



CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

OFFICE OF THE DIRECTOR

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GAVIN NEWSOM
Governor

NICOLAS MADUROS
Secretary, Government Operations Agency

TRISTA GONZALEZ
Director

December 1, 2025

Honorable Scott Wiener, Chair
Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, CA 95814

Attention: Mr. Hans Hemann

Re: Supplemental Report Requirement Item 0860-001-0001 from the 2002, 2006, 2010 & 2011 Budget Acts Annual Report on Sales and Use Tax Audit and Collection Activities, Statewide Compliance & Outreach Program, and Audit Selection Improvements for Fiscal Year 2024-25

Dear Chairman Wiener:

The Supplemental Report requirement from the 2002 Budget Act (Item 0860-001-0001) requires an Annual Report on Sales and Use Tax Audit and Collection Activities. The 2006 Budget Act requires the report to include the outcomes of certain audit selection improvements. The 2010 Budget Act expands the 2002 and 2006 requirements to incorporate reporting the average and marginal benefit-to-cost ratios for the audit and collection activities. In addition, the 2011 Budget Act requires a report on the performance of the Statewide Compliance & Outreach Program. The combined report is to be provided to the Chair of the Fiscal Committee in each house of the Legislature and the Chair of the Joint Legislative Budget Committee by December 1, 2025.

The Annual Report on Sales and Use Tax Audit and Collection Activities, Statewide Compliance & Outreach Program, and Audit Selection Improvements for Fiscal Year 2024-25 is attached. If you have any questions, please contact me at 1-916-309-8300.

Sincerely,

 TRISTA GONZALEZ

for

Trista Gonzalez
Director

TG:ck

Enc: Annual Report on Sales and Use Tax Audit and Collection Activities, Statewide Compliance & Outreach Program and Audit Selection Improvements for FY 2024-25

cc: Mr. Hans Hemann, Joint Legislative Budget Committee, (Hans.Hemann@sen.ca.gov)
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Ms. Sue Parker, Chief Clerk of the Assembly, (Agency.Reports@asm.ca.gov)
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Mr. Mike Skikos (MIC 47)
Ms. Cinnamon Tolan (MIC 47)
Mr. Steven Mercer (MIC 25)
Mr. Jason Parker (MIC 49)
Ms. Karina Magana (MIC 37)
Mr. Brad Miller (MIC 75)
Mr. Thomas Thai (MIC 75)
Mr. Marc Alviso (MIC 104)
Ms. Kathy Katayama (MIC 49)
Ms. Jamie Mason (MIC 124)
Mr. Brian Brewer (MIC 43)
Ms. Courtney Kassis (MIC 75)

CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

**Report Based on Supplemental Report Requirement
from the 2002, 2006, 2010, & 2011 Budget Acts (Item 0860-001-0001)**

**SALES AND USE TAX AUDIT AND COLLECTION ACTIVITIES,
STATEWIDE COMPLIANCE & OUTREACH PROGRAM,
AND AUDIT SELECTION IMPROVEMENTS FOR FY 2024-25**

December 1, 2025

Sales and Use Tax Audit & Collection Activities, Statewide Compliance & Outreach Program and Audit Selection Improvements

BACKGROUND

Budget Acts of 2002, 2006, 2010, and 2011 require the California Department of Tax and Fee Administration (CDTFA) to report on Sales and Use Tax Audit and Collection Activities, Audit Selection Improvements, and the Statewide Compliance and Outreach Program.

The 2002 Budget Act requests the following information: (a) description of the methodological approach used to conduct its audit and compliance activities; (b) the number of hours and costs associated with direct audit and compliance activities, as well as supporting (overhead) activities; (c) the revenues associated with its audit and compliance activities; and (d) the data regarding the revenue and cost impacts associated with any increase or decrease in resources devoted to the audit and compliance activities. Items (b), (c), and (d) are to include prior-year actual data, current-year estimated data, and budget-year projected data.

The 2006 Budget Act requests a description of, and the outcomes associated with, the following audit selection enhancements: (a) utilizing new Clementine software; (b) putting U.S. Customs data into the audit selection database; (c) extending the time allowed for audit selection; (d) sharing information with local field offices on claimed deductions; (e) making greater use of data from the Franchise Tax Board's (FTB's) Integrated Nonfiler Compliance (INC) database; and (f) utilizing North American Industry Classification System (NAICS) to identify under-reporters. The 2006 Budget Act also requests we identify other audit selection improvements to assist in closing the Tax Gap.

The 2010 Budget Act expands the above 2002 and 2006 Supplemental Report Language requirements to incorporate reporting on the average and marginal benefit-to-cost ratios of all its audit and compliance activities.

The 2011 Budget Act requires a report on the performance of the Statewide Compliance and Outreach Program. The report shall include, but not be limited to, a schedule of authorized positions, vacant positions, expenditures, and revenues attributable to the program.

This combined report is due to the Chair of the Joint Legislative Budget Committee (JLBC) and Chairs of the Fiscal Committees of the Legislature by December 1st of each year with copies provided to the Department of Finance. This report was prepared in consultation with the Legislative Analyst's Office (LAO).

SALES AND USE TAX PROGRAM OVERVIEWS

The California Department of Tax and Fee Administration's Business Tax and Fee Division (BTFD) and Field Operations Division (FOD) are responsible for planning, organizing, and directing the CDTFA's sales and use tax programs which include: 1) registration of taxpayers, 2) processing tax returns, 3) auditing accounts and 4) collecting taxes receivable. In fiscal year 2024-25, total California sales and use tax revenue reached \$80.22 billion with 1,038,373 registered master consolidated and single location accounts filing 2.4 million returns.. The CDTFA encourages voluntary tax law compliance and offers sales and use tax assistance through

Sales and Use Tax Audit & Collection Activities, Statewide Compliance & Outreach Program and Audit Selection Improvements

its Sacramento Headquarters and 19 public field offices located across the state. The team members in the department's non-public field offices located in New York, Chicago, Houston, and Western States - Sacramento Out-of-State perform audits of taxpayers located outside California who are registered to do business in the state.

Audit Program (Exhibit I)

FOD maintains the Audit Program to ensure businesses report and remit the correct amount of tax as required by law. The audit program also educates taxpayers on the proper application of sales and use tax, helping improve future compliance. The audit program operates on a three-year cycle and is designed to prioritize the largest taxpayers and other accounts which maximize the productivity of the audit team members. In fiscal year 2024-25, the sales and use tax audit program identified \$745.3 million in tax deficiencies (net of refunds,) with a direct benefit-to-cost ratio of 5.4 to 1.

Compliance Program (Exhibit II)

The CDTFA's Compliance Program includes a number of programs. In fiscal year 2024-25, these programs generated over \$1.0 billion in revenue with a direct revenue benefit-to-cost ratio of 7.5 to 1.

All functions of the CDTFA are directed toward the collection of all tax and fee obligations due under the revenue and taxation laws it administers. The compliance programs examine sales and use tax returns to investigate discrepancies, create billings, make adjustments to amounts reported, process refunds, or take other actions as warranted by examination. In addition, the CDTFA works closely with state and federal agencies to identify use tax due via the desk-review process.

Statewide Compliance and Outreach Program (SCOP)¹

The revenue from SCOP is reported as a part of both the Audit and Compliance Programs. The goal of this program is to provide outreach, educate business owners on their sales and use tax responsibilities, and increase tax compliance. In fiscal year 2024-25, SCOP performed 61,923 permit checks and registered 129 businesses which were found operating without seller's permits. In addition, the SCOP team added 83 sub-locations to existing permits, and referred 435 leads to our audit program for further review. These permit checks also resulted in 14,855 taxpayer registration updates. SCOP has 161 authorized positions, 9 of which are vacant. In fiscal year 2024-25, SCOP generated \$228.4 million in revenue and incurred \$14.1 million in costs.

COLLECTION WORKPLAN METHODOLOGY

Collection risk scores are automatically calculated when a new collection case is created in Centralized Revenue Opportunity System (CROS). Collections with higher risk scores are prioritized to receive more attention than those with lower risk scores. CROS offers enhanced collection strategies (including automated collection actions programmed based on collection policies) and improves the assignment and prioritization of collection cases. CROS allows the CDTFA greater flexibility in assigning work and adjusting workloads for greater efficiency. In

¹ The SCOP revenue is the sum of the SCOP audit revenues under Field Operations (Exhibit I) and the SCOP amended returns under Compliance Program (Exhibit II).

Sales and Use Tax Audit & Collection Activities, Statewide Compliance & Outreach Program and Audit Selection Improvements

addition, when our collections team locates assets associated with written off accounts that are less than 30 years old, it reactivates those accounts to attempt collections on the outstanding liabilities.

AUDIT SELECTION METHODOLOGY

BTFD and FOD perform audit selection on a continuous basis. The audit selection methodology is designed to maximize the marginal productivity of the audit program by identifying the most productive accounts for audit. The selection process is a cooperative effort between team members in CDTFA's Headquarters and field offices. This selection process continues to evolve as new technologies and information become available.

AUDIT SELECTION IMPROVEMENTS

As audit selection improvements are incorporated into the normal audit selection process, they are no longer included within this report.

Business Analytics Unit (BAU)

The CDTFA established the Business Analytics Unit (BAU) to help unify audit selection process across the agency and modernize related procedures and methodologies. BAU continues to leverage external agency data in conjunction with CDTFA's proprietary data, to proactively identify and address potential tax deficiencies.

To enhance our analytical capabilities, BAU collaborates closely with the Data Analysis Section (DAS). This partnership enables us to acquire additional relevant external data sources and leverage DAS's expertise in complex data extraction and analytics.

By continuously expanding the range of industries and refining our business rules, BAU ensures our analytics remain accurate and effective. Our team also plays a crucial role in validating these analytics through direct taxpayer engagement.

FIELD OPERATIONS DIVISION - AUDIT PROGRAM
Exhibit I

SALES & USE TAXES

AUDIT PROGRAM ⁽⁶⁾⁽⁷⁾	2024- 2025				2025- 2026 ⁽⁸⁾				2026- 2027			
	ACTUAL - Audit Element of Galley				ESTIMATED - Audit Element of Galley ⁽⁸⁾				ESTIMATED - Prorated Costs Based on Change in Hours			
	HOURS		TOTAL	REVENUE / ACTUAL PYs	HOURS		TOTAL	REVENUE / AUTHORIZED PYs	HOURS		TOTAL	REVENUE / AUTHORIZED PYs
	DIRECT	SUPPORT / OVERHEAD			DIRECT	SUPPORT / OVERHEAD			DIRECT	SUPPORT / OVERHEAD		
FIELD OPERATIONS												
ROUTINE AUDITS (SELECTED)	631,707		631,707	\$ 821,674,182	879,000		879,000	\$ 796,205,000	879,000		879,000	\$ 835,582,000
DISCOVERY (Field Billing Order)	17,594		17,594	\$ 98,550,104	17,600		17,600	\$ 95,495,000	17,600		17,600	\$ 100,218,000
REFUNDS (SELECTED)	36,502		36,502	\$ (56,613,812)	36,500		36,500	\$ (61,633,000)	36,500		36,500	\$ (64,514,000)
AUDIT ACTIVITIES ⁽¹⁾	685,803		685,803	\$ 863,610,474	933,100		933,100	\$ 830,067,000	933,100		933,100	\$ 871,286,000
REFUND CLAIMS ⁽²⁾	30,064		30,064	\$ (118,279,456)	30,100		30,100	\$ (128,767,000)	30,100		30,100	\$ (134,786,000)
FIELD SUPPORT		541,847	541,847			612,500	612,500			612,500	612,500	
STATEWIDE AUDIT ACTIVITY	715,867	541,847	1,257,714	\$ 745,331,018	963,200	612,500	1,575,700	\$ 701,300,000	963,200	612,500	1,575,700	\$ 736,500,000
HQ AUDIT ACTIVITY	-	-	-	\$ -								
TOTAL AUDIT ACTIVITY	715,867	541,847	1,257,714	\$ 745,331,018								
PYs				724.10				900.70				900.70
FIELD PERSONNEL SERVICES		\$	113,274,319			\$	121,486,000			\$	121,486,000	
FIELD OPERATING EXPENSE		\$	18,274,054			\$	14,645,000			\$	14,645,000	
SUT HQ SUPPORT HOURS		298,105				336,500				336,500		
PYs				158.89				179.34				179.34
HQ PERSONNEL SERVICES		\$	27,143,527			\$	26,045,000			\$	26,045,000	
HQ OPERATING EXPENSE		\$	672,507			\$	2,963,000			\$	2,963,000	
TOTAL HOURS	715,867	839,952			963,200	949,000		1,080.04	963,200	949,000		1,080.04
DIRECT PYs				882.98								
DIRECT AUDIT COST		\$	159,364,406			\$	165,139,000			\$	165,139,000	
INDIRECT SUPPORT UNITS:												
LEGAL		\$	26,226,922			\$	22,295,000			\$	22,295,000	
TAXPAYER RECORDS		\$	522,009			\$	928,000			\$	928,000	
TECHNOLOGY SERVICES		\$	2,633,505			\$	2,799,000			\$	2,799,000	
CROS - Centralized Revenue Opportunity System		\$	-			\$	896,000			\$	896,000	
CDTFA OVERHEAD		\$	16,295,714			\$	19,204,000			\$	19,204,000	
INDIRECT COSTS		\$	45,678,151			\$	46,122,000			\$	46,122,000	
TOTAL AUDIT COST & DIRECT PYs		\$	205,042,557	882.98		\$	211,261,000	1,080.04		\$	211,261,000	1,080.04
AUDIT COST BENEFIT ⁽³⁾		Total		4.2		Total		3.9		Total		4.1
		Direct		5.4		Direct		5.0		Direct		5.3
NET REVENUE			\$	745,331,018			\$	701,300,000			\$	736,500,000
CANCELLATIONS ⁽⁴⁾			\$	78,992,963			\$	76,411,000			\$	80,128,000

Footnotes

1. Audit Activities include the accounts selected for audit and investigations handled by the audit staff.

2. Refund Claims are claims for refund assignments referred to the field audit staff to work. These assignments were not selected for audit.

3. The Total Audit Cost Benefit is Audit Activities divided by the Total Audit Cost. The Refund Claims amount and Cancellations are not considered. The Direct Audit Cost Benefit is the Audit Activities divided by the Direct Audit Cost. The Refund Claims amount and Cancellations are not considered.

4. Cancellations are an estimate of the reduction to the audit billings which will occur during the appeals process.

5. Audit revenue fluctuations from year to year are primarily due to the result of large audits over \$5 million.

- In 2024-25, there were 19 large audits for \$189.8 million.
- In 2025-26, based upon the current audits in process, it is estimated there will be 20 large audits for \$297.8 million.
- In 2026-27, the audit revenue is based upon historical averages.

6. The methodology used to calculate costs and PY's is updated to provide a more accurate representation of the Audit Program overall.

7. Loaned employees' time is recorded accurately within the report when the timesheets are completed correctly.

8. The Estimates for the PY's and Costs are projections and represent what is set aside for the Department, should the entire budget be expended, which includes all anticipated positions and filled vacancies. The Department makes such calculated projections so the budgeted amounts can be allocated throughout the fiscal year. Revenue estimates are based on historical averages and take potential hours increase into consideration.

This report does not address the Investigation Bureau's costs or revenue associated with the Sales and Use Tax Program, and therefore does not include the cost of the Investigations Bureau.

This report is subject to discussions with the Legislative Analyst's Office

FIELD OPERATIONS DIVISION and BUSINESS TAX AND FEE DIVISION - COMPLIANCE

Exhibit II

SALES & USE TAXES

COMPLIANCE PROGRAMS ⁽⁵⁾⁽⁶⁾

WORKLOAD

COLLECTIONS

DIRECT HOURS	710,196		710,196	\$	803,929,376
SUPPORT HOURS		400,221	400,221		
TOTAL ⁽¹⁾	710,196	400,221	1,110,417	\$	803,929,376

OTHER COMPLIANCE PROGRAMS

DIRECT HOURS	339,344		339,344	\$	235,024,438
SUPPORT HOURS		66,089	66,089		
TOTAL	339,344	66,089	405,433		235,024,438

ALL COMPLIANCE PROGRAMS TOTAL

PYs ⁽²⁾					734.93
FIELD PERSONNEL SERVICES		\$	97,576,698		
FIELD OPERATING EXPENSE		\$	19,957,923		
SUT HQ SUPPORT HOURS	70,017				
PYs	Includes Field Operation's Support				130.25
HQ PERSONNEL SERVICES		\$	18,741,188		
HQ OPERATING EXPENSE		\$	1,368,037		
TOTAL HOURS	1,049,540	536,327			
DIRECT PYs					865.18
DIRECT COST		\$	137,643,846		

INDIRECT SUPPORT UNITS:					
CASHIERS		\$	76,937		
CUSTOMER SERVICE CENTER		\$	1,300,240		
DATA ENTRY		\$	140,026		
LEGAL		\$	5,492,097		
MAILROOM		\$	140,026		
TAXPAYER RECORDS		\$	15,387		
TECHNOLOGY SERVICES		\$	8,486,571		
CROS-Centralized Revenue Opportunity System		\$	1,564,904		
SPECIAL PROCEDURES		\$	2,308		
CDTFA OVERHEAD		\$	12,173,955		
INDIRECT COSTS		\$	29,392,452		

TOTAL COST & DIRECT PYs		\$	167,036,297		865.18
COMPLIANCE COST BENEFIT ⁽³⁾		Total Cost			6.2
		Direct Cost			7.5
NET REVENUE			\$	1,038,953,814	
CANCELLATIONS ⁽⁴⁾			\$	9,012,302	

2025-2026 ⁽⁷⁾			
ESTIMATED - Compliance Element of Galley			
HOURS		TOTAL	REVENUE / AUTHORIZED PYs
DIRECT	SUPPORT / OVERHEAD		
896,700		896,700	\$ 1,015,049,000
	505,200	505,200	
896,700	505,200	1,401,900	\$ 1,015,049,000

398,756		398,756	\$ 261,571,064
	71,449	71,449	
398,756	71,449	470,205	\$ 261,571,064

1,295,456	576,649	1,872,105	\$ 1,276,620,064
			899.39
	\$	110,347,000	
	\$	17,996,000	
69,100			
			127.83
	\$	18,113,000	
	\$	2,585,000	
1,295,456	645,749		1,027.21
		\$	149,041,000

		\$	112,000		
		\$	1,351,000		
		\$	168,000		
		\$	5,117,000		
		\$	220,000		
		\$	23,000		
		\$	8,086,000		
		\$	2,369,000		
		\$	1,000		
		\$	16,085,000		
		\$	33,532,000		

		\$	182,573,000		1,027.21
		Total Cost			7.0
		Direct Cost			8.6
			\$	1,276,620,064	
			\$	9,910,000	

2026-2027			
ESTIMATED - Prorated Costs Based on Change in Hours			
HOURS		TOTAL	REVENUE / AUTHORIZED PYs
DIRECT	SUPPORT / OVERHEAD		
896,700		896,700	\$ 1,015,049,000
	505,200	505,200	
896,700	505,200	1,401,900	\$ 1,015,049,000

398,756		398,756	\$ 261,571,000
	71,449	71,449	
398,756	71,449	470,205	\$ 261,571,000

1,295,456	576,649	1,872,105	\$ 1,276,620,000
			899.39
	\$	110,347,000	
	\$	17,996,000	
69,100			
			127.83
	\$	18,113,000	
	\$	2,585,000	
1,295,456	645,749		1,027.21
		\$	149,041,000

		\$	112,000		
		\$	1,351,000		
		\$	168,000		
		\$	5,117,000		
		\$	220,000		
		\$	23,000		
		\$	8,086,000		
		\$	2,369,000		
		\$	1,000		
		\$	16,085,000		
		\$	33,532,000		

		\$	182,573,000		1,027.21
		Total Cost			7.0
		Direct Cost			8.6
			\$	1,276,620,000	
			\$	9,910,000	

Footnotes

1. Total Hours and Revenue for Collections only.
2. PY's and Costs represent all Compliance activities.
3. Total Cost Benefit is the Total Compliance Revenue divided by the Total Compliance Cost. Cancellations are not considered.
- The Direct Compliance Cost Benefit is the Total Compliance Revenue divided by the Direct Compliance Cost. Cancellations are not considered.
4. Cancellations are reductions to the net revenue during the fiscal year. These include adjustments, cancellations, redeterminations, scheduled write-offs, and refunds. Applies to Other Compliance Programs only, not Collections.
5. To adhere to reporting requirements, Compliance Programs are summarized on the FY 2024-25 Supplemental Report.
6. Loaned employees' time is recorded accurately within the report when timesheets are completed correctly.
7. The Estimates for PY's and Costs are projections and represent what is set aside for the Department, should the entire budget be expended, which includes all anticipated positions and filled vacancies. The Department makes such calculated projections so the budgeted amounts can be allocated throughout the fiscal year. Revenue estimates take into consideration the potential increase in hours worked. These projections are based upon the entire budgeted amounts being expended.