



Our new industry guides offer simple tax guidance

For those who are just starting a business, searching for the right information can be time-consuming. We are streamlining your experience by developing this series of web-based industry guides designed to be a one-stop shop for business owners and operators looking for information on key topics relevant to your business. Our “Industry Guide” series provides basic information that complements our many online publications.

They explain how tax applies to the types of transactions owners and operators most commonly engage in, and include links to related resources, all in a convenient tab-based format.

Currently available on our website are tax guides for businesses that include: Agricultural Industry, Auto Repair Garages, Caterers, Construction Contractors, Gas Stations, Liquor Stores, Mobile Phone Vendors, Nonprofit Organizations, Restaurants, and Tax Practitioners. You can find the Industry Guides link under the Business Center heading on our main page.

Please send your suggestions regarding our [Industry Guide](#) series of webpages to SUTD-Industry_Guides@boe.ca.gov.

New partial exemption for manufacturing equipment to take effect on July 1, 2014

Beginning on July 1, 2014, and extending until June 30, 2022, “qualified” purchasers of manufacturing, and research and development equipment will be eligible to obtain a partial exemption of the sales and use tax rate. This partial tax exemption is the result of the passing of Assembly Bill 93 as amended by Senate Bill 90 that were signed by the Governor on July 11, 2013. (Visit our Industry Guide on the [Manufacturer’s Exemption](#) for details.)

For the period beginning July 1, 2014, through December 31, 2016, the exemption will reduce the state sales and use tax rate by 4.1875 percent. For the period beginning January 1, 2017, through June 30, 2022, the exemption reduces the state sales and use tax rate by 3.9375 percent to coincide with the 0.25 percent state rate reduction. The exemption applies to the state tax portion only. It does not apply to any local, city, county, or district tax. The exemption on qualifying purchases is limited to \$200 million per year per qualified person.

A “qualified person” means a person who is primarily engaged (50 percent or more of the time) in those lines of business described in the North American Industry Classification System (NAICS) Codes 3111 to 3399, inclusive, 541711, or 541712 published by the United States Office of Management and Budget (OMB), 2012 edition.

In order to qualify for the exemption, the property must be used primarily in manufacturing, processing, refining, fabricating, recycling of tangible personal property; research and development; maintaining, repairing, measuring, or testing any qualified tangible personal property; or used by a contractor in the performance of a construction contract for a qualified person that will use the property as an integral part of the process as described above or as a research and storage facility in connection with those processes.

Qualified property includes:

- Machinery and equipment, including component parts and contrivances; equipment or devices used or required to operate, control, regulate, or maintain the machinery.
- Tangible personal property used in pollution control that meets established state or local government agency standards.

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- Special purpose buildings and foundations used as an integral part of the manufacturing process, or that constitute a research or storage facility.

Qualified property does not include:

- Buildings used solely for warehousing.
- Consumable property with a useful life of less than one year.
- Furniture, inventory, and equipment used in the extraction process or storage of finished products that have completed the manufacturing, processing, refining, fabricating, or recycling process.
- Property used primarily in administration, general management, or marketing.
- Property used in any other aspect of the business other than those qualifying uses. Leases regarded as “continuing sales and purchases” of “qualified property” by “qualified” lessees also qualify for the exemption.

The Board of Equalization (BOE) is currently drafting Regulation 1525.4, *Manufacturing and Research & Development*. For further information, see our [Business Taxes Committee](#) calendar for a link to the issue paper and Interested Party meeting dates.

BOE wins “Best of California 2013” technology award

The BOE earned a 2013 Best IT Collaboration Among Organizations Project Excellence Award from the Center for Digital Government for its role in creating a less costly, more efficient debt-collection program—the Financial Institution Record Match Project (FIRM). The FIRM project is a collaborative effort between the BOE, the Franchise Tax Board (FTB), and the Employment Development Department (EDD) to streamline collection of tax and non-tax debt. FIRM is administered by the FTB.

“This cooperative program shows that we can improve our practices through innovative information technology,” said BOE Executive Director Cynthia Bridges. “Greater state government effectiveness, with fewer demands on the private sector is a win-win.”

FIRM provides a joint-agency master record file of delinquent account information to various banking institutions on behalf of the BOE, FTB, and EDD. These institutions then review the data to identify matches to their accountholders. By submitting one data file with information from all three agencies, FIRM speeds up collection efforts, reducing state government and private sector costs.

The Best of California Awards Program was established by the Center for Digital Government to recognize California state and local government and education organizations for their dedication, hard work, and contributions in information technology.

Waiver of Limitation

Have you been asked by the BOE to sign a Waiver of Limitation and wondered what it is?

What is it?

The Waiver of Limitation is a legal agreement that you can enter into with the BOE. By signing this document, you will extend the three-year statute of limitations for the periods indicated on the form. The signed Waiver of Limitation will allow us to examine your records, and possibly assess additional tax for the periods that would otherwise expire under the three-year statute of limitations. However, it also extends the period which you may file a timely claim for refund and will allow any credits to be offset against any tax amounts due for the periods indicated.

Why are you asked to sign it?

Generally, you are asked to sign a waiver when you need to delay the start of or the completion of an audit. A waiver is also requested when we have information or a good indication that additional tax or refund may be due, but there is insufficient time in which to complete the audit. There may also be insufficient time to thoroughly review the issue or issues in question that may arise in an audit.



Do you have to sign it?

Signing the waiver is voluntary, and there are benefits you gain by doing so.

- **Credits:** As stated above, the Waiver of Limitation permits you to file a timely claim for refund until the date specified on the document. Any overpayment of tax may be offset against an existing tax amount due for this period.
- **Time:** It provides you and the BOE the ability to adapt to both foreseen and unforeseen time constraints. We may question one of your transactions as taxable; however, upon further review or additional documentation this transaction may result in no tax assessment. The waiver gives you and the BOE the time to address difficult issues.
- **Expedite the Audit Process:** A signed waiver allows both you and the BOE the time necessary to resolve audit issues before the audit is finished and a billing is issued. By having additional time to resolve audit issues “up front” rather than during the appeals process you may eliminate the necessity to appeal the audit findings.

You are not giving up any of your rights as a taxpayer by signing a Waiver of Limitation. You may file an appeal at any time within the time limits allowed by law.

Federal law requires retailers with roll-your-own cigarette machines to obtain a manufacturer’s permit

If you operate a retail store that makes available a commercial cigarette-making machine for use by customers, federal law requires you to obtain a permit as a “manufacturer of tobacco products” from the Alcohol and Tobacco Tax and Trade Bureau (TTB). It is against the law to operate as a manufacturer of tobacco products without a TTB permit, and doing so without proper permits risks civil and/or criminal liability. TTB has instructed that retailers operating without a permit “must immediately cease operations until a TTB permit is obtained.” Retailers affected by this law are encouraged to contact the TTB directly for additional information at Regulations@ttb.gov. TTB’s enforcement efforts have included investigations of retail locations and locations where the machines are made available to members of a “social club” or “nonprofit.” TTB has indicated that the nonprofit status of the “person” making the machine available is not relevant in evaluating “commercial purposes” under Internal Revenue Code section 5702 and has found members of a “social club” or “nonprofit” to be in violation of the law and has assessed taxes.

Our previous guidance on these machines with respect to California licensing rules remains the same. See [publication 204, Cigarette and Tobacco Products Taxes Newsletter](#) (October 2011). A retailer providing machine access to customers is not considered a manufacturer and does not need to obtain a manufacturer’s license under the Cigarette and Tobacco Products Licensing Act of 2003. These retailers also do not have any reporting requirements under the Cigarette and Tobacco Products Tax Law, but may have reporting requirements under federal law.

Coming soon: online Cigarette and Tobacco Products License renewal

The BOE is pleased to announce a new online license renewal process for cigarette and tobacco products retailers, manufacturers, importers, wholesalers, and distributors. This new process will improve the efficiency of the BOE programs and eliminate the use of paper renewal forms. The online renewal process is scheduled to be available in early 2014. Once the new process is implemented, we will request that you electronically renew your license. For updates, visit www.boe.ca.gov.

Underground storage tank owners owe the fee

The Underground Storage Tank (UST) Maintenance Fee is imposed upon the owner of a UST for each gallon of petroleum placed into the UST. The owner of the real property is the owner of the UST. The owner of the UST is liable for payment of the fee. This is true even if the owner does not operate the gas station where the UST is located. The owner is liable for the fee even if the owner and operator have entered into an agreement that requires the operator to pay the fee to us.

For further information, see [publication 88, Underground Storage Tank Maintenance Fee](#). If you have any questions regarding the underground storage tank maintenance fee, please contact our Customer Service Center at 1-800-400-7115 (TTY:711).



Annual Taxpayers' Bill of Rights Hearings to begin

Do you have suggestions for improving our services? Do you want us to look more closely at a tax or fee issue? If you do, come share your ideas and concerns with our Board Members at the annual Taxpayers' Bill of Rights hearings. You may present your proposal in person or in writing.

The dates and times for the 2014 business and property tax hearings, normally held in Sacramento and Culver City, were not yet set when this article went to press, but you may check our website or contact the Taxpayers' Rights Advocate for details.

Although you are not required to make advance arrangements to speak, it will help us to prepare if you contact the Taxpayers' Rights Advocate Office at 1-888-324-2798 beforehand to let us know your topic. If your proposal is complex or extensive, we encourage you to submit it in advance and then summarize it in your oral presentation.

For more details, please call the Advocate Office or visit us at www.boe.ca.gov, where you can also view the Advocate's latest annual report.

New Law May Impact You

Effective on January 1, 2014, [Assembly Bill \(AB\) 781](#) makes it a crime for anyone in California to knowingly purchase, install, or use any automated sales suppression software designed to falsify reported sales. Violators of AB 781 could be sentenced to up to three years in county jail, and be fined as much as \$10,000. They will also be required to pay all illegally withheld taxes, including penalties and interest. Several other states have passed, or proposed, similar bans.

Centralized Revenue Opportunity System (CROS) bidders conference

The CROS replaces the BOE's computer systems with an innovative customer-centered solution which will benefit California businesses with expanded online services, enhanced ability to communicate with us at any time, and reinforced transaction accuracy and security.

The CROS Bidders Conference was recently held and the event was a huge success, with over 30 potential vendors in attendance.

The purpose of the conference was to provide an overview of the CROS Request for Proposal (RFP), to interact with potential vendors regarding the RFP, and to highlight the new Pre-Implementation—Implementation (PI-I) approach currently being implemented on the CROS project.

The deadline for the vendors to submit a letter of intent to bid on the project was August 30, 2013, and the CROS procurement team received multiple letters of intent to bid!

Traditionally, IT modernization projects such as CROS follow a two-step approach: Procurement, which gathers all the pieces needed to begin the project, followed by Implementation, which is the process of building the project and launching it. The drawback to this approach is that problems are only dealt with as they occur during implementation, which can lead to cost and deadline overruns.

To combat the common problems encountered on public sector IT modernization projects, our Project Director, Eric Steen has developed a "Parallel Initiatives" method called the PI-I approach where multiple aspects of the project are worked on simultaneously.

We have divided the CROS project into Pre-Implementation and Implementation stages; where procurement becomes a portion of the Pre-Implementation phase. While the procurement process takes place, CROS team members are working on other initiatives that will anticipate and solve possible complications before they occur and set the stage for a smoother Implementation phase. These initiatives include: Data Cleansing, Program Area Readiness, External Interfacing, and Business Intelligence. To learn more about CROS, please visit our webpage at www.boe.ca.gov/cros.

For More Information

All telephone numbers are toll-free.

Internet

www.boe.ca.gov
www.taxes.ca.gov

Customer Service Center

1-800-400-7115 (TTY:711)

Requests for Fax Copies

1-800-400-7115

(Choose automated services)

Seller's Permit

Verification

1-888-225-5263

www.boe.ca.gov

Taxpayers' Rights Advocate

1-888-324-2798

www.boe.ca.gov

Tax Evasion Hotline

1-888-334-3300

State Legislation

www.leginfo.ca.gov/

bilinfo.html

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