Division reviewed Regulations 1807 and 1828 to determine what changes might be required. The Appeals Division determined that circumstances had

changed such that certain levels of review in the current regulations are unnecessary. The Appeals Division further determined that the current regulations do not contain a sufficiently comprehensive review process so that a single petition will bring all substantially affected jurisdictions within the same administrative appeal, and that better organized regulations, more closely conforming to terminology in our other regulations, would be easier to understand and apply.

Board staff met with interested parties on October 10, 2007, and November 27, 2007, to discuss the proposed revisions to Regulations 1807 and 1828. Submissions were received from MuniServices, HdL Services, and Robert Cendejas following the second interested parties meeting. Based on comments from these submissions, staff proposed further revisions to the regulations, and there were several additional exchanges of versions and concerns between staff and MuniServices during which all parties were able to come to agreement on the regulations, with the single exception of the “Transition rule” (which was later adopted as part of the regulations by the Board). As proposed, Regulations 1807 and 1828 would streamline the appeals process by eliminating two unneeded levels of review. The proposed revisions would also notify a jurisdiction of a decision that substantially affects it and allow that jurisdiction to also appeal to the next level within the same administrative proceeding. Thus, under the proposed regulations, there would be three levels of review:

1. **Allocation Group** – The initial review and investigation of reallocation requests would continue to be performed by the Allocation Group, with any jurisdiction substantially affected by its decision being notified.
2. **Appeals Division** – A decision of the Allocation Group could be appealed to the Appeals Division by the petitioning jurisdiction *and* by any jurisdiction notified as substantially affected (any other jurisdiction substantially affected by the decision of the Appeals Division).
3. **Board Members** – A decision by the Appeals Division could be appealed to the Board, again by the petitioning jurisdiction and any jurisdiction notified as substantially affected.

The proposed revisions also restructure the request for extension process. Under the current provisions, the petitioning jurisdiction (at each level of review through the Board Management level of review) has 30 days to appeal to the next level and is allowed a 30-day extension. If the petitioning jurisdiction disagrees with the decision of Board Management, it has 90 days to file a petition for hearing by the Board. Under the proposed revisions, the petitioner or any notified jurisdiction has 30 days to appeal a decision, or supplemental decision of the Allocation Group, and may request a 30-day extension for good cause. At the Appeals Division level, the petitioner or any notified jurisdiction may appeal a Decision and Recommendation (D&R) or Supplemental D&R (SD&R) issued by the Appeals Division within 60 days of the date of the mailing of the D&R or SD&R.

It is also proposed that subdivision (e) be added to Regulation 1828 to incorporate recent revisions to Revenue and Taxation Code section 7269. Assembly Bill 1748 (Stats. 2007, Ch.342) added section 7269, which limits redistributions of district tax to amounts originally distributed in the two quarterly periods prior to the quarterly period in which the Board obtains knowledge of the improper distribution (that is, the same limitation period applicable to local tax reallocations). Thus, when the date of knowledge is established on or after January 1, 2008, redistributions of district tax will be limited to amounts originally distributed in the prior two quarterly periods. Inquiries where the date of knowledge is before January 1, 2008, will be subject to the three-year statute of limitations.

In summary, the proposed amendments to Regulations 1807 and 1828 include:

1. Review by Allocation Group
2. Review by Appeals Division
3. Review by Board Members

No Mandate Regarding Use of Specific Technologies

The proposed amendments do not mandate the use of specific technologies or equipment.

Initial Determination Regarding Alternatives

The Board does not believe that the proposed amendments will have any adverse impact on small business, and has made an initial determination that there are no reasonable alternatives to the proposed amendments, which would lessen any adverse impact on small business.

Regulation 1807. PROCESS FOR REVIEWING LOCAL TAX REALLOCATION INQUIRIES.

Reference: Sections 7209 and 7223, Revenue and Taxation Code

(a) DEFINITIONS. For inquiries under Revenue and Taxation Code section 6066.3, see subdivision (g) of this regulation.

~~(1) INQUIRING JURISDICTIONS AND THEIR CONSULTANTS (IJC).~~ "Inquiring Jurisdictions and their Consultants (IJC)" means any city, county, city and county, or transactions and use tax district of this state which has adopted a sales or transactions and use tax ordinance and which has entered into a contract with the Board to perform all functions incidental to the administration or operation of the sales or transactions and use tax ordinance of the city, county, city and county, or transactions and use tax district of this state. Except for submittals under Revenue and Taxation Code section 6066.3, IJC also includes any consultant that has entered into an agreement with the city, county, city and county, or transactions and use tax district, and has a current resolution filed with the Board which authorizes one (or more) of its officials, employees, or other designated persons to examine the appropriate sales, transactions, and use tax records of the Board.

~~(2) CLAIM (INQUIRY) OF INCORRECT OR NON-DISTRIBUTION OF LOCAL TAX.~~ Except for submittals under Revenue and Taxation Code section 6066.3, "claim or inquiry" means a written request from an IJC for investigation of suspected improper distribution of local tax. The inquiry must contain sufficient factual data to support the probability that local tax has been erroneously allocated and distributed. Sufficient factual data must include at a minimum all of the following for each business location being questioned:

~~(A) Taxpayer name, including owner name and fictitious business name or d.b.a. (doing business as) designation.~~

~~(B) Taxpayer's permit number or a notation stating "No Permit Number."~~

~~(C) Complete business address of the taxpayer.~~

~~(D) Complete description of taxpayer's business activity or activities.~~

~~(E) Specific reasons and evidence why the taxpayer's allocation is questioned. In cases where it is submitted that the location of the sale is an unregistered location, evidence that the unregistered location is a selling location or that it is a place of business as defined by Regulation 1802 must be submitted. In cases that involve shipments from an out-of-state location and claims that the tax is sales tax and not use tax, evidence must be submitted that there was participation by an in-state office of the out-of-state retailer and that title to the goods passed in this state.~~

~~(F) Name, title, and phone number of the contact person.~~

~~(G) The tax reporting periods involved.~~

~~(3) DATE OF KNOWLEDGE.~~ "Date of knowledge" shall be the date the inquiry of suspected improper distribution of local tax that contains the facts required by subdivision (a)(2) of this regulation is received by the Board, unless an earlier such date is operationally documented by the Board. If the IJC is not able to obtain the above minimum factual data, but provides a letter with the inquiry documenting IJC efforts to obtain each of the facts required by subdivision (a)(2) of this regulation, the Board will use the date this inquiry is received as the date of knowledge.

~~(4) BOARD MANAGEMENT.~~ "Board Management" consists of the Executive Director, Chief Counsel, Assistant Chief Counsel for Business Taxes, and the Deputy Director of the Sales and Use Tax Department.

(b) INQUIRIES.

The proposed amendments contained in this document may not be adopted. Any revisions that are adopted may differ from this text.

~~(1) SUBMITTING INQUIRIES. Every inquiry of local tax allocation must be submitted in writing and shall include the information set forth in subdivision (a)(2) of this regulation. Except for submittals under Revenue and Taxation Code section 6066.3, all inquiries are to be sent directly to the Allocation Group in the Refund Section of the Board's Sales and Use Tax Department.~~

~~(2) ACKNOWLEDGEMENT OF INQUIRY. The Allocation Group will acknowledge inquiries. Acknowledgement of receipt does not mean that the inquiry qualifies to establish a date of knowledge under subdivision (a)(2) of this regulation. The Allocation Group will review the inquiry and notify the IJC if the inquiry does not qualify to establish a date of knowledge.~~

~~(c) REVIEW PROCESS.~~

~~(1) REVIEW BY ALLOCATION GROUP SUPERVISOR. The Allocation Group will investigate all accepted inquiries. If the Allocation Group concludes that a misallocation has not occurred and recommends that a request for reallocation be denied, the IJC will be notified of the recommendation and allowed 30 days from the date of mailing of the notice of denial to contact the Allocation Group Supervisor to discuss the denial. The Allocation Group's notification that a misallocation has not occurred must state the specific facts on which the conclusion was based. If the IJC contacts the Allocation Group Supervisor, the IJC must state the specific facts on which its disagreement is based, and submit all additional information in its possession that supports its position at this time.~~

~~(2) REVIEW BY REFUND SECTION SUPERVISOR. Subsequent to the submission of additional information by the IJC, if the Allocation Group Supervisor upholds the denial, the IJC will be advised in writing of the decision and that it has 30 days from the date of mailing of the decision to file a "petition for reallocation" with the Refund Section Supervisor. The petition for reallocation must state the specific reasons of disagreement with the Allocation Group Supervisor's findings. If a petition for reallocation is filed by the IJC, the Refund Section Supervisor will review the request for reallocation and determine if any additional staff investigation is warranted prior to making a decision. If no basis for reallocation is found, the petition will be forwarded to the Local Tax Appeals Auditor.~~

~~(3) REVIEW BY LOCAL TAX APPEALS AUDITOR. After the petition is forwarded to the Local Tax Appeals Auditor a conference between the Local Tax Appeals Auditor and the IJC will be scheduled. The IJC may, however, at its option, provide a written brief instead of attending the conference. If a conference is held, the Local Tax Appeals Auditor will consider oral arguments, as well as review material previously presented by both the IJC and the Sales and Use Tax Department. The Local Tax Appeals Auditor will prepare a written Decision and Recommendation (D&R) detailing the facts and law involved and the conclusions reached.~~

~~(4) REVIEW BY BOARD MANAGEMENT. If the D&R's recommendation is to deny the petition, the IJC will have 30 days from the date of mailing of the D&R to file a written request for review of the D&R with Board Management. The request must state the specific reasons of disagreement with the D&R and submit any additional information that supports its position. Board Management will only consider the petition and will not meet with the IJC. The IJC will be notified in writing of the Board Management's decision. If a written request for review of the D&R is not filed with Board Management within the 30-day period, the D&R becomes final at the expiration of that period.~~

~~(5) REVIEW BY BOARD MEMBERS. If Board Management's decision is adverse to the IJC, the IJC may file a petition for hearing by the Board. The petition for hearing must state the specific reason for disagreement with Board Management findings.~~

~~(A) Petition for Hearing. The IJC shall file a petition for hearing with the Board Proceedings Division within 90 days of the date of mailing of Board Management's decision. If a petition for hearing is not filed within the 90-day period, the Board Management's decision becomes final at the expiration of that period.~~

~~(B) Persons to be Notified of the Board Hearing. After receiving the IJC's petition for hearing, the Board Proceedings Division will notify the IJC and the following persons of the Board hearing:~~

- ~~1. The taxpayer(s) whose allocations are the subject of the petition.~~

The proposed amendments contained in this document may not be adopted. Any revisions that are adopted may differ from this text.

~~2. All jurisdictions that would be substantially affected if the Board does not uphold the taxpayer's original allocation (including the jurisdictions within the statewide and countywide pools that would gain or lose money solely as a result of a reallocation to or from the pools in which they participate). For the purpose of this subdivision a jurisdiction is "substantially affected" if its total reallocation would increase or decrease by the amount of 5% of its average quarterly allocation (generally, the prior four calendar quarters) or \$50,000, whichever is less, as a result of a reallocation of the taxpayer's original allocation.~~

~~The notification will state that the claimed misallocation is being placed on the Board's Hearing Calendar to determine the proper allocation and that the IJC and all jurisdictions so notified are considered parties to the hearing.~~

~~(C) The Hearing and Parties to the Hearing. The petitioning IJC and all jurisdictions notified of the Board hearing pursuant to subdivision (c)(5)(B) are parties to the Board hearing. The taxpayer, however, shall not be considered a "party" within the meaning of this regulation unless it actively participates in the hearing process by either filing a brief or making a presentation at the hearing. The hearing shall be conducted in accordance with sections 5070 to 5087 of the Rules of Practice. The Board will make a final decision at the hearing on the proper allocation. The Board's decision exhausts all parties' administrative remedies on the matter.~~

~~(D) Presentation of New Evidence. If new arguments or evidence not previously presented at the prior levels of review are presented after Board Management's review and prior to the hearing, the Board Proceedings Division shall forward the new arguments or evidence to the Local Tax Appeals Auditor for review and recommendation to the Board. Notwithstanding subdivision (c)(5)(C) of this regulation, no new evidence or arguments not previously presented at the prior levels of review or considered by the Local Tax Appeals Auditor may be presented at the Board hearing.~~

~~(d) TIME LIMITATIONS.~~

~~(1) An IJC will be limited to one 30-day extension of the time limit established for each level of review through the Board Management level.~~

~~(2) If action is not taken beyond acknowledgement on any inquiry for a period of six months at any level of review, the IJC may request advancement to the next level of review. For the purpose of these procedures, "action" means taking the steps necessary to resolve the inquiry.~~

~~(3) By following the time limits set forth in subdivisions (c), (d)(1) and (d)(2), any date of knowledge established by the original inquiry will remain open even if additional supporting information is provided prior to closure. If the time limits or any extensions are not met, or if closure has occurred, any additional supporting documentation submitted will establish a new date of knowledge as of the date of receipt of the new information.~~

~~(e) APPEAL RIGHTS OF JURISDICTIONS THAT WILL LOSE REVENUE AS THE RESULT OF A REALLOCATION.~~

~~(1) If at any time during the review process prior to Board hearing, the Board's investigation determines that a misallocation has occurred, any jurisdiction that will lose 5% of its average quarterly allocation (generally, the prior four calendar quarters) or \$50,000, whichever is less, will be informed of the decision and be allowed 30 days from the date of mailing the notice, to contact the Allocation Group to discuss the proposed reallocation. The losing jurisdiction may follow the same appeals procedure as described in subdivisions (c) and (d) of this regulation. "Losing jurisdiction" includes a gaining jurisdiction where the original decision in favor of the gaining jurisdiction was overturned in favor of a previously losing jurisdiction. The reallocation will be postponed until the period for the losing jurisdiction to request a hearing with the Allocation Group has expired.~~

~~(2) If the losing jurisdiction contacts the Allocation Group prior to Board hearing, and subsequently petitions the proposed reallocation, the reallocation postponement will be extended pending the final outcome of the petition.~~

~~(f) LIMITATION PERIOD FOR REDISTRIBUTIONS. Redistributions shall not include amounts originally distributed earlier than two quarterly periods prior to the quarterly period in which the Board obtains knowledge of the improper distribution.~~

~~(g) APPLICATION TO SECTION 6066.3 INQUIRIES.~~

The proposed amendments contained in this document may not be adopted. Any revisions that are adopted may differ from this text.

~~(1) The procedures set forth herein for submitting information to the Board concerning improper distributions are in addition to, but separate and apart from, any procedures established under the authority of Revenue and Taxation Code section 6066.3 for making inquiries regarding improper distributions. If inquiries regarding suspected improper distribution of local tax are received both under the procedures set forth herein and section 6066.3, duplicate submissions will not be processed. The date of the earliest submission shall be controlling as to whether the request is to be handled under the provisions of this regulation or section 6066.3, and the date of knowledge shall be established under the controlling procedure.~~

~~(2) The terms and procedures set forth in subdivision (c)(2) through (c)(5) of this regulation shall also apply to appeals from reallocation determinations made under Revenue and Taxation Code section 6066.3.~~

~~(h) The provisions of this regulation shall apply to reallocation inquiries and appeals filed after January 1, 2003. Inquiries and appeals filed prior to this date shall continue to be subject to the existing inquiries and appeals procedures contained in the "Process for Reviewing Reallocation Inquiries", (June 1996, amended October 1998) incorporated herein by reference in its entirety. However, for inquiries filed prior to January 1, 2003, the IJC may elect in writing to proceed under the provisions of this regulation as to appeals not already decided or initiated. In such cases, failure to make such written election prior to appealing to the next step of review under the existing procedures shall constitute an election not to proceed under the provisions of this regulation. If written election to proceed under the provisions of this regulation is made, the provisions of this regulation become applicable the date the election is received by the Board. Neither election shall be subject to revocation.~~

The proposed amendments contained in this document may not be adopted. Any revisions that are adopted may differ from this text.

Regulation 1807. PETITIONS FOR REALLOCATION OF LOCAL TAX.

Reference: Sections 7209 and 7223, Revenue and Taxation Code

(a) DEFINITIONS.

(1) LOCAL TAX. "Local tax" means a local sales and use tax adopted pursuant to Revenue and Taxation Code section 7200, et seq., and administered by the Board.

(2) JURISDICTION. "Jurisdiction" means any city, county, city and county, or redevelopment agency which has adopted a local tax.

(3) PETITION. "Petition" means a request or inquiry from a jurisdiction, other than a submission under Revenue and Taxation Code section 6066.3, for investigation of suspected misallocation of local tax submitted in writing to the Allocation Group of the Sales and Use Tax Department. The petition must contain sufficient factual data to support the probability that local tax has been erroneously allocated and distributed. Sufficient factual data should include, for each business location being questioned:

(A) Taxpayer name, including owner name and fictitious business name or dba (doing business as) designation.

(B) Taxpayer's permit number or a notation stating "No Permit Number."

(C) Complete business address of the taxpayer.

(D) Complete description of taxpayer's business activity or activities.

(E) Specific reasons and evidence why the taxpayer's allocation is questioned. If the petition alleges that a misallocation occurred because a sale location is unregistered, evidence that the questioned location is a selling location or that it is a place of business as defined by California Code of Regulations, title 18, section 1802. If the petition alleges that a misallocation occurred because the tax for a sale shipped from an out-of-state location was actually sales tax and not use tax, evidence that there was participation in the sale by an in-state office of the retailer and that title to the goods passed to the purchaser inside California.

(F) Name, title, and telephone number of the contact person.

(G) The tax reporting periods involved.

"Petition" also includes an appeal by a jurisdiction from a notification from the Local Revenue Allocation Unit of the Sales and Use Tax Department that local taxes previously allocated to it were misallocated and will be reallocated. Such a jurisdiction may object to that notification by submitting a written petition to the Allocation Group within 30 days of the date of mailing of the notification. The petition must include a copy of the notification and specify the reason the jurisdiction disputes it. If a jurisdiction does not submit such a petition within 30 days of the date of mailing of the notification, the notification of the Local Revenue Allocation Unit is final as to the jurisdiction so notified.

(4) PETITIONER. "Petitioner" is a jurisdiction that has filed a valid petition.

(5) DATE OF KNOWLEDGE. Unless an earlier date is operationally documented by the Board, "date of knowledge" is the date on which the Allocation Group receives a valid petition. Where a misallocation that is reasonably covered by the petition is confirmed based on additional facts or evidence supplied by the petitioner or otherwise learned as a direct result of investigating the petition, the date of knowledge is the date on which the Allocation Group received the petition.

(6) SUBSTANTIALLY AFFECTED JURISDICTION. "Substantially affected jurisdiction" is a jurisdiction for which the decision on a petition would result in a decrease to its total allocation of 5 percent or more of its average quarterly allocation (generally determined with reference to the prior four calendar quarters) or of \$50,000 or more, and includes a jurisdiction whose allocation will be decreased solely as the result of a reallocation from the statewide and applicable countywide pools.

(7) NOTIFIED JURISDICTION. "Notified jurisdiction" is a jurisdiction that has been notified as a substantially affected jurisdiction.

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(b) REVIEW BY ALLOCATION GROUP.

(1) The Allocation Group will promptly acknowledge a submission intended as a petition.

(2) The Allocation Group will review the petition and issue to the petitioner a written decision to grant or deny the petition, including the basis for that decision. The written decision will also note the date of knowledge, and if other than the date the petition was received, will include the basis for that date. A reallocation will be made if the preponderance of evidence, whether provided by petitioner or obtained by Board staff as part of its investigation of the petition, shows that there was a misallocation. If the preponderance of evidence does not show that a misallocation occurred, the petition will be denied.

(3) If the Allocation Group does not issue a decision within six months of the date it receives a valid petition, the petitioner may request that the Allocation Group issue its decision without regard to the status of its investigation. Within 90 days of receiving such a request, the Allocation Group will issue its decision based on the information in its possession.

(4) If the decision of the Allocation Group is that the asserted misallocation did not occur and that the petition should be denied, in whole or in part, the petitioner may submit to the Allocation Group a written objection to the decision under subdivision (b)(6).

(5) If the decision of the Allocation Group is that a misallocation did occur, it will also mail a copy of its decision to any substantially affected jurisdiction. Any such notified jurisdiction may submit to the Allocation Group a written objection to the decision under subdivision (b)(6).

(6) The petitioner or any notified jurisdiction may appeal the decision of the Allocation Group by submitting a written objection to the Allocation Group within 30 days of the date of mailing of the Allocation Group's decision, or within a period of extension authorized by subdivision (b)(9). If no such timely objection is submitted, the decision of the Allocation Group is final as to the petitioner and all notified jurisdictions.

(7) If the petitioner or a notified jurisdiction submits a timely written objection to the decision of the Allocation Group, the Allocation Group will consider the objection and issue a written supplemental decision to grant or deny the objection, including the basis for that decision. A copy of the supplemental decision will be mailed to the petitioner, to any notified jurisdiction, and to any other jurisdiction that is substantially affected by the supplemental decision.

(8) The petitioner or any notified jurisdiction may appeal the supplemental decision of the Allocation Group by submitting a written objection under subdivision (c)(1) within 30 days of the date of mailing of that supplemental decision, or within a period of extension authorized by subdivision (b)(9). If no such timely objection is submitted, the supplemental decision of the Allocation Group is final as to the petitioner and all notified jurisdictions.

(9) The petitioner or any notified jurisdiction may request a 30-day extension to submit a written objection under subdivision (b)(6) or under subdivision (b)(8), as applicable. Such request must provide a reasonable explanation for the requesting jurisdiction's inability to submit its objection within 30 days, must be copied to all other jurisdictions to whom the Allocation Group mailed a copy of its decision or supplemental decision (to the extent known by the requesting jurisdiction), and must be received by the Allocation Group within 30 days of the date of mailing of its decision or supplemental decision. Within five days of receipt of the request, the Allocation Group will mail notification to the petitioner and to all notified jurisdictions whether the request is granted or denied. If a timely request for an extension is submitted, the time for the petitioner and any notified jurisdiction to file a written objection to the decision or supplemental decision of the Allocation Group is extended to 10 days after the mailing of the notice of whether the request is granted or denied. If the request is granted, the time for the petitioner and all notified jurisdictions to submit a written objection to the decision or supplemental decision of the Allocation Group is further extended to the 60th day after the date of mailing of the decision or supplemental decision.

(c) REVIEW BY APPEALS DIVISION.

(1) The petitioner or any notified jurisdiction may appeal the supplemental decision of the Allocation Group by submitting a written objection to the Allocation Group within 30 days of the date of mailing of the Allocation Group's supplemental decision, or within a period of extension authorized by subdivision (b)(9). Such an objection must state the

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basis for the objecting jurisdiction's disagreement with the supplemental decision and include all additional information in its possession that supports its position.

(2) If a timely objection to its supplemental decision is submitted, the Allocation Group will prepare the file and forward it to the Appeals Division. The petitioner, all notified jurisdictions, and the Sales and Use Tax Department will thereafter be mailed notice of the appeals conference, which will generally be sent at least 45 days prior to the scheduled date of the conference.

(A) Petitioner or any notified jurisdiction may continue to discuss the dispute with staff of the Sales and Use Tax Department after the dispute is referred to the Appeals Division. If, as a result of such discussions or otherwise, the Sales and Use Tax Department decides the supplemental decision of the Allocation Group was incorrect or that further investigation should be pursued, it shall so notify the Appeals Division, the petitioner, and all notified jurisdictions.

(B) If the Department sends notice to the Appeals Division in accordance with the subdivision (c)(2)(A) no later than 30 days prior to the date scheduled for the appeals conference, the Appeals Division will suspend its review and the dispute will be returned to the Department. The Department will thereafter issue a second supplemental decision, or will return the dispute to the Appeals Division along with a report of its further investigation, if appropriate, for the review and decision of the Appeals Division.

(C) If the Department sends notice to the Appeals Division in accordance with subdivision (c)(2)(A) less than 30 days prior to the date scheduled for the appeals conference, the Appeals Division will decide whether the dispute should be returned to the Department or remain with the Appeals Division, and notify the parties accordingly. If the dispute is returned to the Department, the Department will thereafter issue a second supplemental decision, or will return the dispute to the Appeals Division along with a report of its further investigation, if appropriate, for the review and decision of the Appeals Division.

(D) Where the Department issues a second supplemental decision in accordance with subdivision (c)(2)(B) or (c)(2)(C), it will send a copy of the decision to the petitioner, any notified jurisdiction, and any other jurisdiction that is substantially affected by the second supplemental decision, any of whom may appeal the second supplemental decision by submitting a written objection under subdivision (c)(1) within 30 days of the date of mailing of that supplemental decision, or within a period of extension authorized by subdivision (b)(9). If no such timely objection is submitted, the second supplemental decision is final as to the petitioner and all notified jurisdictions.

(3) The appeals conference is not an adversarial proceeding, but rather is an informal discussion where the petitioner, any notified jurisdictions who wish to participate, and the Sales and Use Tax Department have the opportunity to explain their respective positions regarding the relevant facts and law to the Appeals Division conference holder. To make the conference most productive, each participant should submit all facts, law, argument, and other information in support of its position to the Appeals Division conference holder, and to the other participants, at least 15 days before the date of the appeals conference; however, relevant facts and arguments will be accepted at any time at or before the appeals conference. If, during the appeals conference, a participant requests permission to submit additional written arguments and documentary evidence, the conference holder may grant that participant 15 days after the appeals conference, or 30 days with sufficient justification, to submit to the conference holder, with copies to all other participants, such additional arguments and evidence. Any other participant at the conference who is in opposition to the requesting participant on the issue(s) covered by the additional submission is allowed 15 days to submit to the conference holder, with copies to all other participants, arguments and evidence in response. No request by a participant for further time to submit additional arguments or evidence will be granted without the approval of the Assistant Chief Counsel of the Appeals Division or his or her designee. The Appeals Division on its own initiative may also request, at or after the appeals conference, further submissions from any participant.

(4) Within 90 days after the final submission authorized by subdivision (c)(3), the Appeals Division will issue a written Decision and Recommendation (D&R) setting forth the applicable facts and law and the conclusions of the Appeals Division. The Chief Counsel may allow up to 90 additional days to prepare the D&R upon request of the Appeals Division. Both the request and the Chief Counsel's response granting or denying the request for additional time must be in writing and copies provided to the petitioner, all notified jurisdictions, and the Sales and Use Tax Department. A copy of the D&R will be mailed to the petitioner, to all notified jurisdictions, to any other jurisdiction that will be substantially affected by the D&R, and to the Sales and Use Tax Department.

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(5) The petitioner or any notified jurisdiction may appeal the D&R by submitting a written request for Board hearing under subdivision (d)(1) within 60 days of the date of mailing of the D&R.

(6) The petitioner, any notified jurisdiction, or the Sales and Use Tax Department may also appeal the D&R, or any Supplemental D&R (SD&R), by submitting a written request for reconsideration (RFR) to the Appeals Division before expiration of the time during which a timely request for Board hearing may be submitted, or if a Board hearing has been requested, prior to that hearing. If a jurisdiction or the Sales and Use Tax Department submits an RFR before the time for requesting a Board hearing has expired, the Appeals Division will issue an SD&R to consider the request, after obtaining whatever additional information or arguments from the parties that it deems appropriate. If an RFR is submitted after a jurisdiction has requested a Board hearing, the Appeals Division will determine whether it should issue an SD&R in response. A copy of the SD&R issued under this subdivision or under subdivision (c)(7) will be mailed to the petitioner, to all notified jurisdictions, to any other jurisdiction that will be substantially affected by the SD&R, and to the Sales and Use Tax Department. The petitioner or any notified jurisdiction may appeal the SD&R by submitting a written request for Board hearing under subdivision (d)(1) within 60 days of the date of mailing of the SD&R.

(7) Whether or not an RFR is submitted, at any time prior to the time the recommendation in the D&R or prior SD&R is acted on by the Department as a final matter or the Board has held an oral hearing on the petition, the Appeals Division may issue an SD&R as it deems necessary to augment, clarify, or correct the information, analysis, or conclusions contained in the D&R or any prior SD&R.

(8) If no RFR is submitted under subdivision (c)(6) or request for Board hearing under subdivision (d)(1) within 60 days of the date of mailing of the D&R or any SD&R, the D&R or SD&R as applicable is final as to the petitioner and all notified jurisdictions unless the Appeals Division issues an SD&R under subdivision (c)(7).

(d) REVIEW BY BOARD.

(1) The petitioner or any notified jurisdiction may submit a written request for Board hearing if it does so to the Board Proceedings Division within 60 days of the date of mailing of the D&R or any SD&R. Such a request must state the basis for the jurisdiction's disagreement with the D&R or SD&R as applicable and include all additional information in its possession that supports its position.

(2) If the Board Proceedings Division receives a timely request for hearing under subdivision (d)(1), it will notify the Sales and Use Tax Department, the petitioner, any notified jurisdiction, any other jurisdiction that would be substantially affected if the petition were granted, and the taxpayer(s) whose allocations are the subject of the petition, that the petition for reallocation of local tax is being scheduled for a Board hearing to determine the proper allocation.

(3) The Sales and Use Tax Department, the petitioner, and all jurisdictions notified of the Board hearing pursuant to subdivision (d)(2) are parties and may participate in the Board hearing. The taxpayer is not a party to the Board hearing unless it chooses to actively participate in the hearing process by either filing a brief or making a presentation at the hearing.

(4) Briefs may be submitted for the Board hearing in accordance with California Code of Regulations, title 18, sections 5270 and 5271.

(5) To the extent not inconsistent with this regulation, the hearing will be conducted in accordance with Chapter 5 of the Board of Equalization Rules for Tax Appeals (Cal. Code Regs., tit. 18, § 5510, et seq.). The Board will apply the preponderance of evidence rules set forth in subdivision (b)(2) in reaching its decision and not the burden of proof rules set forth in California Code of Regulations, title 18, section 5541. The Board's final decision on a petition for reallocation exhausts all administrative remedies on the matter for all jurisdictions.

(e) LIMITATION PERIOD FOR REDISTRIBUTIONS. Redistributions shall not include amounts originally distributed earlier than two quarterly periods prior to the quarter of the date of knowledge.

(f) APPLICATION TO SECTION 6066.3 INQUIRIES.

The procedures set forth herein for submitting a petition for reallocation of local tax are separate from those applicable to a submission under Revenue and Taxation Code section 6066.3. If a petition under the procedures set forth herein and a submission under section 6066.3 are both filed for the same alleged improper distribution, only the earliest submission will

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be processed, with the date of knowledge established under the procedures applicable to that earliest submission. However, the procedures set forth in subdivisions (b), (c), and (d) also apply to appeals from reallocation determinations made under section 6066.3.

(g) OPERATIVE DATE AND TRANSITION RULES.

This regulation is intended to reduce the time required to decide the validity of reallocation petitions and otherwise improve the process for doing so. It is intended to have a neutral impact only on the current dispute over the continuing validity of certain petitions that are governed by prior Regulation 1807 (effective February 22, 2003).

(1) The operative date of this regulation is the date it becomes effective under Section 11343.4 of the Government Code (thirty days after it has been approved by the Office of Administrative Law and forwarded to the Secretary of State) and it shall have no retroactive effect.

(2) Petitions filed prior to the operative date of this regulation, shall be reviewed, appealed and decided in accordance with this regulation as to procedures occurring after that date. All such petitions filed prior to January 1, 2003 and denied by Board Management must perfect any access they may have to a Board Member hearing no later than 60 days after the operative date of this regulation.

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Regulation 1828. PROCESS FOR REVIEWING TRANSACTIONS AND USE TAX DISTRIBUTION INQUIRIES.

Reference: Section 7270 Revenue and Taxation Code.

(a) DEFINITIONS.

~~(1) DISTRICT. "District" means any entity, including a city, county, city and county, or special taxing jurisdiction, which levies a transactions and use ("district") tax that the Board administers pursuant to Part 1.6, Division 2, Revenue and Taxation Code (Sections 7251-7279.6).~~

~~(2) DISTRICT TAX. Any tax levied under special statutory authority that the Board administers pursuant to Part 1.6, Division 2, Revenue and Taxation Code (Sections 7251-7279.6). District taxes may be for either general or special purposes.~~

~~(3) INQUIRING DISTRICTS AND THEIR CONSULTANTS (IDC). "Inquiring Districts and their Consultants (IDC)" means any district which has adopted a district tax ordinance and which has entered into a contract with the Board to perform all functions incidental to the administration or operation of that ordinance. IDC also includes any consultant that has entered into an agreement with the tax district and has a current resolution filed with the Board which authorizes one (or more) of its officials, employees, or other designated persons to examine the appropriate sales, transactions, and use tax records of the Board.~~

~~(4) CLAIM (INQUIRY) OF INCORRECT DISTRIBUTION OR NON DISTRIBUTION OF DISTRICT TAX. "Claim or inquiry" means a written request from an IDC for investigation of suspected improper distribution or nondistribution of district tax. The inquiry must contain sufficient factual data to support the probability that district tax has not been distributed or has been erroneously distributed. Sufficient factual data must include at a minimum all of the following for each business location being questioned:~~

~~(A) Taxpayer name, including owner name and fictitious business name or d.b.a. (doing business as) designation.~~

~~(B) Taxpayer's permit number or a notation stating "No Permit Number."~~

~~(C) Complete business address of the taxpayer.~~

~~(D) Complete description of taxpayer's business activity or activities.~~

~~(E) Specific reasons and evidence why the distribution or nondistribution is questioned, including the location to which the property the sales of which are at issue was delivered. In cases that involve claims that the transactions that are the focus of the appeal are subject to the IDC's district use tax, evidence must be submitted that the retailer is engaged in business in the IDC under Regulation 1827.~~

~~(F) Name, title, and phone number of the contact person.~~

~~(G) The tax reporting periods involved.~~

~~(5) CLAIM DATE "Claim date" shall be the date the inquiry of suspected improper distribution or non distribution of district tax that contains the facts required by subdivision (a)(4) of this regulation is received by the Board, unless an earlier such date is operationally documented by the Board. The Board shall redistribute district tax revenues back from the claim date to the beginning of the applicable statute of limitations. If the IDC is not able to obtain the above minimum factual data but provides a letter with the inquiry documenting IDC efforts to obtain each of the facts required by subdivision (a)(4) of this regulation, the Board will use the date this inquiry is received as the claim date.~~

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~~(6) BOARD MANAGEMENT. "Board Management" consists of the Executive Director, Chief Counsel, Assistant Chief Counsel for Business Taxes, and the Deputy Director of the Sales and Use Tax Department.~~

~~(b) INQUIRIES.~~

~~(1) SUBMITTING INQUIRIES. Every inquiry regarding district tax distributions must be submitted in writing and shall include the information set forth in subdivision (a)(4) of this regulation. All inquiries must be sent directly to the Allocation Group in the Audit Determination and Refund Section of the Board's Sales and Use Tax Department.~~

~~(2) ACKNOWLEDGEMENT OF INQUIRY. The Allocation Group will acknowledge inquiries. Acknowledgement of receipt does not mean that the inquiry qualifies to establish a claim date under subdivision (a)(4) of this regulation. The Allocation Group will review the inquiry and notify the IDC if the inquiry does not qualify to establish a claim date. Investigation of an alleged improper distribution cannot occur until a claim date is established.~~

~~(c) REVIEW PROCESS.~~

~~(1) REVIEW BY ALLOCATION GROUP SUPERVISOR. The Allocation Group will investigate all accepted inquiries. If the Allocation Group concludes that an improper distribution has not occurred and recommends that a request for redistribution be denied, the IDC will be notified of the recommendation and allowed 30 days from the date of mailing of the notice of denial to contact the Allocation Group Supervisor to discuss the denial. The Allocation Group's notification that an improper distribution has not occurred must state the specific facts on which the conclusion was based. If the IDC contacts the Allocation Group Supervisor, the IDC must state the specific facts on which its disagreement is based, and submit all additional information in its possession that supports its position at this time.~~

~~(2) REVIEW BY AUDIT DETERMINATION AND REFUND SECTION SUPERVISOR. Subsequent to the submission of additional information by the IDC, if the Allocation Group Supervisor upholds the denial, the IDC will be advised in writing of the decision and that it has 30 days from the date of mailing of the decision to file a "petition for redistribution" with the Audit Determination and Refund Section Supervisor. The petition for redistribution must state the specific reasons of disagreement with the Allocation Group Supervisor's findings. If a petition for redistribution is filed by the IDC, the Audit Determination and Refund Section Supervisor will review the request for redistribution and determine if any additional staff investigation is warranted prior to making a decision. If no basis for redistribution is found, the petition will be forwarded to the Local Tax Appeals Auditor.~~

~~(3) REVIEW BY LOCAL TAX APPEALS AUDITOR. After the petition is forwarded to the Local Tax Appeals Auditor, a conference between the Local Tax Appeals Auditor and the IDC will be scheduled. However, the IDC may provide a written brief in addition to or instead of attending the conference. If a conference is held, the Local Tax Appeals Auditor will consider oral arguments, as well as review material previously presented by both the IDC and the Sales and Use Tax Department. The Local Tax Appeals Auditor will prepare a written Decision and Recommendation (D&R) detailing the facts and law involved and the conclusions reached.~~

~~(4) REVIEW BY BOARD MANAGEMENT. If the D&R's recommendation is to deny the petition, the IDC will have 30 days from the date of mailing of the D&R to file a written request for review of the D&R with Board Management. The request must state the specific reasons of disagreement with the D&R and submit any additional information that supports its position. Board Management will only consider the petition and will not meet with the IDC. The IDC will be notified in writing of the Board Management's decision. If a written request for review of the D&R is not filed with Board Management within the 30-day period, the D&R becomes final at the expiration of that period.~~

~~(5) REVIEW BY BOARD MEMBERS. If Board Management's decision is adverse to the IDC, the IDC may file a petition for hearing by the Board. The petition for hearing must state the specific reason for disagreement with Board Management findings.~~

The proposed amendments contained in this document may not be adopted. Any revisions that are adopted may differ from this text.

~~(A) Petition for Hearing.~~ The IDC shall file a petition for hearing with the Board Proceedings Division within 90 days of the date of mailing of Board Management's decision. If a petition for hearing is not filed within the 90-day period, the Board Management's decision becomes final at the expiration of that period.

~~(B) Persons to be Notified of the Board Hearing.~~ After receiving the IDC's petition for hearing, the Board Proceedings Division will notify the IDC and the following persons of the Board hearing:

~~1. The taxpayer(s) whose district tax reporting was the subject of the petition.~~

~~2. All districts that would be substantially affected if the Board does not uphold the taxpayer's original distribution. For the purpose of this subdivision a district is "substantially affected" if its total redistribution would increase or decrease by the amount of 5% of its average quarterly distribution (generally, the prior four calendar quarters) or \$50,000, whichever is less, as a result of such redistribution.~~

The notification will state that the claimed improper distribution is being placed on the Board's Hearing Calendar to determine the proper distribution and that the IDC and all districts so notified are considered parties to the hearing.

~~(C) The Hearing and Parties to the Hearing.~~ The petitioning IDC and all districts notified of the Board hearing pursuant to subdivision (c)(5)(B) are parties to the Board hearing. The taxpayer, however, shall not be considered a "party" within the meaning of this regulation unless it actively participates in the hearing process by either filing a brief or making a presentation at the hearing. The hearing shall be conducted in accordance with sections 5070 to 5087 of the Rules of Practice. The Board's decision is final as provided in Regulation 5082. The Board's decision exhausts all parties' administrative remedies on the matter.

~~(D) Presentation of New Evidence.~~ If new arguments or evidence not previously presented at the prior levels of review are presented after Board Management's review and prior to the hearing, the Board Proceedings Division shall forward the new arguments or evidence to the Local Tax Appeals Auditor for review and recommendation to the Board. Notwithstanding subdivision (c)(5)(C) of this regulation, no new evidence or arguments not previously presented at the prior levels of review or considered by the Local Tax Appeals Auditor may be presented at the Board hearing.

~~(d) TIME LIMITATIONS.~~

~~(1) An IDC will be limited to one 30-day extension of the time limit established for each level of review through the Board Management level.~~

~~(2) If action is not taken beyond acknowledgement on any inquiry for a period of six months at any level of review, the IDC may request advancement to the next level of review. For the purpose of these procedures, "action" means taking the steps necessary to resolve the inquiry.~~

~~(3) By following the time limits set forth in subdivisions (c), (d)(1) and (d)(2), any claim date established by the original inquiry will remain open even if additional supporting information is provided prior to closure. If the time limits or any extensions are not met, or if closure has occurred, any additional supporting documentation submitted will establish a new claim date as of the date of receipt of the new information.~~

~~(e) APPEAL RIGHTS OF DISTRICTS THAT WILL LOSE REVENUE AS THE RESULT OF A REDISTRIBUTION.~~

~~(1) If at any time during the review process prior to Board hearing, the Board's investigation determines that an improper distribution has occurred, any district that will lose 5% of its average quarterly receipts (generally, the prior four calendar quarters) or \$50,000, whichever is less, will be informed of the decision and be allowed 30 days from the date of mailing the notice, to contact the Allocation Group to discuss the proposed redistribution. The losing district may follow the same appeals procedure as described in subdivisions (c) and (d) of this regulation. "Losing district" includes a gaining district where the original decision in favor of the gaining district was overturned in favor of a previously losing district. The redistribution will be postponed until the period for the losing district to request a hearing with the Allocation Group has expired.~~

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~~(2) If the losing district contacts the Allocation Group prior to Board hearing, and subsequently petitions the proposed redistribution, the redistribution postponement will be extended pending the final outcome of the petition.~~

~~(f) OPERATIVE DATE.~~

~~The provisions of this regulation shall apply to redistribution inquiries and appeals filed after July 1, 2004. Inquiries and appeals filed prior to this date shall continue to be subject to existing inquiries and appeals procedures. However, for inquiries filed prior to July 1, 2004, the IDC may elect in writing to proceed under the provisions of this regulation as to appeals not already decided or initiated. In such cases, failure to make such written election prior to appealing to the next step of review under the existing procedures shall constitute an election not to proceed under the provisions of this regulation. If written election to proceed under the provisions of this regulation is made, the provisions of this regulation become applicable the date the election is received by the Board. Neither election shall be subject to revocation.~~

The proposed amendments contained in this document may not be adopted. Any revisions that are adopted may differ from this text.

Regulation 1828. PETITIONS FOR DISTRIBUTION OR REDISTRIBUTION OF TRANSACTIONS AND USE TAX.

Reference: Section 7270 Revenue and Taxation Code.

(a) DEFINITIONS.

(1) DISTRICT TAX. "District tax" means a transaction and use tax adopted pursuant to Revenue and Taxation Code section 7251, et seq., or pursuant to Revenue and Taxation Code section 7285, et seq., and administered by the Board.

(2) DISTRICT. "District" means any entity, including a city, county, city and county, or special taxing jurisdiction, which has adopted a district tax.

(3) PETITION. "Petition" means a request or inquiry from a district for investigation of suspected improper distribution or nondistribution of district tax submitted in writing to the Allocation Group of the Sales and Use Tax Department. The petition must contain sufficient factual data to support the probability that district tax has not been distributed or has been erroneously distributed. Sufficient factual data should include, for each business location being questioned:

(A) Taxpayer name, including owner name and fictitious business name or dba (doing business as) designation.

(B) Taxpayer's permit number or a notation stating "No Permit Number."

(C) Complete business address of the taxpayer.

(D) Complete description of taxpayer's business activity or activities.

(E) Specific reasons and evidence why the distribution or nondistribution is questioned, identifying the delivery location or locations of the property the sales of which are at issue. If the petition alleges that the subject transactions are subject to the district's use tax, evidence that the retailer is engaged in business in the district as provided in California Code of Regulations, title 18, section 1827, subdivision (c).

(F) Name, title, and telephone number of the contact person.

(G) The tax reporting periods involved.

"Petition" also includes an appeal by a district from a notification from the Local Revenue Allocation Unit of the Sales and Use Tax Department that district taxes previously allocated to it were misallocated and will be reallocated. Such a district may object to that notification by submitting a written petition to the Allocation Group within 30 days of the date of mailing of the notification. The petition must include a copy of the notification and specify the reason the district disputes it. If a district does not submit such a petition within 30 days of the date of mailing of the notification, the notification of the Local Revenue Allocation Unit is final as to the district so notified.

(4) PETITIONER. "Petitioner" is a district that has filed a valid petition.

(5) DATE OF KNOWLEDGE. Unless an earlier date is operationally documented by the Board, "date of knowledge" is the date on which the Allocation Group receives a valid petition. Where an error in distribution that is reasonably covered by the petition is confirmed based on additional facts or evidence supplied by the petitioner or otherwise learned as a direct result of investigating the petition, the date of knowledge is the date on which the Allocation Group received the petition.

(6) SUBSTANTIALLY AFFECTED DISTRICT. "Substantially affected district" is a district for which the decision on a petition would result in a decrease to its total distribution of 5 percent or more of its average quarterly distribution (generally determined with reference to the prior four calendar quarters) or of \$50,000 or more.

(7) NOTIFIED DISTRICT. "Notified district" is a district that has been notified as a substantially affected district.

The proposed amendments contained in this document may not be adopted. Any revisions that are adopted may differ from this text.

(b) REVIEW BY ALLOCATION GROUP.

_____ (1) The Allocation Group will promptly acknowledge a submission intended as a petition.

_____ (2) The Allocation Group will review the petition and issue to the petitioner a written decision to grant or deny the petition, including the basis for that decision. The written decision will also note the date of knowledge, and if other than the date the petition was received, will include the basis for that date. A redistribution will be made if the preponderance of evidence, whether provided by petitioner or obtained by Board staff as part of its investigation of the petition, shows that there was an error in distribution. If the preponderance of evidence does not show that an error in distribution occurred, the petition will be denied.

_____ (3) If the Allocation Group does not issue a decision within six months of the date it receives a valid petition, the petitioner may request that the Allocation Group issue its decision without regard to the status of its investigation. Within 90 days of receiving such a request, the Allocation Group will issue its decision based on the information in its possession.

_____ (4) If the decision of the Allocation Group is that the asserted error in distribution did not occur and that the petition should be denied, in whole or in part, the petitioner may submit to the Allocation Group a written objection to the decision under subdivision (b)(6).

_____ (5) If the decision of the Allocation Group is that an error in distribution did occur, it will also mail a copy of its decision to any substantially affected district. Any such notified district may submit to the Allocation Group a written objection to the decision under subdivision (b)(6).

_____ (6) The petitioner or any notified district may appeal the decision of the Allocation Group by submitting a written objection to the Allocation Group within 30 days of the date of mailing of the Allocation Group's decision, or within a period of extension authorized by subdivision (b)(9). If no such timely objection is submitted, the decision of the Allocation Group is final as to the petitioner and all notified districts.

_____ (7) If the petitioner or a notified district submits a timely written objection to the decision of the Allocation Group, the Allocation Group will consider the objection and issue a written supplemental decision to grant or deny the objection, including the basis for that decision. A copy of the supplemental decision will be mailed to the petitioner, to any notified district, and to any other district that is substantially affected by the supplemental decision.

_____ (8) The petitioner or any notified district may appeal the supplemental decision of the Allocation Group by submitting a written objection under subdivision (c)(1) within 30 days of the date of mailing of that supplemental decision, or within a period of extension authorized by subdivision (b)(9). If no such timely objection is submitted, the supplemental decision of the Allocation Group is final as to the petitioner and all notified districts.

_____ (9) The petitioner or any notified district may request a 30-day extension to submit a written objection under subdivision (b)(6) or under subdivision (b)(8), as applicable. Such request must provide a reasonable explanation for the requesting district's inability to submit its objection within 30 days, must be copied to all other districts to whom the Allocation Group mailed a copy of its decision or supplemental decision (to the extent known by the requesting district), and must be received by the Allocation Group within 30 days of the date of mailing of its decision or supplemental decision. Within five days of receipt of the request, the Allocation Group will mail notification to the petitioner and to all notified districts whether the request is granted or denied. If a timely request for an extension is submitted, the time for the petitioner and any notified district to file a written objection to the decision or supplemental decision of the Allocation Group is extended to 10 days after the mailing of the notice of whether the request is granted or denied. If the request is granted, the time for the petitioner and all notified districts to submit a written objection to the decision or supplemental decision of the Allocation Group is further extended to the 60th day after the date of mailing of the decision or supplemental decision.

(c) REVIEW BY APPEALS DIVISION.

The proposed amendments contained in this document may not be adopted. Any revisions that are adopted may differ from this text.

(1) The petitioner or any notified district may appeal the supplemental decision of the Allocation Group by submitting a written objection to the Allocation Group within 30 days of the date of mailing of the Allocation Group's supplemental decision, or within a period of extension authorized by subdivision (b)(9). Such an objection must state the basis for the objecting district's disagreement with the supplemental decision and include all additional information in its possession that supports its position.

(2) If a timely objection to its supplemental decision is submitted, the Allocation Group will prepare the file and forward it to the Appeals Division. The petitioner, all notified districts, and the Sales and Use Tax Department will thereafter be mailed notice of the appeals conference, which will generally be sent at least 45 days prior to the scheduled date of the conference.

(A) Petitioner or any notified district may continue to discuss the dispute with staff of the Sales and Use Tax Department after the dispute is referred to the Appeals Division. If, as a result of such discussions or otherwise, the Sales and Use Tax Department decides the supplemental decision of the Allocation Group was incorrect or that further investigation should be pursued, it shall so notify the Appeals Division, the petitioner, and all notified districts.

(B) If the Department sends notice to the Appeals Division in accordance with the subdivision (c)(2)(A) no later than 30 days prior to the date scheduled for the appeals conference, the Appeals Division will suspend its review and the dispute will be returned to the Department. The Department will thereafter issue a second supplemental decision, or will return the dispute to the Appeals Division along with a report of its further investigation, if appropriate, for the review and decision of the Appeals Division.

(C) If the Department sends notice to the Appeals Division in accordance with subdivision (c)(2)(A) less than 30 days prior to the date scheduled for the appeals conference, the Appeals Division will decide whether the dispute should be returned to the Department or remain with the Appeals Division, and notify the parties accordingly. If the dispute is returned to the Department, the Department will thereafter issue a second supplemental decision, or will return the dispute to the Appeals Division along with a report of its further investigation, if appropriate, for the review and decision of the Appeals Division.

(D) Where the Department issues a second supplemental decision in accordance with subdivision (c)(2)(B) or (c)(2)(C), it will send a copy of the decision to the petitioner, any notified district, and any other district that is substantially affected by the second supplemental decision, any of whom may appeal the second supplemental decision by submitting a written objection under subdivision (c)(1) within 30 days of the date of mailing of that supplemental decision, or within a period of extension authorized by subdivision (b)(9). If no such timely objection is submitted, the second supplemental decision is final as to the petitioner and all notified districts.

(3) The appeals conference is not an adversarial proceeding, but rather is an informal discussion where the petitioner, any notified districts who wish to participate, and the Sales and Use Tax Department have the opportunity to explain their respective positions regarding the relevant facts and law to the Appeals Division conference holder. To make the conference most productive, each participant should submit all facts, law, argument, and other information in support of its position to the Appeals Division conference holder, and to the other participants, at least 15 days before the date of the appeals conference; however, relevant facts and arguments will be accepted at any time at or before the appeals conference. If, during the appeals conference, a participant requests permission to submit additional written arguments and documentary evidence, the conference holder may grant that participant 15 days after the appeals conference, or 30 days with sufficient justification, to submit to the conference holder, with copies to all other participants, such additional arguments and evidence. Any other participant at the conference who is in opposition to the requesting participant on the issue(s) covered by the additional submission is allowed 15 days to submit to the conference holder, with copies to all other participants, arguments and evidence in response. No request by a participant for further time to submit additional arguments or evidence will be granted without the approval of the Assistant Chief Counsel of the Appeals Division or his or her designee. The Appeals Division on its own initiative may also request, at or after the appeals conference, further submissions from any participant.

(4) Within 90 days after the final submission authorized by subdivision (c)(3), the Appeals Division will issue a written Decision and Recommendation (D&R) setting forth the applicable facts and law and the conclusions of the Appeals Division. The Chief Counsel may allow up to 90 additional days to prepare the D&R upon request of the

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Appeals Division. Both the request and the Chief Counsel's response granting or denying the request for additional time must be in writing and copies provided to the petitioner, all notified districts, and the Sales and Use Tax Department. A copy of the D&R will be mailed to the petitioner, to all notified districts, to any other district that will be substantially affected by the D&R, and to the Sales and Use Tax Department.

(5) The petitioner or any notified district may appeal the D&R by submitting a written request for Board hearing under subdivision (d)(1) within 60 days of the date of mailing of the D&R.

(6) The petitioner, any notified district, or the Sales and Use Tax Department may also appeal the D&R, or any Supplemental D&R (SD&R), by submitting a written request for reconsideration (RFR) to the Appeals Division before expiration of the time during which a timely request for Board hearing may be submitted, or if a Board hearing has been requested, prior to that hearing. If a district or the Sales and Use Tax Department submits an RFR before the time for requesting a Board hearing has expired, the Appeals Division will issue an SD&R to consider the request, after obtaining whatever additional information or arguments from the parties that it deems appropriate. If an RFR is submitted after a district has requested a Board hearing, the Appeals Division will determine whether it should issue an SD&R in response. A copy of the SD&R issued under this subdivision or under subdivision (c)(7) will be mailed to the petitioner, to all notified districts, to any other district that will be substantially affected by the SD&R, and to the Sales and Use Tax Department. The petitioner or any notified district may appeal the SD&R by submitting a written request for Board hearing under subdivision (d)(1) within 60 days of the date of mailing of the SD&R.

(7) Whether or not an RFR is submitted, at any time prior to the time the recommendation in the D&R or prior SD&R is acted on by the Department as a final matter or the Board has held an oral hearing on the petition, the Appeals Division may issue an SD&R as it deems necessary to augment, clarify, or correct the information, analysis, or conclusions contained in the D&R or any prior SD&R.

(8) If no RFR is submitted under subdivision (c)(6) or request for Board hearing under subdivision (d)(1) within 60 days of the date of mailing of the D&R or any SD&R, the D&R or SD&R as applicable is final as to the petitioner and all notified districts unless the Appeals Division issues an SD&R under subdivision (c)(7).

(d) REVIEW BY BOARD.

(1) The petitioner or any notified district may submit a written request for Board hearing if it does so to the Board Proceedings Division within 60 days of the date of mailing of the D&R or any SD&R. Such a request must state the basis for the district's disagreement with the D&R or SD&R as applicable and include all additional information in its possession that supports its position.

(2) If the Board Proceedings Division receives a timely request for hearing under subdivision (d)(1), it will notify the Sales and Use Tax Department, the petitioner, any notified district, any other district that would be substantially affected if the petition were granted, and the taxpayer(s) whose distribution (or nondistribution) are the subject of the petition, that the petition for redistribution of district tax is being scheduled for a Board hearing to determine the proper distribution.

(3) The Sales and Use Tax Department, the petitioner, and all districts notified of the Board hearing pursuant to subdivision (d)(2) are parties and may participate in the Board hearing. The taxpayer is not a party to the Board hearing unless it chooses to actively participate in the hearing process by either filing a brief or making a presentation at the hearing.

(4) Briefs may be submitted for the Board hearing in accordance with California Code of Regulations, title 18, sections 5270 and 5271.

(5) To the extent not inconsistent with this regulation, the hearing will be conducted in accordance with Chapter 5 of the Board of Equalization Rules for Tax Appeals (Cal. Code Regs., tit. 18, § 5510, et seq.). The Board will apply the preponderance of evidence rules set forth in subdivision (b)(2) in reaching its decision and not the burden of proof rules set forth in California Code of Regulations, title 18, section 5541. The Board's final decision on a petition for redistribution exhausts all administrative remedies on the matter for all districts.

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(e) LIMITATION PERIOD FOR REDISTRIBUTIONS.

For redistributions where the date of knowledge is prior to January 1, 2008, the standard three-year statute of limitations is applicable, based on the date of knowledge. For redistributions where the date of knowledge is on or after January 1, 2008, redistributions shall not include amounts originally distributed earlier than two quarterly periods prior to the quarter of the date of knowledge.

(f) OPERATIVE DATE AND TRANSITION RULES.

This regulation is intended to reduce the time required to decide the validity of redistribution petitions and otherwise improve the process for doing so. It is intended to have a neutral impact only on the current dispute over the continuing validity of certain petitions that are governed by prior Regulation 1828 (effective June 17, 2004).

(1) The operative date of this regulation is the date it becomes effective under Section 11343.4 of the Government Code (thirty days after it has been approved by the Office of Administrative Law and forwarded to the Secretary of State) and it shall have no retroactive effect.

(2) Petitions filed prior to the operative date of this regulation, shall be reviewed, appealed and decided in accordance with this regulation as to procedures occurring after that date. All such petitions filed prior to July 1, 2004 and denied by Board Management must perfect any access they may have to a Board Member hearing no later than 60 days after the operative date of this regulation.

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