



# 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.



## Customer Service Center Expands Hours

We have extended the hours of our Customer Service Center by half an hour each business day, taking calls earlier to provide additional time to answer customers' tax and fee questions.

Customer service representatives are available at 1-800-400-7115 (CRS:711) from 7:30 a.m. to 5:00 p.m. (Pacific time), Monday through Friday, except for state holidays. For our Tax Practitioner Hotline, please call 1-800-401-3661. Spanish-speaking representatives are available. If you prefer to chat online and have general questions, please visit our website at [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov).

## Limited Access Codes Phasing Out: Sign Up Now for a Username and Password



If you file returns on behalf of your clients using our online services system, and you do not currently have an online profile, you will need to sign up now to obtain one. You may create your online profile with a username and password at [onlineservices.cdtfa.ca.gov](http://onlineservices.cdtfa.ca.gov).

We have begun to phase out the Limited Access Code (LAC) feature. If you or your clients are using an LAC to file or make payment on our online services system and have not created an online profile with a username and password, we encourage you to [Sign Up Now](#).

By creating a username and password, you will have access to all the enhanced features of our system, including filing returns and reports, requesting filing extensions, making payments, filing appeals, requesting payment plans, submitting claims for refund, and requesting relief from penalties and interest. The online services portal is also a great tool for keeping up to date on your clients' accounts. You will be able to see the status of relief requests as well as view and print previously mailed letters, payments, and filed returns and reports for your clients' accounts.

Video tutorials on how to log in and request access to clients' accounts are available on our website at [www.cdtfa.ca.gov/services/#loggingToggle](http://www.cdtfa.ca.gov/services/#loggingToggle).



## Cannabis Excise Tax Mark-Up Rate Decreases

The cannabis mark-up rate will decrease from 80 percent to 75 percent for the period of July 1, 2022, through December 31, 2022.

Please note that, effective January 1, 2023, cannabis retailers are responsible for the cannabis excise tax based on 15 percent of the cannabis or cannabis products' gross sales price. CDTFA will no longer calculate a mark-up to compute the average market price after December 31, 2022.

For more information regarding the cannabis mark-up rate, please see our special notice, *Cannabis Markup Rate Decreases to 75 Percent on July 1, 2022*, at [www.cdtfa.ca.gov/formspubs/L851.pdf](http://www.cdtfa.ca.gov/formspubs/L851.pdf).

## Changes to the Cannabis Cultivation Tax Requirements

As of July 1, 2022, the cultivation tax no longer applies to cannabis or cannabis products that enter the commercial market. Distributors and manufacturers must stop collecting the cultivation tax from cultivators, and cultivators are no longer responsible for paying the cultivation tax to manufacturers or distributors when cultivators sell or transfer cannabis to another licensee.

For more information, please see our special notice, *Cultivation Tax Ends on July 1, 2022*, at [www.cdtfa.ca.gov/formspubs/L856.pdf](http://www.cdtfa.ca.gov/formspubs/L856.pdf).

## Legislation Information

Assembly Bill 195 (Stats. 2022, ch. 56) enacted on June 30, 2022, revises the Cannabis Tax Law. Please visit our website for future special notices, additional updates, and our online *Tax Guide for Cannabis Businesses*, at [www.cdtfa.ca.gov/industry/cannabis.htm](http://www.cdtfa.ca.gov/industry/cannabis.htm), for details of the latest revisions to the Cannabis Tax Law.



## New Tax and Reporting Requirements for Retailers of Electronic Cigarettes Containing or Sold with Nicotine

Effective July 1, 2022, retailers of electronic cigarettes containing or sold with nicotine are required to collect, report, and pay the California Electronic Cigarette Excise Tax (CECET). The CECET is 12.5 percent of the retail sales price of electronic cigarettes containing or sold with nicotine for use in California. Retailers are required to collect this tax from purchasers at the time of sale. The first CECET tax return and payment are due by October 31, 2022. This return and payment cover the period of July 1, 2022, through September 30, 2022.

If we have not already registered your clients with a CECET permit (account), your clients are responsible for registering with us using our online services at [onlineservices.cdtfa.ca.gov](https://onlineservices.cdtfa.ca.gov).

In-state retailers may register with us beginning June 1, 2022. Out-of-state retailers may register with us beginning September 1, 2022, to report any sales of electronic cigarettes containing or sold with nicotine on and after July 1, 2022. If your clients are retailers located outside California and need a CECET account and we have not registered them prior to September 1, 2022, please call us at 1-800-400-7115 (CRS:711) and select the *Special Taxes and Fees* option from the main menu for assistance with registration.

For more information, please see our *Tax Guide for California Electronic Cigarette Excise Tax* at [www.cdtfa.ca.gov/taxes-and-fees/electronic-cigarette-excise-tax.htm](https://www.cdtfa.ca.gov/taxes-and-fees/electronic-cigarette-excise-tax.htm).



## Decreased Tax Rate for Other Tobacco Products Distributors

We recently approved the new tax rate for other tobacco products (products other than cigarettes) of 61.74 percent effective July 1, 2022, through June 30, 2023. We are required to determine this rate annually, which is equivalent to the combined rate of tax imposed on cigarettes.

For more information, please see our special notice, *New Tax Rate on Other Tobacco Products Effective July 1, 2022, through June 30, 2023*, at [www.cdtfa.ca.gov/formspubs/L852.pdf](https://www.cdtfa.ca.gov/formspubs/L852.pdf). Current and historical tobacco products tax rates are posted on the *Tax Rates—Special Taxes and Fees* webpage, under the *Cigarette and Tobacco Products Tax* heading at [www.cdtfa.ca.gov/taxes-and-fees/tax-rates-stfd.htm#cigarettetax](https://www.cdtfa.ca.gov/taxes-and-fees/tax-rates-stfd.htm#cigarettetax).

## Effective May 3, 2022, Cigarette Manufacturer Korea Tobacco & Ginseng Corporation and All Related Brands Were Removed from the California Tobacco Directory

The California Attorney General's Office removed cigarette manufacturer Korea Tobacco & Ginseng (KT&G) Corporation and all its related cigarette brands (Carnival, THIS, and Timeless Time) from the [California Tobacco Directory](#). Please see below for KT&G Corporation's cigarettes sell-off periods. After these dates, these cigarettes are considered contraband and subject to seizure.

- June 12, 2022 – Last day distributors and wholesalers may purchase, sell, or possess these cigarettes for sales in California. After this date, distributors may not stamp these cigarettes for sales in California.
- July 2, 2022 – Last day retailers may purchase, sell, possess, or transport these cigarettes in California.

For more information, please visit the California Attorney General's Office website at [oag.ca.gov/home](https://oag.ca.gov/home), and view the *May 3, 2022, Notice to All License Distributors and Wholesalers*, at [oag.ca.gov/system/files/media/notice-removal-ktg-050322.pdf](https://oag.ca.gov/system/files/media/notice-removal-ktg-050322.pdf), for distributor and wholesaler responsibilities and sell-off periods.



## Covered Electronic Waste Recycling Fee: New Devices Included

The Department of Toxic Substances Control adopted new regulations effective December 20, 2021, to include organic light-emitting diode (OLED)-containing display devices and liquid crystal display (LCD)-containing smart displays as covered electronic devices. These devices will be subject to the covered electronic waste recycling fee beginning July 1, 2022. The new regulations also defined "smart displays" and provided a category for LCD-containing tablets, which were previously categorized under the LCD-containing laptop category.

For more information, please see our special notice, *New Devices Subject to the Covered Electronic Waste Recycling Fee Starting July 1, 2022*, at [www.cdtfa.ca.gov/formspubs/L857.pdf](https://www.cdtfa.ca.gov/formspubs/L857.pdf).



## New Prepayment and Excise Tax Rates on Fuel

By March 1 of each year, we are required to establish the sales tax prepayment rates on fuels that will be in effect from July 1 through June 30 of the following year. Generally, new prepayment rates take effect July 1. The rates vary depending on the type of fuel involved and may be adjusted during the year, if necessary.

We are also required to adjust the excise tax rates for motor vehicle fuel and diesel fuel rates effective July 1 each year by the percentage change in the California Consumer Price Index, as calculated by the California Department of Finance. The excise taxes on aircraft jet fuel and aviation gasoline are not subject to an annual adjustment.

### Sales Tax Prepayment Rates – Effective July 1, 2022

The sales tax prepayment rate for motor vehicle fuel, diesel fuel, and jet fuel are as follows:

- Motor vehicle fuel (gasoline) rate increased to \$0.09 per gallon (from \$0.055 per gallon)
- Diesel fuel rate increased to \$0.47 per gallon (from \$0.27 per gallon)
- Jet fuel rate increased to \$0.18 per gallon (from \$0.075 per gallon)

### Excise Tax Rates – Effective July 1, 2022, through June 30, 2023

The excise tax rates for motor vehicle fuel, diesel fuel, jet fuel, and aviation gasoline are as follows:

- Motor vehicle fuel (gasoline) excise tax rate increased to \$0.539 per gallon (from \$0.511 per gallon)
- Diesel fuel excise tax rate increased to \$0.41 per gallon (from \$0.389 per gallon)
- Jet fuel excise tax rate remains at \$0.02 per gallon
- Aviation gasoline excise tax rate remains at \$0.18 per gallon

You can view the special notice about these changes at [www.cdtfa.ca.gov/formspubs/L847.pdf](http://www.cdtfa.ca.gov/formspubs/L847.pdf). For additional information concerning tax rates, please visit our website at [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov). Select *Sales & Use Tax* under *Tax Programs*, then select the *Tax & Interest Rates* tab and select *Sales Tax Rates for Fuels*.

## Samples Selected by Taxpayers to Determine Refund Amounts

To estimate requested refund amounts, you or your clients may use sampling and projection techniques, like the techniques used by our auditors. However, *sample results* provided by you, or your clients, will not be used by our auditors to verify and approve the claim.

The full population for requesting a refund will need to be provided as support for the claim. After the claim is submitted, our audit team member will contact you or your client to determine if sampling is feasible, and if so, develop a mutually agreeable sampling plan, as stated in our [Audit Manual](#) section 0401.05.

Approved refund amounts will be based on samples selected by our audit team members.



## Say Hello to Box!

In May 2021, the Employment Development Department (EDD) implemented the Box.com application. Box.com is an online cloud service platform that allows EDD's Tax Branch to receive files of up to 30 GB through a secure and encrypted channel.

Before EDD launched the Box.com application, customers were limited to faxing, emailing, and mailing documents during a tax audit or while working with a compliance representative. While these options are still available to customers, Box.com application provides a simple and streamlined process for submitting employer records. EDD's Tax Branch is looking to expand the use of this tool to include the outbound functionality, which will allow them to share data externally with their customers. They have received positive feedback over the last several months as Box.com has made collaborating with their customers a simple, seamless, and efficient process.

For more information, please visit EDD's *California Employer News and Updates* webpage at [edd.ca.gov/en/payroll\\_taxes/employer-news/#collapse-d631ab70-d369-4772-afe3-306d399033fd](http://edd.ca.gov/en/payroll_taxes/employer-news/#collapse-d631ab70-d369-4772-afe3-306d399033fd).



## Closing a Business Entity

Entities doing business in California or registered with the California Secretary of State (SOS) at [www.sos.ca.gov](http://www.sos.ca.gov), can dissolve, surrender, or cancel (dependent on the type of business) when they cease operations in California and need to terminate their legal existence here. Dissolving, surrendering, or canceling a California business entity is a multi-step, multi-state agency process that has requirements with the California Franchise Tax Board (FTB) at [www.ftb.ca.gov](http://www.ftb.ca.gov), and SOS. For information on the steps required, and additional steps that may prove helpful, please visit the appropriate agency's website and search for *Closing a California Business Entity*.

A qualified domestic corporation, or qualified domestic limited liability company, can submit a request for voluntary administrative dissolution or cancellation if certain criteria are met.

For more information, please visit FTB's *Voluntary Administrative Dissolution/Cancellation* webpage at [www.ftb.ca.gov/help/business/voluntary-administrative-dissolution-cancelation.html](http://www.ftb.ca.gov/help/business/voluntary-administrative-dissolution-cancelation.html).



## Changes in Capital Account Reporting

Beginning with tax year 2020, partnerships are required to use the tax basis method for reporting their partners' capital accounts on federal Schedule K-1 for federal income tax purposes. A tax basis capital account is an important tool for determining to what extent annual losses can be claimed, and for calculating gain or loss from the disposition of a partnership interest.

Although California generally conforms to the Internal Revenue Code, there are differences between federal and California tax law. To account for these differences, the [California Franchise Tax Board \(FTB\)](#) has followed the federal changes in Schedule K-1 reporting requirements. FTB requires an entity taxed as a partnership to report its partners' or members' capital accounts on Schedule K-1 (565) and Schedule K-1 (568) using the tax basis method calculated under California law.

This change is effective for tax years beginning on or after January 1, 2021. However, FTB has issued FTB Notice 2022-01, giving entities taxed as partnerships the option to report partners' and members' capital account information using the "tax basis method" as determined under either the federal or California law for tax year 2021.

Entities taxed as partnerships will be allowed to use the federal tax basis capital account for the tax year 2021 only and are not allowed to use the federal tax basis in lieu of their California tax basis for any other purposes, including reporting or determining their California tax liability. For tax year 2022 and thereafter, FTB will require taxpayers who file Form 565 or 568 to report their partners' or members' capital accounts on Schedule K-1 using the tax basis method as determined under California law.

For more information on capital account reporting, please visit FTB's *Capital Account Reporting* webpage at [www.ftb.ca.gov/about-ftb/newsroom/news-releases/2022-07-capital-account-analysis.html](http://www.ftb.ca.gov/about-ftb/newsroom/news-releases/2022-07-capital-account-analysis.html).

Thank you for connecting with us.

