



NEWS FOR TAX PRACTITIONERS

WHAT YOU NEED TO KNOW TO HELP YOUR CLIENTS SUCCESSFULLY OPERATE THEIR BUSINESSES

MISSION: We make life better for Californians by fairly and efficiently collecting the revenue that supports our essential public services.

This semiannual newsletter informs you of the recent changes to tax and fee programs administered by the California Department of Tax and Fee Administration (CDTFA) and other California state agencies that may affect your clients' businesses. This newsletter also provides efficient, accurate, professional tax information, and guidance in preparing your clients' returns.



Cannabis Donations

On October 12, 2019, Governor Newsom signed [Senate Bill 34](#) (Stats. 2019, ch. 837) (SB 34), which provides that, once operative, the cultivation tax will not apply to medicinal cannabis that a cultivator designates for donation in the California Cannabis Track-and-Trace (CCTT) system to a cannabis retailer. Further, medicinal cannabis or medicinal cannabis products donated by cannabis retailers to medicinal cannabis patients, or by any licensee to a cannabis retailer for subsequent donation to a medicinal cannabis patient, will be exempt from use tax under specified circumstances.

Additionally, SB 34 provides that cannabis licensees authorized to make retail sales may provide free medicinal cannabis or medicinal cannabis products to medicinal cannabis patients or their primary caregivers, if specified requirements are met, and clarifies that the cannabis excise tax does not apply to such specified transactions.

This bill is operative when the Department of Food and Agriculture completes necessary changes to the CCTT system, or on March 1, 2020, whichever comes first, and will be in effect for five years from the operative date. We will issue a special notice and our *Tax Guide for Cannabis Businesses* at www.cdtfa.ca.gov/industry/cannabis.htm will be updated as we receive more information.

Sign-Up to Receive Cannabis Updates

To ensure you receive the latest news on cannabis tax compliance and related issues like our special notices, news releases, and proposed regulatory changes, please sign up for our Cannabis Outreach email listserv at www.cdtfa.ca.gov/subscribe.



Cannabis Tax Rates

Excise Tax: We are responsible for determining the cannabis mark-up rate every six months. An analysis of statewide market data was used to determine the average mark-up rate between the wholesale cost and the retail selling price of cannabis and cannabis products. Based on this analysis, effective January 1, 2020, the mark-up rate is 80 percent. We will notify your clients with a special notice any time the mark-up rate changes.

Cultivation Tax: Beginning January 1, 2020, we are also required to adjust for inflation the cultivation tax rates for all harvested categories (flowers, leaves, and fresh cannabis plant). Please see our special notice, *Cannabis Rate Changes Effective January 1, 2020*, at www.cdtfa.ca.gov/formspubs/L720.pdf for additional information. For the current cannabis tax rates, visit www.cdtfa.ca.gov/taxes-and-fees/tax-rates-stfd.htm and select *Cannabis Taxes*.



Cannabis Tax Regulations

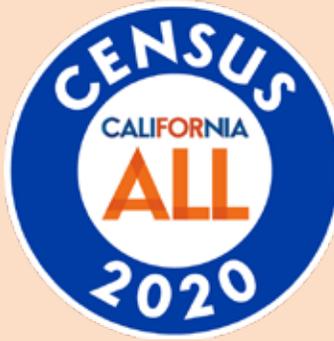
We recently adopted [Regulation 3700](#), *Cannabis Excise and Cultivation Taxes*, which clarifies the Cannabis Tax Law regarding the administration of the cannabis excise and cultivation taxes, including a new definition of "wholesale cost." Please see our special notice, *Changes to Cannabis Excise and Cultivation Taxes Regulation* at www.cdtfa.ca.gov/formspubs/I719.pdf for more information on Regulation 3700.

Additionally, we adopted emergency [Regulation 3702](#), *California Cannabis Track-and-Trace*, which requires distributors and retailers to enter the wholesale cost and retail selling price of cannabis or cannabis products into the California Cannabis Track-and-Trace system.

For more information on emergency Regulation 3702, please see our special notice, *New Emergency Regulation for Cannabis Distributors and Retailers Requires California Cannabis Track-and-Trace* at www.cdtfa.ca.gov/formspubs/I594.pdf.

2020 Census Begins in Spring 2020!

Every 10 years, people across the country and in California fill out the Census in order to have an accurate count of all people in the United States. The Census determines California's federal funding for important community services that help support our families and fair share of representation in California and Washington D.C.



Starting in mid-March 2020, each household will get a letter in the mail. It will explain the different ways you can fill out the Census. If you don't receive a letter, you can still go online or call to fill it out. Be sure you include any person living in your household, family or not.

For more information, visit <https://californiacensus.org/>.

We Want to Process Your Claims for Refund Faster!

We want to work with you to make sure we can process your clients' claims for refund as quickly as possible. To expedite our processing of your client's claim for refund, ensure that when your client submits the claim for refund, they include supporting documents, such as copies of invoices or exemption certificates, and an amended return(s) to support their claim that an overpayment was made. We will contact your client if we need more information. Please ensure that your client responds in a timely manner to our requests for additional supporting documents. For more information on claims for refund, please see publication 117, *Filing a Claim for Refund* on our website at www.cdtfa.ca.gov/formspubs/pub117.



Changes Affecting Sellers of Prepaid Mobile Telephony Services (MTS) and Telecommunication Service Suppliers

Governor Newsom recently signed [Senate Bill 96](#) (Stats. 2019, ch. 54), which changes the collection requirements by sellers and service suppliers of the Emergency Telephone Users (911) Surcharge that provides access to the 911 emergency system. Instead of a percentage-based surcharge, the 911 Surcharge was set at 30 cents (\$0.30) as determined annually by the Office of Emergency Services for the period January 1, 2020, to December 31, 2020. Beginning January 1, 2020, prepaid MTS sellers and service suppliers will have the following collection requirements:

- *Sellers* of prepaid mobile telephony services (MTS) must collect, report, and pay the 911 Surcharge on each

purchase of prepaid MTS for each **retail transaction** in California. (This is separate from the local charges that sellers may also be required to collect, report, and pay as a percentage of the retail sales price of prepaid MTS.)

- *Service suppliers* must collect, report, and pay the 911 Surcharge on each **access line** a service user subscribes to for use in California each month or partial month.

Collection of Local Charges by Sellers – [Senate Bill 344](#) (Stats. 2019, ch. 642) was recently signed into law, and extends the Local Prepaid MTS Collection Act, which requires a seller of prepaid MTS to collect, report, and pay the local charges, when applicable, on their retail sales of prepaid MTS through December 31, 2020.

Sellers of prepaid MTS (other than service suppliers) are required to have an active prepaid MTS account to collect, report, and pay both the 911 Surcharge and any applicable local charges.

Please see our *Tax Guide for Sellers of Prepaid Mobile Telephony Services (MTS) and Telecommunication Service Suppliers* at www.cdtfa.ca.gov/industry/seller-servicesupplier.htm for more information about the 911 Surcharge and/or how local charges apply.

Sales and Purchases of Specified Diapers and Menstrual Hygiene Products Are Exempt from Sales and Use Tax

Recently enacted [Senate Bill 92](#) (Stats. 2019, ch. 34) provides an exemption from the sales and use tax for sales and purchases of specified diapers and menstrual hygiene products, beginning January 1, 2020, through December 31, 2021. If your client is a retailer of these items, your client should not charge or collect sales or use tax on sales of these items during this time frame.

For more information, please see our special notice, *Diapers and Menstrual Hygiene Products Are Exempt from Sales and Use Taxes Effective January 1, 2020, through December 31, 2021*, at www.cdtfa.ca.gov/formspubs/L695.pdf.



District Tax Rate Change

On January 1, 2020, the tax rate for the city of Arcadia within the county of Los Angeles increased from 9.50 percent to 10.25 percent. Taxpayers in the affected areas (including all vehicle dealers and lessors in California as well as all out-of-state accounts) were notified of this increase. You can view the new tax rate at www.cdtfa.ca.gov/formspubs/L704.pdf.

You can find details of sales and use tax rates on our *News* webpage at www.cdtfa.ca.gov/news/, under the *Notices & Newsletter* tab, and select *Special Notices – 2019* section. All of the sales and use tax rates are located on our *California, City & County Sales & Use Tax Rates* webpage at www.cdtfa.ca.gov/taxes-and-fees/sales-use-tax-rates.htm (scroll down to *Download* to access the spreadsheet of the rates that became operative January 1, 2020).



Remember to Report Use Tax on Holiday Purchases!

Did you or your client make holiday purchases for personal use from online or out-of-state retailers who did not collect the California use tax? If so, you and your client must either report those taxable purchases and pay the use tax due on the state income tax return, or on a CDTFA use tax return. For more information on reporting and paying use tax, visit www.cdtfa.ca.gov/taxes-and-fees/use-tax.htm.

New Sales Tax Reporting Requirement for Retailers of Jet Fuel at Airport Locations

Beginning January 1, 2020, retailers of jet fuel must track and report sales of jet fuel by airport location on a new supplementary form, CDTFA-531-JF, *Aircraft Jet Fuel Retailers – Sales by Airport Location* located at www.cdtfa.ca.gov/formspubs/cdtfa531jf.pdf. This change is due to a federal rule that limits the use of state and local sales tax revenues on aviation fuel (jet fuel for California tax purposes) to airport related expenses. With this federal rule in effect, jet fuel retailers are required to report their sales of jet fuel and sales tax collected by airport.

For more information, please see our special notice, *New Reporting Requirement for Sales of Jet Fuel at Airport Locations* at www.cdtfa.ca.gov/formspubs/L712.pdf or refer to the Federal Aviation Administration's final amendments to its policy on federal requirements for the use of proceeds from taxes on aviation fuel (Fed. Reg. 66282, Nov. 7, 2014) at www.govinfo.gov/content/pkg/FR-2014-11-07/pdf/2014-26408.pdf.

Sales and Use Tax Exemption Requirements for Trucks Used Exclusively in Interstate or Foreign Commerce

Beginning January 1, 2020, [Assembly Bill 321](#) (Stats. 2019, ch. 226), amends the sales and use tax exemption for trailers and semitrailers provided by Revenue and Taxation Code (R&TC) section 6388.5 to also apply to certain new, used, or remanufactured trucks. The exemption applies to trucks delivered to both California residents and non-residents in California and that are removed from the state within a specified time, and thereafter used exclusively out-of-state or in interstate or foreign commerce. The expanded sales and use tax exemption is operative from January 1, 2020, through December 31, 2023.

For more information on the new requirements, please see our special notice, *Assembly Bill 321 Expands Sales and Use Tax Exemption to Include Trucks Used Out-of-State or in Interstate or Foreign Commerce* at www.cdtfa.ca.gov/formspubs/L721.pdf.

Partial Sales and Use Tax Exemption for Zero-Emission Technology Transit Buses

Beginning October 9, 2019, through December 31, 2023, [Assembly Bill 784](#) (Stats. 2019, ch. 684) allows a partial sales and use tax exemption on eligible purchases and leases of zero-emission technology transit buses sold to qualifying purchasers.

Qualifying purchasers include cities, counties, transportation or transit districts, and other public agencies that provide transit service to the public. To qualify for the partial exemption, the purchaser must be purchasing a zero-emission technology transit bus that is eligible for the California Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP).

The California Air Resources Board (CARB), in partnership with a national nonprofit organization, CALSTART, administers the HVIP to encourage the use of hybrid and zero-emission trucks and buses in California by providing discounts to certain vehicle purchasers on eligible vehicles. For more information about HVIP, visit www.californiahvip.org.

For more information about this partial sales and use tax exemption, please see our special notice, *Partial Sales and Use Tax Exemption for Zero-Emission Transit Buses* at www.cdtfa.ca.gov/formspubs/l716.pdf and our online guide, *Motor Vehicle Dealers* at www.cdtfa.ca.gov/industry/used-vehicle-dealers.htm.

CAEATFA Exclusion Extended through December 31, 2025

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) sales and use tax exclusion, provided under Revenue and Taxation Code (R&TC) section 6010.8, is extended through December 31, 2025. The exclusion from sales and use tax may be used upon approval by CAEATFA on eligible projects involving:

- Alternative energy sources
- Advanced transportation technologies
- Advanced manufacturing
- Recycled feedstock

For more information about the CAEATFA sales and use tax exclusion, please see our *CAEATFA Sales and Use Tax Exclusion* webpage at www.cdtfa.ca.gov/taxes-and-fees/caeafat.htm.



LEAD-ACID BATTERY FEES

Lead-Acid Battery Fees

On October 13, 2019, Governor Newsom signed [Assembly Bill 142](#) (Stats. 2019, ch. 860) (AB 142), making important changes to the Lead Acid Battery Fees program that impact both the California battery fee and the manufacturer battery fee.

California battery fee account

Beginning January 1, 2020, AB 142 provides that a person is exempt from the California battery fee when purchasing or leasing a used vehicle into which a new motor vehicle dealer has incorporated a replacement lead-acid battery.

The new motor vehicle dealer must maintain documentation to support its California battery fee exempt sales or leases, such as Report of Sales or the Motor Vehicle Contract and Security Agreement.

Manufacturer battery fee account

Beginning January 1, 2020, AB 142 allows out-of-state manufacturers not otherwise subject to the manufacturer battery fee to pay the fee on behalf of a California importer and claim the associated credits to offset potential lead-acid battery hazardous waste liability. Beginning April 1, 2022, AB 142 increases the manufacturer battery fee from \$1 to \$2 and removes the sunset date.

Please note: Manufacturers discussed above include retailers that import lead-acid batteries into California from manufacturers that are not subject to California jurisdiction.

For more information about the fees and how to register, visit our *Tax Guide for Lead-Acid Battery Fees* at www.cdtfa.ca.gov/industry/lead-acid-battery-fees.htm.

New Offer in Compromise Pre-Qualifier Tool

The Offer in Compromise (OIC) Pre-Qualifier Tool is a new feature for your clients who do not have, and will not have in the foreseeable future, the ability to pay the full tax or fee balance due on a final liability. The tool allows you or your client to enter financial information to calculate a preliminary offer amount and also provide guidance in completing a [CDTFA-490, Offer in Compromise Application](#). To access the OIC Pre-Qualifier Tool, go to www.cdtfa.ca.gov/OIC.

An OIC is a proposal to pay us an amount that is less than the full tax or fee liability due. An OIC is not available for motor vehicle fuel tax or insurance tax liabilities. For more information about the Offer in Compromise Program, visit www.cdtfa.ca.gov/legal/offer-in-compromise.htm. Additionally, [publication 56, Offer in Compromise](#) answers several of the most commonly asked questions.



Local and District Tax Guide for Retailers is Now Available

Our online tax guide, *Local and District Tax Guide for Retailers*, is now available! The guide includes helpful examples and important information about local and district taxes for retailers including lessors, construction contractors, those with multiple locations, those making sales over the Internet, those making sales into California from out-of-state, and more.

The guide is available online at www.cdtfa.ca.gov/industry/localanddistricttaxes.htm.

Sales to Foreign Missions and Consuls May Be Exempt from Sales and Use Tax

In general, sales and use tax does not apply to the sale or use of tangible personal property sold or leased to foreign missions or representative offices, foreign consular officers, employees, or members of their family if the mission, office, or such person has been identified by the U.S. Department of State, Office of Foreign Missions (OFM), or American Institute in Taiwan (AIT) as exempt from tax. The OFM and AIT issue Tax Exemption Cards to qualifying persons. The cards include a photograph and a description of the authorized bearer. Some Tax Exemption Cards authorize an unrestricted exemption from sales and use tax, and other cards

authorize an exemption with some degree of restriction, such as minimum purchase requirement, excluded categories, or both. Tax Exemption Cards labeled “Official Purchases Only” are for use when making official purchases and the form of payment must be in the name of the foreign mission or representative office.

Tax Exemption Cards labeled “Personal Tax Exemption” are used by eligible foreign mission and representative office members and members of their family to obtain an exemption from sales or use tax on personal purchases. Personal Tax Exemption Cards are not transferable and must be used solely for the benefit of the individual identified and pictured on the card.

If your client is a retailer, your client must retain invoices or other written evidence to support any transaction claimed as an exempt sale on its sales and use tax returns for sales to foreign consuls.

For vehicle sales or leases, your client must contact the OFM or AIT to obtain a letter stating that the vehicle sale or lease to the purchaser is eligible for the tax exemption and must retain a photocopy of the front and back of the Tax Exemption Card.

If you or your client have any questions or concerns regarding this, please contact the OFM at 1-415-744-2910 in San Francisco or 1-310-235-6296 in Los Angeles.



New California Healthcare Mandate

On January 1, 2020, the State of California adopted a new state individual health care mandate requiring individuals to maintain health insurance. Individuals who do not obtain health insurance for themselves and their dependents will be subject to a penalty unless they qualify for an exemption.

To help keep you and your clients up to date on this important topic, the Franchise Tax Board (FTB) now has a California Healthcare Mandate webpage at www.ftb.ca.gov/about-ftb/newsroom/health-care-mandate/index.html. The FTB will update the information on this page periodically.

For more information on health care insurance options and financial assistance, please visit the Covered California website at www.coveredca.com/.

About the CDTFA: We administer California’s sales and use, fuel, tobacco, alcohol, and cannabis taxes, as well as a variety of other taxes and fees that fund specific state programs. We collect over \$70 billion annually from CDTFA administered programs, which in turn supports local essential services such as transportation, public safety and health, libraries, schools, social services, and natural resource management programs through the distribution of tax dollars going directly to local communities.

Tax programs we administer are concentrated in two general areas – sales and use, and special taxes and fees.

To best serve our customers, we have offices throughout the state along with offices located in New York, Chicago, and Houston. While our team is spread out geographically, we are united in working together to serve taxpayers.

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