

California Tax Update

Earl R. Thomas

Local Governments

- Local governments continue to “take it on the chin”

- Loss of revenue from vehicle license fee
 - \$4 Billions – Loan to be repaid in 2006

- AB 7X/AB 9 – Reallocation of Taxes (7/1/04)

	Current	AB 7X	AB 9X
■ State	6.00%	6.50%	6.25%
■ City	1.00%	0.50%	0.75%
■ County	1.25%	0.75%	1.00%

AB 9

- The discussion of AB 9, 5th Extraordinary Session, Stats. 2003, Chapter 2) was inadvertently omitted from handout
- AB 9 was enacted to replace AB 7X
 - Transaction & Use Tax rate increases/reductions would be reduced to 0.25%
 - Fiscal Recovery Act to cover Davis Bond (\$10B) and Schwarzenegger Bond (\$15B) (Propositions 57 & 58)

"Chaos" Theory

- If either Proposition 57 or 58 are defeated
 - Neither goes into effect
 - Fallback: AB 7X & Davis Bond (being challenged)
 - What if no decision on Davis bond by election day?
- If propositions are defeated *and* Davis bond is held to be unconstitutional
 - Arnold will need new "storyboard" and script
 - Legislature may be forced to do its job
 - Lots of pain and suffering
 - Fall election may be interesting

SB 566

- Counties may increase transactions & use (district) taxes
- Cities may impose district tax for general purposes at rate of 0.25% or a multiple thereof
- Cities may also impose district tax for special purposes at rate of 0.25% or a multiple thereof.
- All rate increase must be approved by two-thirds of the voters.

Partial Tax Exemptions

- Partial sales and use tax exemptions:
 - Farm equipment and machinery
 - Timber harvesting equipment and machinery
 - Diesel fuel used in farming activities and food processing
 - Racehorse breeding
 - Manufacturing equipment
 - Teleproduction and post production activities
- Partial exemptions would increase to 5.25% (AB 9) or 5.50% (AB 7)

Managed Audit Program

- AB 1043 grants BOE authority to utilize a Managed Audit Program
 - Taxpayer & State agree on methodology and timelines
 - Taxpayer performs audit
 - Auditor acts as supervisor
 - Taxpayer would be liable for only one-half of the interest
 - See http://www.window.state.tx.us/taxinfo/map/map_tp.htm

In-State Voluntary Disclosure

- ❑ AB 1741 allows in-state purchasers to report and pay use tax liability with a 3 year statute of limitation
- ❑ Normally, 8 year statute applies to non-filers
- ❑ BOE may waive late filing and late payment penalties
- ❑ Taxpayers may request written ruling as to whether BOE will accept or reject request to participate in program

SB 566 - Conditions

- There are conditions (surprise):
 - Taxpayer must reside or be located within California
 - Taxpayer must not have previously registered with BOE
 - Taxpayer cannot be engaged in business in California (2 or more sales within 12 month period)
 - Taxpayer cannot have previously filed an Individual Use Tax return
 - Taxpayer cannot have been contacted by BOE

Individual Use Tax Returns

- AB 1009 authorizes a person to report use tax on their California income tax return
- Purchases subject to registration with DMV cannot be reported on income tax return
- CAUTION
 - Cannot report use tax if required to register with BOE
 - Any payments and credits shown on the income tax return will be applied first to income tax liability, then to use tax liability

Domestic Partners

- AB 205 provides registered domestic partners with same rights, obligations, and duties of spouses
- AB 205 does not apply to provisions conferred by California Constitution (property taxes)
- Application to sales and use tax laws:
 - Sales of vehicles, vessels and aircraft to family members
 - Relief of liability to innocent spouse

New/Amended Regulations

- 1502 – Optional software maintenance contract is 50% taxable if no tangible personal property is transferred
- 1507 – Only value of tangible value of copyrighted artwork is subject to tax
- 1684 – Consideration being given to modifying provisions concerning collection of use tax by retailers

Property Taxes

- AB 322 – Disabled veterans will continue to receive property tax exemption after the veteran no longer resides in the home because he/she is confined to care facility
- AB 205 – California Domestic Partners and Responsibilities Act of 2003 does not apply to property tax law

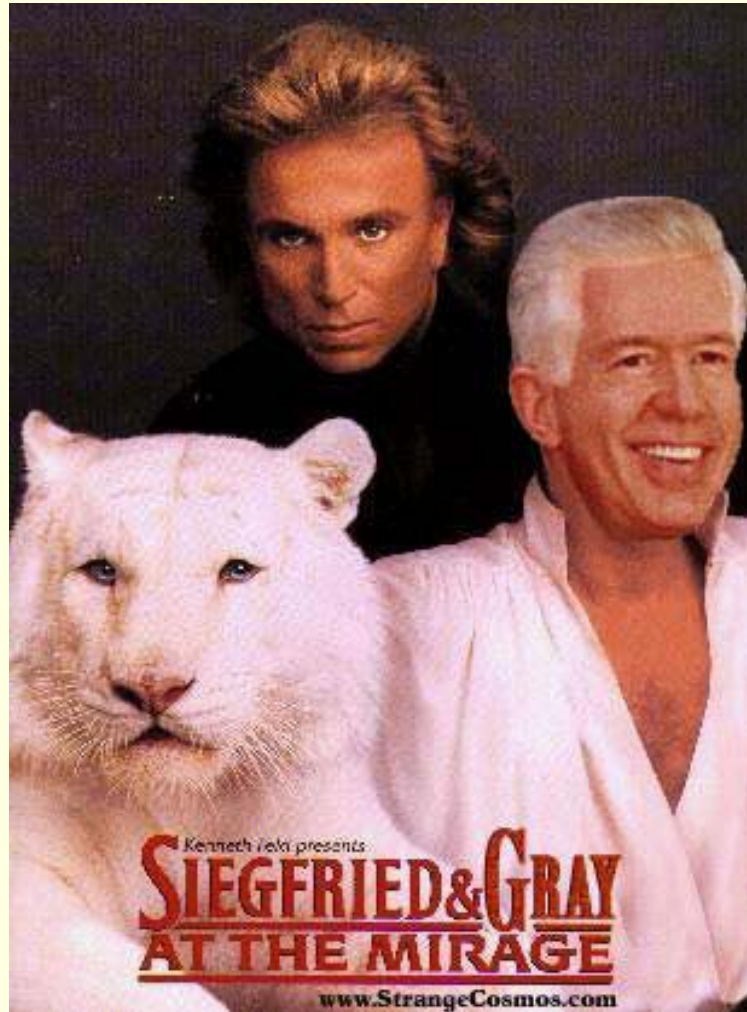
Excise Taxes

- E-Waste Recycling Fee (egad!!) imposed on first sale in California of a covered electronic device to a consumer by a retailer
 - Cathode ray tubes
 - Cathode ray tube devices
 - Flat panel screen
 - Video displays larger than four inches in size measured diagonally
 - Fee: \$6 - \$10

License to Kill

- AB 71 - Cigarette and Tobacco Products Licensing Act of 2003
 - New recordkeeping requirements
 - New inspection provisions
 - New civil and criminal penalties
 - New requirement to obtain an annual license to sell cigarettes
 - Annual license fee is \$1000 per retail location
 - New law may drive cigarette retailer to drink

Former Governor Davis





Q&A

