

Tax Information Bulletin

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California State Board of Equalization
P.O. Box 942879, Sacramento, CA 94279-0001

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The holidays are coming...

It's only September, but when it comes to planning for sales, the holidays are just around the corner. This is a good time to remind everyone of how tax applies to two common holiday transactions.

Gift-wrapping charges

Whether you are solely in the business of wrapping gifts or offer gift-wrapping as a service to your customers when they buy your products, sales tax generally applies to your entire gift-wrapping charge, including your charges for labor and materials. Only charges for wrapping certain sales of nontaxable food are not taxable. For more information about how tax applies to gift-wrapping charges—including charges for wrapping combination packages of food and nonfood products, please order publication 106, *Gift-Wrapping Charges*. Call for a copy or go online to www.boe.ca.gov/sutax/staxpubs.htm.

Layaway sales

You should generally report the entire layaway sale when your customer takes possession of the item sold. Since the initial layaway payment is considered a deposit and not a sale, you would not report the deposit at the time it is taken. When

you complete the sale and transfer the item to the customer, you should report the total amount received from the sale including any layaway fee charged. If the sale is canceled and the layaway fee forfeited, the fee is not taxable since no sale occurred.

Example: You sell a \$2,000 diamond ring to a customer on a layaway

plan in September, accepting a deposit of \$200 plus a \$50 layaway fee. The customer pays you \$200 in October and \$100 in November. When the customer returns in December, he pays the balance due (\$1,500) and takes possession of the ring. You would report the sale as taking place in December with a taxable selling price of \$2,050.

Filing your taxes has never been easier

E-filing is the fastest, most accurate way to file your sales and use tax return and make payments. Under our e-filing program, you complete those transactions over the Internet, using an authorized service provider.

You can e-file if you

- Conduct business from a single location, and
- Use form BOE-401-EZ or BOE-401-A with Schedule A and T only.

What are the benefits?

- E-file is safe, accurate, fast, and secure.
- Returns and payments are processed electronically, eliminating the chance of returns being lost or delayed in the mail.
- There is no paper return to complete and mail.
- Mathematical calculations are performed automatically.
- Returns are processed in real time.
- You receive an online acknowledgment that your return has been received.

How do I start?

You do not need to preregister. Just log onto our website at www.boe.ca.gov and click on the *e-file* symbol to read about eligibility requirements and to choose a service provider.

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In a rut over your use tax payments? Try AMRUT.

If you frequently report purchases that are subject to use tax, you may want to learn about our new "percentage reporting" program.

As anyone knows, bureaucrats love acronyms. So, we have come up with a new one: AMRUT. It stands for our Alternative Method for Reporting Use Tax program. Under this program, you can start reporting use tax based on a percentage formula.

For example, let's assume that you purchase many office supplies, but that you typically owe use tax for only 20 percent of those purchases. Under AMRUT, you may report your use tax payment for office supplies based on that percentage, rather than having to review each purchase to see if use tax applies.

Before you can use the percentage formula allowed under AMRUT, you must obtain approval from the Board for the type of purchases that qualify (for example, "office supplies" or "small tools") and the percentage that can be used.

How do I apply?

You must submit a written application to participate in the program. For an explanation of how the program works and what is needed in your application, please call 916-324-2883 and order a copy of our AMRUT guidelines.

To be eligible to participate, your account must be in good standing,

and you must maintain acceptable accounting records and internal controls, as explained in the program guidelines.

Once your request is received, we will send you an acknowledgment letter and direct you to your district office, where you and the Board will determine what categories and percentages can be used. If your application is incomplete, you may be asked to provide additional information. You will also be asked to complete an *Audit Sampling Plan* (form BOE-472) before you can use the new reporting method.

For more information, please call our Public Information and Administration Section at 916-324-2883.

Use tax generally applies ...

... to the use in California of tangible personal property that has been purchased without payment of California sales tax. Typically, you will owe use tax if you purchase property for resale but withdraw the property from your resale inventory and use it for a purpose other than retention, demonstration, or display in the regular course of business; or if you purchase property for use in California from an out-of-state retailer who does not collect California tax.

It is important to maintain adequate books and records

If you hold a California Seller's Permit, you are required to maintain business records so that Board representatives can verify that you have properly paid tax.

In general, you must keep the following types of records (including records maintained on computer):

- Books of account including your income statements, balance sheets, general ledgers, and other summary records of your business operations, including state and federal income tax returns
- Original documents that support the entries to your books, such as sales and purchase invoices, purchase orders, contracts, bank statements, and any other documents that result from your business operations
- Resale certificates, exemption certificates, bills of lading, or other documents supporting claimed exempt sales
- Copies of returns you have filed with the Board and the working papers and schedules used to prepare the returns

If we audit your account and find that your records are not adequate, we will use standard accounting methods to determine how much tax was owed. Be aware that failure to maintain and keep complete and accurate records may be considered evidence of negligence or intent to evade the tax and may result in penalties.

You must keep sales and use tax records for four years unless the Board gives you written authorization for their earlier destruction.

For more information, see Regulation 1698, *Records*, and publication 116, *Sales and Use Tax Records*.

Where do "local taxes" go?

Did you know that the one percent "local tax" portion of the sales and use taxes you pay goes to your local city and county governments? In fact, in fiscal year 2000-01, more than \$5.6 billion dollars in local tax revenues were returned to the state's 58 counties and 475 cities.

In order for each local jurisdiction to receive its correct share of local tax, it is important that we have correctly identified your business activity and have your correct business address in our files. If you enter into a new type of business, move to a new business address, or add a new location, please let your local Board office know. When the local tax is distributed correctly, your community benefits.



Food for thought

How tax applies to cold food products sold with other items for a single price

The following information applies to delicatessens, sandwich shops, bakeries, and similar establishments that sell cold food products "to go" and who do not report tax for such sales. (See inset box for information on who is required to report tax on such sales.)

If you do not collect tax reimbursement on your sales of cold food products to go, you need to be aware that tax may apply if you sell the cold food product as part of a combination meal or package.

Combination meals or packages are two or more items sold together for a single price. When the items are not served, but are instead sold on a to-go or takeout basis, tax can apply to the sale, based on the type of combination package.

Combination packages that include a hot prepared food or hot beverage

If a combination package sold "to go" includes a hot prepared food (such as a hot sandwich or soup) or hot beverage (such as coffee or hot chocolate), its sale is taxable.



Example: You sell a combination of hot coffee and a croissant for a single price of \$1.50 or a combination hot pastrami sandwich, chips and iced tea for \$4.50. Because each combination package includes a hot food or hot beverage, the selling price of each package is taxable.

Combination packages that do not include hot items

If a combination package sold "to go" includes cold food and a carbonated beverage, the portion of the selling price that represents the carbonated beverage is subject to tax. If the combo package includes cold food and a beverage other

than a carbonated beverage, the sale of the package is not taxable.

Example: You sell a combination of a cold sandwich, chips and iced tea for a single price to go – the sale is not taxable. You sell the same package with a carbonated soda – the portion of the selling price representing the charge for the soda is taxable.

You are required to report tax on your sales of cold food products to go if you come under the 80/80 Rule (generally, more than 80% of your gross receipts are from sales of food products and more than 80% of those sales are taxable). If you come under the 80/80 Rule, you can, however, elect not to report tax on your sales "to go" of cold food products if you have adequate supporting documentation.

For more information, see Regulation 1603, *Taxable Sales of Food Products*, and publication 22, *Tax Tips for the Dining and Beverage Industry*.

Bill of Rights Hearing Thursday, October 3

The Taxpayers' Bill of Rights Hearing held in Culver City has come and gone, but we still have one hearing left. The second—and final—hearing for the year will be held in Sacramento. We hope to see you there.

Sacramento

Thursday, October 3, 2002
1:30 p.m.

Board of Equalization
Headquarters
450 N Street, 1st Floor Board Room



These hearings are held to give taxpayers an opportunity to comment on the programs administered by the Board.

To notify us of a topic you wish to discuss or to send written material in advance, please contact the

Taxpayers' Rights Advocate
MIC:70
P.O. Box 942879
Sacramento, CA 94279-0070

Call toll-free: 888-324-2798
Fax: 916-323-3319



www.boe.ca.gov/tra/tra.htm



Tax return preparation classes

Filling out a sales and use tax return can be challenging—especially for new businesses. To help meet that challenge, many of our district offices offer tax return preparation classes. The classes are held each quarter before the quarterly return due date.

Don't be shy—be smart. Call to see if there is a class near you. Call a local Board office or call our Information Center, 800-400-7115.

Note: Some district offices offer classes in Spanish.

Taking care of BUSINESS

Regulation news



For copies of sales and use tax regulations, call our Information Center or go online to www.boe.ca.gov/sutax/staxregs.htm.

Seller's permits issued for "buying companies" and website locations

Regulation 1699, *Permits*, defines buying companies and clarifies under what circumstances a seller's permit should be issued to a buying company. Regulation revisions further explain when a seller's permit will be issued to the location of a computer server on which a website resides.

For a supplemental article on this subject, please go online to www.boe.ca.gov/news/tib02.htm. Or request a fax copy by calling 800-400-7115 (choose automated services).

Agricultural exemptions regulations

The Office of Administrative Law recently approved regulations on the agricultural exemptions enacted by AB 426. These regulations are

- 1533, *Liquefied Petroleum Gas*
- 1533.1, *Farm Equipment and Machinery*
- 1533.2, *Diesel Fuel Used in Farming Activities or Food Processing*

Copies of these regulations, information about the exemptions, and frequently asked questions are available through the Board's website at www.boe.ca.gov/sutax/sutexempt.htm. If you have any questions about the exemptions, please call our Information Center.

Please note: The June 2002 issue of the *Tax Information Bulletin* stated that a special notice about the agricultural exemptions would be sent with the September 2002 sales and use tax return. Due to space limitations in our return envelopes, this notice will not be sent. You are encouraged to visit the Board's website for information about these exemptions.

Ask for a receipt!

If you pay in person

We provide a receipt for sales and use tax payments made in-person at one of our field offices or made outside our offices to one of our field representatives. The receipt identifies how the payment was applied and is your permanent record of payment. When you accept the receipt, inspect it for accuracy. If you have a question, ask for assistance. If you do not receive a receipt, ask that one be provided.

If you pay by mail

For payments mailed to the Board, a receipt will not be sent unless specifically requested. Your canceled check is your receipt.

New or revised reference material

Sales and Use Tax Publications

- 51 Guide to Board of Equalization Services (May 2002)
- 52 Vehicles and Vessels: How to Request a Use Tax Clearance for DMV Registration (April 2002)
- 82 Prepaid Sales Tax on Sales of Fuel (July 2002)
- 112 Purchases from Out-of-State Vendors (April 2002)

Sales and Use Tax Regulations

- 1525.2 Manufacturing Equipment (effective May 17, 2002)
- 1532 Telephone or Other Postproduction Service Equipment (effective, May 17, 2002)
- 1603 Taxable Sales of Food Products (effective June 13, 2002)
- 1668 Sales for Resale (effective May 17, 2002)
- 1699 Permits (effective June 14, 2002)

Translated Publications

- 73-C Your California Seller's Permit (Chinese), April 2001
- 73-V Your California Seller's Permit (Vietnamese), April 2001
- 105-S District Taxes and Delivered Sales (Spanish), February 2002



For More Information All telephone numbers are toll-free.

Information Center	800-400-7115 Telephone devices for the deaf 800-735-2929 (TDD) ■ 800-735-2922 (Voice)
Internet	www.boe.ca.gov ■ www.taxes.ca.gov
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