



Tax Information Bulletin

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California State Board of Equalization
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New tax rates take effect April 1, 2006 for Santa Clara County plus seven cities

Voters have approved new taxes affecting Santa Clara County and the cities of San Rafael, Merced, Salinas, Scotts Valley, Dinuba, Porterville and Tulare.

Beginning April 1, 2006, the new sales and use tax rates are:

- **City of San Rafael: 8.25%**
Increases the tax rate within the city limits of San Rafael from 7.75% to 8.25%. The tax rate in Marin County outside the city of San Rafael will remain 7.75%.
- **City of Merced: 7.75%**
Increases the tax rate within the Merced city limits from 7.25% to 7.75%. The tax rate in Merced County outside the city of Merced and the city of Los Banos will remain 7.25%.
- **City of Salinas: 7.75%**
Increases the tax rate within the city limits of Salinas from 7.25% to 7.75%. The tax rate in Monterey County outside the city of Salinas (and the city of Sand City, which also has a 7.75% tax rate) will remain 7.25%.
- **City of Scotts Valley: 8.50%**
Increases the tax rate within the city limits of Scotts Valley from 8.00% to 8.50%. The tax rate in Santa Cruz County outside the city of Scotts Valley will remain 8.00% (except the cities of Capitola and Santa Cruz, with tax rates of 8.25%).
- **Santa Clara Valley: 8.25%** In Santa Clara County, voters replaced the Santa Clara Transactions and Use Tax with the Santa Clara Valley Transportation Authority. The rate in Santa Clara County will remain at 8.25%.
- **City of Dinuba: 8.00%**
Increases the tax rate within the city limits of Dinuba from 7.25% to 8.00%.
- **City of Porterville: 7.75%**
Increases the tax rate within the city limits of Porterville from 7.25% to 7.75%.
- **City of Tulare: 7.75%** Increases the tax rate within the Tulare city limits from 7.25% to 7.75%.

The cities of Tulare and Porterville, with tax rates of 7.75%, and Dinuba, with a tax rate of 8.00%, are

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Reminder: Rates changed for Madera County and City of Ukiah on October 1, 2005

Rates in these two jurisdictions changed October 1, 2005.

- **Madera County: 7.25%**
The Madera County Transit Authority expired September 30, 2005. Effective October 1, 2005, the tax rate within the county decreased from 7.75% to 7.25%.
- **City of Ukiah: 7.75%**
Voters approved a 0.50% City of Ukiah Transactions and Use Tax that increased the tax rate within the city limits from 7.25% to 7.75% effective October 1, 2005. Ukiah is located in Mendocino County. Some of the zip codes for the City of Ukiah may be shared by unincorporated areas of Mendocino County. You should verify if your business is located within the Ukiah City limits before collecting the increased tax rate. The tax rate in areas outside of Ukiah's city limits remain the same.

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Look for change on Schedule A returns due after April 1, 2006

The increasing number of new and continuing district taxes makes it necessary to change the way these district taxes are reported on Schedule A, *Computation Schedule for District Tax*.

The reporting changes on Schedule A will start with all returns with reporting periods after April 1, 2006. The tax rates for sales made within a city district will include all applicable county district taxes for returns with reporting periods after April 1, 2006. For these returns, do not report the same transactions on both the city and county district lines on Schedule A, or you will be overstating the amount of district tax owed.

Returns for reporting periods before April 1, 2006 will continue to show transactions for city and county districts on their own individual lines.

For example, the county of Marin has a 0.50 percent countywide district tax, and the city of San Rafael has a 0.50 percent citywide district tax. The tax rate shown on the new Schedule A for the City of San Rafael will be 1 percent. This rate is the combined rate for the city and the county district taxes. Any amounts reported on the Marin County line should *only* represent transactions that occurred within Marin County but outside of the city limits of San Rafael.

Are items purchased in a foreign country subject to use tax?

If you purchase merchandise from a foreign country or any retailer that is outside the state of California, including items purchased online, the purchase price of the

merchandise shipped or brought into California is generally subject to use tax. Consequently, you must report the use tax on your purchase to the Board.

For purchases made in a foreign country and brought into California, the state generally relies on residents and businesses to voluntarily report and pay use tax. Over one billion dollars in use tax goes uncollected in California each year. Use tax, just like sales tax, goes to fund state and local services throughout California.

If you hold a California seller's permit, you should report the cost of the items purchased on line 2 of your sales and use tax return. If you file a Consumer Use Tax Return, you should report the cost of the items on line 1. If you do not file a return you may use publication 79-B, *California Individual Use Tax*, or make the "Election to Report Use Tax on Your California Income Tax Return." This allows a person who purchases tangible personal property from out-of-state sellers, but who did not pay sales or use tax at the time of purchase, to report and pay the use tax on their California income tax return to the Franchise Tax Board. Publication 79-B can be downloaded from our website at www.boe.ca.gov/pdf/pub79b.pdf.

You must report the tax at the rate in effect at the location where you first stored, used, or consumed the property. For example, the purchase price of goods used in Orange County must be reported at the tax rate of 7.75 percent.

Some out-of-state retailers are registered to collect and report California use tax from their customers. You do not need to report your purchase if you have paid the correct amount of California tax to an out-of-state retailer who is regis-

tered to collect the tax. In order to relieve your use tax liability, you must obtain and keep a receipt or invoice from the supplier that includes: the retailer's name and address, your (the purchaser's) name and address, the date of sale, a description of the property sold, the sale amount and the amount of the tax paid. For more information on use tax, please refer to publication 110, *California Use Tax Basics*, and publication 112, *Purchases from Out-of-State Vendors*. Those two publications, as well as publication 79-B, can be ordered from our website at www.boe.ca.gov. If you still have questions about reporting use tax, contact our Information Center at 800-400-7115.

Do you sell or use biodiesel? Be aware of the applicable taxes

With the production and use of biodiesel in California on the rise, more taxpayers are asking our Fuel Taxes division about the applicable taxes. Here is what you must know if you sell or use biodiesel fuel.

Under the California Diesel Fuel Tax Law, the \$.18 per gallon diesel fuel tax applies to any fuel suitable for practical and commercial use in the engine of a diesel-powered highway vehicle. The fuel must be suitable for use without further processing or blending.

Fuels meeting this criterion include both unblended biodiesel (B100) and all biodiesel blends. Biodiesel includes any liquid, by whatever name it may be marketed under, that meets the American Society for Testing and Material specification for biodiesel (ASTM D6751).

The sale of biodiesel in California is subject to state and local sales

tax, and prepaid sales tax, in the same manner as the sale of other diesel fuels. For further information, see our publication 96, *Biodiesel and California Tax*, on our website at www.boe.ca.gov.

Certain cigars are considered cigarettes for tax purposes

Certain cigars are now considered cigarettes and require cigarette tax stamps. Cigarette and tobacco products accurately labeled as "little" or "small" cigars under federal regulation 27 CFR 40.1214 and the federal Cigarette Labeling and Advertising Act (15 U.S.C. section 1331 et seq.), are considered cigarettes under the state's Cigarette and Tobacco Products Tax Law.

The Board recently notified distributors and wholesalers of little or small cigars that they must now apply a California cigarette tax stamp to each package of these particular cigars. Packages without stamps can be seized. Distributors may also be subject to civil and criminal penalties if they do not comply with the tax stamp requirements.

Retailers purchasing products labeled as small or little cigars from licensed distributors or wholesalers of cigarette and tobacco products should verify that a stamp is affixed to each package. Packages of these products for sale at retail without stamps may also be subject to seizure.

Retailers of small or little cigars should contact their suppliers to determine if a particular product requires a California tax stamp.

For more information please contact the Excise Taxes and Fees Division at 916-327-4208.

Help us serve you better by including your account number

The Board is committed to providing the best service possible to taxpayers and fee payers — over a million of them. You can help us process your requests more efficiently by including your account number on *all correspondence* you send to us. That will ensure the request is handled as soon as possible.

Your account number is on all tax returns and permits you receive from the Board. If you don't have a copy of your permit, please provide your local Board district office with a current copy of your sales and use tax return. Or, you can provide a label or envelope containing your business name and address, which will also help us identify your account number.

A list of local district offices is provided in publication 73, *Your California Seller's Permit*, and most other Board publications.

Free E-filing option now well under way

"E-File Now. Ask Us How"

Called BOE-file, the free option allows you to file electronically if you:

- Conduct business at a single location, and
- File form BOE-401-EZ, or form BOE-401-A (and use only Schedule A)

You cannot e-file if you're required to make prepayments, or required to pay taxes by electronic funds transfer (EFT).

You can file a return 24 hours a day (except during scheduled maintenance time Sunday, 5:00 p.m. to Monday, 5:30 a.m., Pacific time). Go to www.boe.ca.gov and click "Free E-filing Available Now."

To make your tax payment, your bank account number and your financial institution's routing number are required. After your return and payment information has been

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Small Business Fairs

We invite current and potential business owners to attend one of our upcoming Small Business Fairs, which offer information workshops on federal, state, and local taxes as well as other government requirements. The fairs are free, but reservations are recommended.

Upcoming Fairs

San Francisco, May 15, 2006

Hiram Johnson State Building

For more information, contact our San Francisco Office at 415-356-6253, or our Oakland Office at 510-622-4055

San Diego, May 19, 2006

University of San Diego

For more information, contact our San Diego Office at 619-525-4550, or our San Marcos Branch Office at 760-744-6284

To check for other upcoming fairs, please visit our website at www.boe.ca.gov/sutax/tpsched.htm.

New tax rates take effect April 1, 2006

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located in Tulare County. The tax rate in areas of the county outside the cities, and the cities Visalia and Farmersville, will remain at 7.25%.

The City of Calexico Heffernan Memorial Hospital District Tax will expire effective midnight March 31, 2006. The tax rate for the County of Imperial including Calexico will be 7.75%.

A Special Notice listing the new tax rates was recently mailed to affected sellers including cities where the rate changes occurred and surrounding counties. The notice explains who must collect tax at the new rates, and which fixed-price contracts are exempt from the tax increases, as well as sales contracts affected by a tax decrease.

For a copy of the notice, visit www.boe.ca.gov/news/isncont04.htm or call our Information Center at 800-400-7115.

Know your rights

As a taxpayer, you have many rights under the law, including the right to:

- Receive information and assistance to help you comply with the law
- Be treated fairly and courteously, and receive prompt service
- Appeal a decision or claim a refund as allowed by law

Of course, along with those rights, you have certain responsibilities, including the responsibility to:

- Keep informed about tax laws and regulations
- Report and pay taxes and fees when due
- Maintain adequate records

For more information order publication 70, *Understanding Your Rights As a California Taxpayer*.

Free E-filing option now well underway

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accepted for processing, you will receive a filing confirmation number which you should retain for your records.

How long must you keep your sales and use tax records?

You must keep sales and use tax records for four years unless we give you written authorization to destroy them sooner. This applies to all records that pertain to transactions involving sales or use tax liability.

For reporting periods beginning before January 1, 2003 that are subject to the extended ten year statute of limitations of the *tax amnesty program*, contained in Revenue and Taxation Code section 7073(d), *records required to be retained must be preserved for a period of not less than ten years.*

Also, if we are auditing your records, you should retain all records for the period being audited until the audit is completed. If you appeal the findings of your audit or file a claim for refund, be sure to keep the related records until your case is resolved.

Revised Reference Material

Sales and Use Tax Regulation Revisions

1698 Records (effective November 3, 2005)

Revised Publications

- 90 Environmental Fee (January 2006)
- 109 Are Your Internet Sales Taxable? (October 2005)
- 73 Your California Seller’s Permit (November 2005)
- 142 California State Board of Equalization Hearings: An Introduction (August 2005)
- 94 Occupational Lead Poisoning Prevention Fee (January 2006)
- 58A How to Inspect and Correct Your Records (December 2005)
- 145 California Taxpayer Advocates — We’re Here For You (October 2005)
- 82 Prepaid Sales Tax and Sales of Fuel (October 2005)

Translated Publications

- 50-S Guide to IFTA (June 2003) Spanish
- 112-S Purchases from Out-of-State Vendors (January 2005) Spanish
- 114-S Consignment Sales (June 2005) Spanish
- 76-S Audits (July 2003) Spanish
- 78-S Sales of Cigarette and Tobacco Products in California (June 2005) Spanish

For More Information

All telephone numbers are toll-free

Internet	www.boe.ca.gov ■ www.taxes.ca.gov
Information Center	800-400-7115 ■ TDD/TTY: 800-735-2929
Requests for Fax Copies	800-400-7115 (Choose automated services)
Seller’s Permit Verification	888-225-5263 ■ www.boe.ca.gov
Taxpayers’ Rights Advocate	888-324-2798 ■ www.boe.ca.gov
Tax Evasion Hotline	888-334-3300
State Legislation	www.leginfo.ca.gov/bilinfo.html