



Special Notice

STATE BOARD
OF EQUALIZATION

450 N Street
Sacramento
California 95814

Statewide Sales and Use Tax Rate Will Increase ¼% on January 1, 2002

On January 1, 2002, the minimum combined state, county, and local sales and use tax rate will increase from 7 percent to 7.25 percent. As explained below, the rate will be higher in cities and counties that have special tax districts.

Legislative Background

Why is the tax rate increasing?

Under Revenue and Taxation Code sections 6051.45 and 6201.45, the State General Fund portion of the sales and use tax rate must increase by ¼% on January 1, 2002, if the California Department of Finance has determined that

- The General Fund reserve is less than 3% of revenues excluding the revenues derived from the ¼% sales and use tax rate, and
- The actual General Fund revenues for the period May 1, 2001, through September 30, 2001, do not equal or exceed the May Revision forecast prior to the November 1 determination.

Both of the above conditions have been met, resulting in the upcoming tax change.

Will the rate decrease in the future?

The same legislation that requires an increase also requires that the ¼% tax be reduced the year following any November 1 when reserves are estimated to be in excess of 3% of the General Fund revenues. The expected reserves for 2002-2003 will be announced by November 1, 2002, by the Department of Finance. We will notify you at that time if the statewide tax rate will decrease in 2003.

Questions and Answers

1. What rate should I charge my customer?

If you are engaged in business in a special tax district, your sales are subject to a total sales tax rate of 7.25% plus the applicable dis-

trict tax rate (see exception below). The combined statewide and district tax rates that apply to cities and counties in California as of January 1, 2002, are listed on page 4.

Note—Fixed-price contracts and fixed-priced taxable lease agreements entered into prior to January 1, 2002. The Revenue and Taxation Code does not exempt fixed-price contracts or fixed-price taxable leases from the ¼% rate increase. Consequently, the tax rate increase will apply to such contracts and leases (other than mobile transportation equipment, as explained in the exception below). Our September 2001 *Tax Information Bulletin* had erroneously indicated that these contracts and leases would not be subject to the higher rate.

Exception

Leases of mobile transportation equipment (MTE). Lessors who elect to pay their use tax liability measured by the fair rental value must pay tax at the rate in effect at the time the equipment is first leased. The tax rate will remain the same for all periods during which the equipment is leased. See also the example on page 2 for information on how to report fair rental value lease payments that began in 2001. For more information, see Regulation 1661.

2. What is the “date of sale” for tax purposes?

A sale is deemed to occur when your customer takes title to or possession of an item. Consequently, you should charge your customer the tax rate in effect when the merchandise is delivered to the customer unless your contract specifically identifies and passes title to your customer at a different time.

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3. I need a new tax rate chart. Where can I get one?

You can call our Information Center at 1-800-400-7115 and have a copy mailed to you. Or, you can download a copy from our website at www.boe.ca.gov/streimsched.htm.

4. What if I collect tax at the old rate for sales made after January 1, 2002?

If you only collect sales tax reimbursement or use tax at the old rate after January 1, 2002, you will still owe the ¼% difference.

5. If a customer purchases merchandise in 2001 and returns it in 2002, what tax rate should I use to refund their tax payment?

You should refund tax based on the rate in effect at the time of the sale. See next column for information on how to report the transaction on Schedule T.

6. How does the rate change affect partial tax exemptions?

On and after January 1, 2002, the partial state tax exemption rate will increase from 4.75% to 5% for all of the partial state tax exemptions listed below:

- Manufacturer's equipment (Revenue and Taxation Code section 6377) *
- Teleproduction equipment (Revenue and Taxation Code section 6378) *
- Farm equipment and machinery (Revenue and Taxation Code section 6356.5) *
- Diesel fuel used for farming and food processing (Revenue and Taxation Code section 6357.1) *
- Timber harvesting machinery and equipment (Revenue and Taxation Code section 6356.6) *
- Racehorse breeding stock (Revenue and Taxation Code section 6358.5) *

* You can read State legislation online at www.leginfo.ca.gov.

Some Businesses Are Required To File Schedule T

Many tax returns include Schedule T, *Tax Adjustment Worksheet* (see sample of 2002 schedule on page 3).

You must use Schedule T to report transactions that are subject to different state sales and use tax rates. For example, the state portion of the total tax rate will increase in 2002. When you receive your returns in 2002, you must complete Schedule T if you are reporting one or more of the following items:

- Sales or purchases made in 2001 (transactions in 2001 are subject to a lower state tax rate and must be reported in column B)
- Deductions or exemptions for transactions that occurred in 2001 (these are subject to a lower state tax rate and must be reported in column B)
- Use tax payments that are based on the fair rental value of mobile transportation equipment for leases that began in 2001

You must also use Schedule T to report any partial state tax exemptions, as described in question #6 in the left column.

If you are required to complete Schedule T, your transactions must be separated by calendar year. You will use column B for transactions that occurred in 2001. You will use column A for all other transactions.



Examples of How To Use Schedule T

Bad Debts

I have two bad debts on taxable sales to report. The original sale for the first transaction occurred in 1999 and the sale for the second transaction occurred in

2001. I'm writing both transactions off in the year 2002. How do I claim both?

For the 1999 transaction, you would enter the amount of the bad debt—excluding applicable sales tax—on line 10(a)(1), “Bad debt losses on taxable sales,” column A. For “Bad debt lender losses,” enter the amount on line 10(a)(2), column A.

For the 2001 transaction, enter the bad debt on line 10(a)(1), column B. For “Bad debt lender losses,” enter the amount on line 10(a)(2), column B.

Returned Merchandise

In 2002, my customer returned merchandise they purchased in 2001, and I refunded their payment. How do I recover the tax reported and paid on the sale?

Since your customer purchased the merchandise in 2001, you would report the refunded payment on line 10(c), “Returned taxable merchandise,” column B. *Reminder:* You report only the amount of the sale before tax is added.

Leases of Mobile Transportation Equipment

I am a lessor of mobile transportation equipment (MTE). My lease began in 2001. What rate do I charge and how do I report tax?

If you elected to report your tax liability for your leases of MTE based on fair rental value, then the rate in effect at the time the equipment was first leased is the correct rate for all periods you lease it. Even though your receipts are received in 2002, the lower rate applies. Consequently, you must report those receipts on line 1, “Total gross sales,” column B on Schedule T.

Schedule T, Tax Adjustment Worksheet

Starting in 2002, Schedule T will include line 10(a)(2), which can be used by bad debt lenders to report bad debts.

Column B is used to report 2001 transactions.

Column A is used to report all other transactions.

TAX ADJUSTMENT WORKSHEET	COLUMN A	COLUMN B	COLUMN C
PLEASE READ INSTRUCTIONS BEFORE PREPARING THIS SCHEDULE	TRANSACTIONS AT 6.00% STATE TAX RATE	TRANSACTIONS AT 5.75% STATE TAX RATE	TOTAL OF COLUMNS A AND B
1. Total gross sales	.00	.00	.00
2. Purchases subject to use tax	.00	.00	.00
3. Total (add lines 1 and 2)	.00	.00	.00
4. Sales to other retailers for purpose of resale	.00	.00	.00
5. Nontaxable sales of food products	.00	.00	.00
6. Nontaxable labor	.00	.00	.00
7. Sales to the United States Government	.00	.00	.00
8. Sales in interstate or foreign commerce	.00	.00	.00
9. Sales tax (if any) included in line 1	.00	.00	.00
10. (a)(1) Bad debt losses on taxable sales	.00	.00	.00
(a)(2) Bad debt lender losses	.00	.00	.00
(b) Cost of tax paid purchases resold prior to use	.00	.00	.00
(c) Returned taxable merchandise	.00	.00	.00
(d) Cash discounts on taxable sales	.00	.00	.00
(e) Adjusted partial state tax exemption amount (For column this exemption you must complete the worksheet below)	.00	.00	Box 61 .00
(f) Other (clearly explain)	.00	.00	.00
11. Total nontaxable transactions (add lines 4 through 10(f))	.00	.00	.00
12. Transactions subject to state tax (subtract line 11 from line 3)	.00	.00	.00
STATE TAX RATE (multiply line 12 by this state tax rate)	X 0.06	X 0.0575	
13. STATE TAX			
(a) Adjusted for transactions subject to state sales and use tax rate in effect prior to 1/1/01 and on or after 1/1/02.			
(b) Adjusted for transactions subject to state sales and use tax rate in effect 1/1/01 through 12/31/01		.00	
(c) Add lines 13(a) and (b). Enter total in Column C and on line 13 on the back of the return			.00

PARTIAL STATE TAX EXEMPTION WORKSHEET	COLUMN A	COLUMN B	COLUMN C
Note: Read 02-1 instructions for lines 10(e)(1) through 10(e)(6)	TRANSACTIONS AT 5.00% PARTIAL STATE TAX EXEMPTION RATE	TRANSACTIONS AT 4.75% PARTIAL STATE TAX EXEMPTION RATE	TOTAL OF COLUMNS A AND B
10(e) (1) Manufacturing Equipment Exemption	.00	.00	.00
(2) Teleproduction Exemption	.00	.00	.00
(3) Farm Equipment Exemption (on or after 9/1/01)	.00	.00	.00
(4) Diesel Fuel Exemption For Farming & Food Processing (on or after 9/1/01)	.00	.00	.00
(5) Timber Harvesting Equipment & Machinery Exemption (on or after 9/1/01)	.00	.00	.00
(6) Racehorse Breeding Stock (on or after 9/1/01)	.00	.00	.00
TOTAL PARTIAL STATE TAX EXEMPTION Add lines 10(e)(1) through 10(e)(6). Enter the result in Column C and on the corresponding box on the back of your return.	.00	.00	Box 60 .00
Multiply the totals of Column A and Column B above by the corresponding rate and enter the results in Columns A and B below and on line 10(e) in the above Tax Exemption Worksheet	X 0.8333	X 0.8261	
ADJUSTED PARTIAL STATE TAX EXEMPTION AMOUNT (Add Columns A and B. Enter the result in Column C, Box 61 on the Tax Adjustment Worksheet above.)	.00	.00	Box 61 .00

California Sales and Use Tax Rates by County

Effective January 1, 2002
(includes state, local, and district taxes)

County	Tax Rate	County	Tax Rate
Alameda	8.25%	Orange	7.75%
Alpine	7.25%	Placer	7.25%
Amador	7.25%	Plumas	7.25%
Butte	7.25%	Riverside	7.75%
Calaveras	7.25%	Sacramento	7.75%
Colusa	7.25%	San Benito	7.25%
Contra Costa	8.25%	San Bernardino	7.75%
Del Norte	7.25%	San Diego	7.75%
El Dorado ¹	7.25%	San Francisco	8.50%
Fresno ²	7.875%	San Joaquin	7.75%
Glenn	7.25%	San Luis Obispo	7.25%
Humboldt	7.25%	San Mateo	8.25%
Imperial ³	7.75%	Santa Barbara	7.75%
Inyo	7.75%	Santa Clara	8.25%
Kern	7.25%	Santa Cruz	8.00%
Kings	7.25%	Shasta	7.25%
Lake ⁴	7.25%	Sierra	7.25%
Lassen	7.25%	Siskiyou	7.25%
Los Angeles ⁵	8.25%	Solano	7.375%
Madera	7.75%	Sonoma	7.50%
Marin	7.25%	Stanislaus	7.375%
Mariposa	7.75%	Sutter	7.25%
Mendocino	7.25%	Tehama	7.25%
Merced	7.25%	Trinity	7.25%
Modoc	7.25%	Tulare	7.25%
Mono	7.25%	Tuolumne	7.25%
Monterey	7.25%	Ventura	7.25%
Napa	7.75%	Yolo ⁷	7.25%
Nevada ⁶	7.375%	Yuba	7.25%

A higher total tax rate applies within the following cities and towns, which have special tax districts:

1. The tax rate within the city limits of the **City of Placerville** is 7.50%.
2. The tax rate within the city limits of the **City of Clovis** is 8.175%
3. The tax rate within the city limits of the **City of Callexico** is 8.25%.
4. The tax rate within the city limits of the **City of Clearlake** is 7.75%.
5. The tax rate within the city limits of the **City of Avalon** (on Santa Catalina Island) is 8.75%.
6. The tax rate within the city limits of the **Town of Truckee** is 7.875%.
7. The tax rate within the city limits of the **City of Woodland** is 7.75%.



Call Our Information Center

1-800-400-7115

Telephone devices for the deaf
1-800-735-2929 (TDD phone)
1-800-735-2922 (voice phone)

Talk to a customer service representative.
Order tax rate charts. Order publications.
Have information faxed to you.

Read Publication 71

Publication 71, *California City and County Sales and Use Tax Rates*, is a valuable resource. It shows sales and use tax rates by city and county and highlights recent rate changes. You can call our Information Center and ask to have a copy mailed to you. Or you can download a copy from the Internet. Go to www.boe.ca.gov/pam71.htm or www.boe.ca.gov/pub71.pdf

Printed revisions should be available by mid-December. The online version should be available January 2, 2002.



Board of Equalization

www.boe.ca.gov
Taxpayers' Rights Advocate Office:
www.boe.ca.gov/tra.htm

State Legislation

www.leginfo.ca.gov

California Taxes

www.taxes.ca.gov