



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.

Relief and Extensions for Filing Returns

Effective December 15, 2020, Governor Newsom issued an executive order providing a three-month extension on tax returns and tax payments for small businesses. For taxpayers reporting less than \$1 million in tax, the deadlines for returns and payments due from December 15, 2020, through April 30, 2021, are extended by three months. Taxpayers reporting less than \$1 million in tax on a return originally due within this time frame are not required to seek an extension or request relief from interest from CDTFA; relief will be provided automatically. Interest and penalties will not accrue on return amounts due for these taxpayers, provided payments are made and returns are filed within three months of the original due date.

Requests for Relief for Larger Taxpayers

Taxpayers with a liability of \$1 million or greater must request an extension and request relief from interest if they are unable to file and pay by the due date. These requests are evaluated on a case-by-case basis and taxpayers will be notified if their requests have been approved or denied.

Small Business Relief Payment Plans for Sales and Use Tax

The CDTFA is offering a 12-month, interest-free, payment plan for small businesses with less than \$5 million in annual taxable sales. This payment plan is limited to sales and use tax accounts and is available for up to \$50,000 in tax liability for returns with original due dates between December 15, 2020, and April 30, 2021. All payment plans must be paid in full by April 30, 2022, to qualify for zero interest.

For more information on tax relief for businesses impacted by COVID-19, please visit our COVID-19 State of Emergency page at www.cdtfa.ca.gov/services/covid19.htm.

Final Online Services Expansion



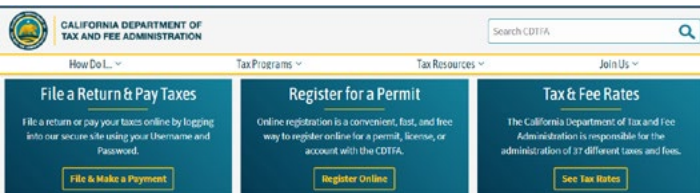
We completed the final expansion of our online services. All tax and fee programs we administer are now incorporated into our new online system. The programs below were transitioned on November 9, 2020.

- Cannabis Taxes
- Childhood Lead Poisoning Prevention Fee
- Emergency Telephone Users Surcharge
- Energy Resources (Electrical Energy) Surcharge
- Hazardous Substances Taxes (Disposal, Environmental, Facility, and Generator)
- Integrated Waste Management Fee
- Lead-Acid Battery Fees
- Marine Invasive Species Fee (formerly Ballast Water Management Fee)
- Natural Gas Surcharge
- Occupational Lead Poisoning Prevention Fee
- Public Warehouse – Alcoholic Beverage Tax
- Tax on Insurers
- Water Rights Fee

You can now complete returns, schedules, and license renewals for all tax and fee programs in our new online services system.

As a tax preparer, you must log in with your username and password, and obtain access to your clients' accounts to file online. We sent a letter to CDTFA account holders with information on how to register for online access. The letter included a unique security code, which is needed to gain access online. If you do not currently have a username and password, please sign up now at <https://onlineservices.cdtfa.ca.gov>.

If your client has an account type listed above and you already have a username and password for the new system, log in and choose the *Request Access to an Account* link to request access to their account. Your client may also provide you a copy of the letter mailed to them which you can use to gain immediate access to the account online. Video tutorials about logging in and filing returns are available on our website at www.cdtfa.ca.gov/services/#Tutorials, including *How to Create a Username and Password* in the new system, *How to Gain Access to an Account*, and *How to File Online*.



New Website Redesign

On November 5, the CDTFA launched its new and improved website! Based on your feedback, we redesigned our website to feature a cleaner, simpler look. It showcases the three most requested functions: File a Return & Pay Taxes, Register for a Permit, and Tax & Fee Rates. The website is intuitive with clear navigation that makes it easy to efficiently find information. The sharp and professional design is focused on your needs.

Visit www.cdtfa.ca.gov to check out our updated website! Take a look at the [Quick Reference Guide](#) to see what's new!

Changes Affecting Used Vehicle Dealers and Vehicle Auction Houses on January 1, 2021

As of January 1, 2021, the filing frequency of all used vehicle dealers and vehicle auction houses changed to a monthly reporting basis. We now require detailed transaction information for any retail sales of used vehicles to be included with the returns. The first return for sales made in the month of January 2021, is due March 1, 2021.

In addition, certain used vehicle dealers are required to pay sales tax on their retail sales of vehicles at the time they submit a vehicle registration application to the Department of Motor Vehicles (DMV). *The DMV will notify your client, in advance, when their payment method is scheduled to change.* Your client must continue to timely remit taxes due to us until your client is transitioned to the DMV payment process. Your client must provide their seller's permit number on their *Report of Sale* to ensure their sales tax payment is correctly applied to their CDTFA return. *Please note:* If your client makes taxable sales of items other than used vehicles, they must continue to remit the taxes due on those sales to the CDTFA.

The reporting basis and payment changes are results of the enactment of Assembly Bill (AB) 85 (Stats. 2020, ch. 8) and AB 82 (Stats. 2020, ch. 14) and apply to vehicle dealers, other than new motor vehicle dealers, lessor-retailers, and other specified sellers of vehicles, who hold a license issued pursuant to the Vehicle Code (generally, used vehicle dealers).

For more information, please see our special notice, *Changes Affecting Used Vehicle Dealers and Vehicle Auction Houses Beginning January 1, 2021*, and our *New Legislation Affecting Used Vehicle Dealers – Frequently Asked Questions (FAQs)* webpage at www.cdtfa.ca.gov/industry/faqs-for-used-vehicle-dealers.htm.

Use Fuel Tax – New Legislation Changes the Use Fuel Tax Rate on Dimethyl Ether



Assembly Bill 2663 (Stats. 2020, ch. 117), beginning July 1, 2021, changes the current \$0.18 per gallon use fuel tax rate on dimethyl ether (DME) and DME-liquefied petroleum gas fuel blend to \$0.06 per gallon, for each gallon used. It also authorizes owners or operators of DME or DME-liquefied petroleum gas fuel blend-powered vehicles, except interstate users, to pay the annual flat rate fuel tax in lieu of the per gallon fuel tax.

Franchise Tax Board's (FTB) Tax News for Tax Professionals

Tax News – California FTB's monthly online publication is designed to inform tax professionals about state income tax laws, regulations, policies and procedures, and events that affect the tax professional community. The FTB also periodically releases a newsflash to quickly notify its subscribers of urgent, time-sensitive information.

The FTB provides a subscription service that delivers Tax News to you via email. It's free and all FTB asks for is your email address.

Please visit the FTB's [subscription services](#) webpage to subscribe.

Emergency Telephone Users (911) Surcharge Annual Rate Setting and Extension of Local Charges

911 Surcharge Rate

The Governor's Office of Emergency Services (Cal OES) determined that the Emergency Telephone Users (911) Surcharge rate will remain at \$0.30 for the period of January 1, 2021, through December 31, 2021.

Sellers and service suppliers will collect the 911 Surcharge as follows:

- Sellers of prepaid mobile telephony services (MTS) shall collect the 911 Surcharge from each prepaid MTS consumer at the time of each *retail transaction* in California.
- Service suppliers shall collect the 911 Surcharge on each *access line* for each month or partial month a service user subscribes to for use in California.

Extension of Local Charges

On September 25, 2020, Governor Newsom signed [Senate Bill 1441](#)

(Stats. 2020, ch. 179), which extends a seller's requirement to collect applicable local charges through December 31, 2025.

Sellers of prepaid MTS making sales to California purchasers, either online or at a retail location, must continue to collect the applicable local charges if in the preceding calendar year, their sales of prepaid MTS were \$15,000 or more.

Please view our [Tax Guide for Sellers of Prepaid Mobile Telephony Services \(MTS\) and Telecommunication Service Suppliers](#) for more information about the application of the 911 Surcharge and local charges. Please also see our special notice, [Collection of Local Charges Extended through December 31, 2025](#).



Please view our [Tax Guide for Sellers of Prepaid Mobile Telephony Services \(MTS\) and Telecommunication Service Suppliers](#) for more information about the application of the 911 Surcharge and local charges. Please also see our special notice, [Collection of Local Charges Extended through December 31, 2025](#).

Sales and Use Tax Exemption for Trucks Used Out-of-State or in Interstate or Foreign Commerce to Include International Registration Plan Registration

Operative January 1, 2020, **Assembly Bill 321** (Stats. 2019, ch. 226) amended **Revenue and Taxation Code (R&TC) section 6388.5** for the exemption to also apply to the sales or use of certain new, used, and remanufactured trucks. The exemption applies to trucks delivered in California to both California residents and nonresidents and that are removed from the state within a specified time, and afterwards, exclusively used out-of-state or in interstate or foreign commerce. On September 30, 2020, **Senate Bill 1473** (Stats. 2020, ch. 371), was enacted which amended R&TC section 6388.5 to clarify that purchasers of certain new, used, or remanufactured trucks registered under the International Registration Plan (IRP) may submit written evidence of the purchaser's United States Department of Transportation Number or United Carrier Registration System filing in lieu of written evidence of out-of-state license and registration.

For more information, please see our special notice, [Sales and Use Tax Exemption for Trucks Used Out-of-State or in Interstate or Foreign Commerce to Include International Registration Plan Registration](#), at www.cdtfa.ca.gov/formspubs/l788.pdf.

Cannabis Rates

Due to new legislation, [Assembly Bill 1872](#) (Stats. 2020, ch. 93), the cannabis excise tax mark-up rate and the cultivation tax rates will remain the same on January 1, 2021, as outlined below.

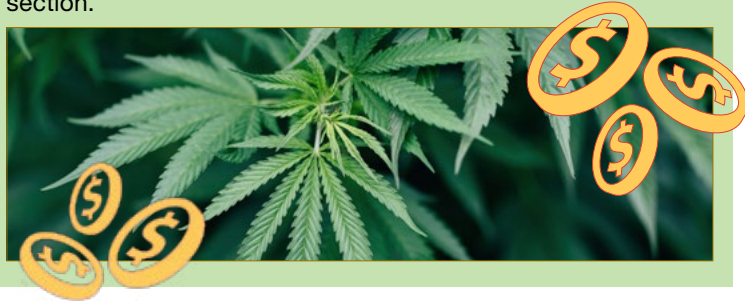
Cannabis Excise Tax Mark-Up Rate

- The cannabis excise tax mark-up rate used by distributors to compute the average market price of cannabis or cannabis products sold or transferred to a cannabis retailer in an arm's length transaction will remain at 80 percent for the period of January 1, 2021, through June 30, 2021.

Cultivation Tax Rates

- The 2020 calendar year cultivation tax rates will remain in effect for the 2021 calendar year.
- The CDTFA will adjust the cultivation tax rates annually for inflation beginning with the 2022 calendar year.

Please see our special notice, [Cannabis Rates to Remain the Same on January 1, 2021](#), for additional information regarding cannabis tax rates. For the current and prior cannabis excise tax mark-up rates and cultivation tax rates, see our [Tax Rates – Special Taxes and Fees](#) webpage under the [Cannabis Taxes](#) section.



Marlboro iQOS HeatSticks are Cigarettes Effective June 30, 2020

Marlboro iQOS HeatSticks (HeatSticks) are cigarettes under Revenue and Taxation Code (R&TC) section 30003, and, as such, shall be taxed and stamped as cigarettes in California. On June 30, 2020, HeatSticks were added to the California Tobacco Directory, which is published on the Office of Attorney General's website. All cigarettes and roll-your-own tobacco products and their manufacturers must be included on the California Tobacco Directory before such products may be lawfully distributed, sold, offered for sale, or possessed for sale in this state (R&TC section 30165.1(e)).



HeatSticks are rolls of tobacco wrapped in paper. HeatSticks qualify as cigarettes because they:

1. Come in a roll for smoking,
2. Are made in whole or part of tobacco, and
3. The roll has a wrapper or cover that is not made mostly of tobacco.

For more information about cigarette and tobacco products tax, licensing, and reporting requirements, please see our [Tax Guide for Cigarette and Tobacco Products](#) at www.cdtfa.ca.gov/industry/cigarette-and-tobacco-products.htm.



Losses Due to Theft

Relief may be available for excise and cultivation taxes when a cannabis business is the victim of theft.

Cannabis Excise Tax

The cannabis excise tax is not due on cannabis or cannabis products (cannabis) stolen and never sold at retail. If a cannabis retailer paid the cannabis excise tax to its distributor and the associated cannabis is subsequently stolen from the cannabis retailer, that retailer may request a refund from its distributor for the cannabis excise tax paid on stolen cannabis. The distributor is required to provide the retailer with a receipt or similar document that indicates the amount of cannabis excise tax refunded. The distributor may then request a refund from us or claim a credit on its next tax return, for the cannabis excise tax paid to the CDTFA and subsequently refunded to its retailers. Both the retailer and the distributor must keep documentation supporting any loss due to theft, such as a police report and/or insurance claim.

Cannabis Cultivation Tax

Cannabis enters the commercial market when it passes the required testing and quality assurance review. The cultivation tax is due on cannabis that enters the commercial market even if the cannabis is subsequently lost due to theft.

However, the cultivation tax is not due on cannabis stolen *before* it enters the commercial market. If the cultivation tax was collected on cannabis that never entered the commercial market, the cultivation tax must be returned to the originating cultivator. If the cultivation tax cannot be returned to the cultivator, the cultivation tax must be reported and paid to the CDTFA.

For more information regarding loss due to the theft of cannabis, including documentation requirements and sales and use tax information, please view the *Losses Due to Theft* section under the *Retailers* tab and *Distributors* tab in our [Tax Guide for Cannabis Businesses](#) at www.cdtfa.ca.gov/industry/cannabis.htm.

Destruction of Spoiled Beer and Wine

As a beer and wine importer, beer manufacturer, or winegrower, your client is allowed an alcoholic beverage tax exemption or credit for spoiled beer or wine destroyed under the supervision of a CDTFA representative. They may receive:

- An exemption on spoiled beer or wine that has not yet been sold in California.
- A credit on beer or wine that was sold in California, subsequently spoiled, and then returned to your client by the wholesalers.

[Alcoholic Beverage Tax Regulation 2552](#) provides an alternative for beer and wine importers to having a CDTFA-supervised destruction when *small quantities* of beer or wine are being destroyed. In the instance of small quantities of beer or wine being destroyed, it allows a beer and wine importer to receive written approval for unsupervised destruction of the beer or wine when the quantity being destroyed as spoilage is 2,500 gallons or less (or 1,500 gallons or less of champagne or sparkling wine by volume). The request must be approved prior to destruction.

After receiving the CDTFA's approval, and after the beer or wine is destroyed, the beer and wine importer is required to submit a declaration of destruction, signed under penalty of perjury, by a person of authority in the beer and wine importer's organization who witnessed the destruction.

For more information, please see [Regulation 2552](#), and our [Tax Guide for Alcoholic Beverage](#).



Distilled Spirits and Wine Sold for Industrial Uses

There is an alcoholic beverage tax exemption for the sales of alcohol, distilled spirits, and wine sold by distilled spirits manufacturers, brandy manufacturers, rectifiers, industrial alcohol dealers, or wine growers for industrial uses, *but only when it is sold in packages with a capacity larger than one gallon*.

Alcohol, distilled spirits, or wine used in the manufacture of any of the following is considered an industrial use, if the products are unfit for beverage use:

- Medicinal, pharmaceutical, or antiseptic products (such as hand sanitizer), including prescriptions compounded by registered pharmacists
- Toilet products
- Flavoring extracts
- Syrups (Sirups)
- Food products
- Scientific, chemical, or industrial products

For more information, please see our [Tax Guide for Alcoholic Beverage](#).

Retailers of Trailers are Required to Collect the California Tire Fee



Retailers of any type of new or used trailer (for example, auto, horse, boat, equipment, fifth wheel, and travel trailers) that is towed on a highway or road are required to collect the tire fee on all new tires (including the spare tire) included with the sale of the trailer

to the retail customer. Also, sales of new tires that are sold to retail customers as replacement tires for trailers are subject to the tire fee.

For information about the California Tire Fee and how to register for a tire fee account, please see [publication 91, California Tire Fee](#) and our [California Tire Fee Guide](#).

Contact Us

Tell the CDTFA what topics you would like to see covered in your newsletter. You can mail your comments to the CDTFA, call our Customer Service Center at 1-800-400-7115 (CRS:711), or send a message through our website.

California Department of Tax and Fee Administration
P.O. Box 942879
Sacramento, CA 94279-0044

Website: www.cdtfa.ca.gov/contact.htm

Tax Practitioner Hotline:
1-800-401-3661

Customer service representatives are available Monday through Friday from 8:00 a.m. to 5:00 p.m. (Pacific time), except state holidays.

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

Thank you for connecting with us.

