



CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

TAX POLICY BUREAU

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VIA INTERNET

The Audit Manual (AM) and Compliance Policy and Procedures Manual (CPPM) are guides for the California Department of Tax and Fee Administration (CDTFA) in administering tax and fee programs. They are available to the public and can be accessed on the CDTFA [Guidelines/Manuals – Sales & Use Tax, Special Taxes and Fees](#) web page.

The Processing, Policy, and Data Division is proposing to revise AM sections 0214.03, 0425.00-0425.30, 0428.00-0428.15 (deletion of 0612.45), 0429.17, 0437.40, and CPPM sections 305.015, 770.000-770.035, 776.070 and 776.185 to incorporate current policies and procedures.

The revision material is posted on the above-mentioned web page for the convenience of interested parties who may wish to submit comments or suggestions. Please feel free to publish this information on your website or otherwise distribute it to your association/members. You are welcome to submit written comments or suggestions related to the proposed revision(s) by November 12, 2026, to PPDD-BTC.CPPMRevisionSuggestions@cdtfa.ca.gov.

If you are not already signed up to receive email notifications regarding our proposed manual updates, please sign up now to ensure you receive future notifications. Go to the [Sign Up For CDTFA Email Lists](#) page, then select *Announcement of Proposed Manual Change*.

Sincerely,

Sandy Barrow, Chief

Tax Policy Bureau

Processing, Policy, and Data Division

REQUIRED PAPER COPIES TO RETAIN

0214.03

During an audit, and whenever warranted, if an auditor receives the following forms in paper copy, ~~instead of submitted through Online Services,~~ the auditor must maintain (in the office files) the paper copies with wet signatures¹ or valid digital signatures¹ per Audit Manual section 0103.15:

- CDTFA-82 – Authorization for Electronic Transmission of Data
- CDTFA-101 – Claim for Refund or Credit
- CDTFA-122 – Waiver of Limitations
- CDTFA-245-COR-1 – Corporate Officer **Registration Update**/~~LLC Member Registration Update~~
- **CDTFA-245-LLC – LLC Member Registration Update**
- **CDTFA-245-PAR – Partner Registration Update**
- CDTFA-392 – Power of Attorney

Auditors must attach a digital copy of the completed CDTFA-82¹; CDTFA-245-COR-1, **CDTFA-245-LLC, or CDTFA-245-PAR**¹; and CDTFA-392 ~~to~~¹ the Audit springboard, CRM tab (Attachment sub-tab), and cross-reference it to ~~the~~¹ appropriate case in the system, if necessary. A digital copy of the completed CDTFA-122 must be attached ~~to~~¹ the Audit springboard, CRM tab (Attachment sub-tab). A digital copy of the completed CDTFA-101 must be attached ~~to~~¹ the Audit springboard, CRM tab (Attachment sub-tab), and cross-referenced to the related Claim for Refund case.

The office making the audit (OMA) must maintain paper copies of these original forms, ~~not received through Online Services, in accordance with CDTFA's record retention schedule.~~¹ ~~until the audit case is closed. Once the audit case is closed, the paper copies of these records shall be confidentially destroyed.~~

~~The~~ **Additionally**, Audit Principals, Section/Branch Supervisors or Office Administrators, or their designee, are responsible for reviewing and purging these documents **in accordance with the retention schedule.**~~on an annual basis. The~~¹ ~~A~~¹ Closed ~~a~~¹ Audit ~~R~~¹ Report shall be used to identify those audit cases that are closed and **may** no longer require the retention of the above documents.

Below are the criteria for the system closing an audit once it has moved to the “Posted & Billed” stage. This process is done automatically in the system and all of these conditions must have been met for the audit to be closed¹:

- 90 days have passed since the audit was posted
- The statute date for each period in the audit has expired
- The Audit Bill Item has been finalized
- None of the following cases are active on the account:
 - Administrative Protest
 - Petition for Redetermination
 - Petition for Redetermination (Dual/Secondary)
 - Petition for Redistribution
 - Claim for Refund

¹ **Government Code section 16.5**

Audit Manual Chapter 2, Preparing and Completing Audits

Normally, when an audit is staged to “Posted & Billed,” the system will not show the case in the owner’s active “My Work” list, even though it is not technically closed. However, any action that updates the Audit springboard (for example, statute, period change, etc.) will remove the case from the hidden state and it will then display until the system’s closure rules are met.

AUDIT OF THE LEAD-ACID BATTERY FEES

0425.00

GENERAL

0425.05

~~CDTFA is responsible for the collection of the California battery fee and manufacturer battery fee imposed by the Health and Safety Code (HSC). Effective April 1, 2017, two new lead acid battery fees were imposed on consumers and manufacturers of lead acid batteries.¹ A \$1.00 California battery fee was imposed on the consumer, and a \$1.00 manufacturer battery fee was imposed on the manufacturer of the lead acid battery. Both fees generally apply to batteries, typically designed for use in a vehicle, watercraft, aircraft or equipment that are purchased or sold in California.~~

The California battery fee is generally imposed on the purchaser of a replacement lead-acid battery from a dealer (as defined below) in a retail sale for storage, use, or other consumption in California, and a dealer that is a “subject to the jurisdiction of this state” is required to collect the fee from the purchaser at the time of sale.²

The manufacturer battery fee is generally imposed on the manufacturer (as defined below) for each lead-acid battery it sells at retail to a person in California or that it sells to a dealer, wholesaler, distributor, or other person for retail sale in California.³

~~The California Department of Tax and Fee Administration (CDTFA) is responsible for the administration of the lead acid battery fees in cooperation with the Department of Toxic Substances Control (DTSC). Additional information regarding these fees and fee rates is available in the [Lead-Acid Battery Fees Guide](#). The fee rates can be found on the CDTFA’s website at <https://www.cdtfa.ca.gov/taxes-and-fees/tax-rates-stfd.htm>.~~

~~BATTERIES SUBJECT TO THE~~ LEAD-ACID BATTERY AND REPLACEMENT LEAD-ACID BATTERY FEES

0425.10

For purposes of the~~The~~ **lead-acid battery fees, a “lead-acid battery” is a battery weighing over five kilograms that is primarily composed of both lead and sulfuric acid with a capacity of six volts or more that is used for any of the following purposes:**

- (1) As a starting battery that is designed to deliver a high burst of energy to an internal combustion engine until it starts.**
- (2) As a motive power battery that is designed to provide the source of power for propulsion or operation of a vehicle, including a watercraft.**
- (3) As a stationary storage or standby battery that is designed to be used in systems where the battery acts as either electrical storage for electricity generation equipment or a source of emergency power, or otherwise serves as a backup in case of failure or interruption in the flow of power from the primary source.**
- (4) As a source of auxiliary power to support the electrical systems in a vehicle, as defined in Section 670 of the Vehicle Code (VC), including an**

¹ HSC sections 25215.25, 25215.35, and 25215.45

² HSC section 25215.25(a)(1), (a)(3); Regulation 3230

³ HSC sections 25215.1(h) and 25215.35; Regulation 3220

implement of husbandry, as defined in Section 36000 of the VC, or an aircraft.¹~~generally apply to sales and purchases of batteries designed for use in a vehicle, watercraft, aircraft or equipment. The batteries must be primarily composed of both lead and sulfuric acid (liquid, solid, or gel), weigh over five kilograms (about 11 pounds), and have a capacity of six or more volts. Also,~~
“vehicle” means any device or machine which can be used to move persons or property, including but not limited to, watercraft, aircraft, a vehicle as defined in VC section 670, or an implement of husbandry as defined in VC section 36000, unless otherwise specified. So, the manufacturer battery fee generally applies to batteries designed for use in such vehicles. The term “vehicle” does not include a device moved exclusively by human power (e.g., a bicycle) or a device used exclusively upon stationary rails or tracks.²

~~Different registration, filing, and reporting requirements apply to retailers than those that apply to manufacturers or importers. Section 0425.20 discusses the California battery fee and specifies the retailer requirements; Section 0425.30 discusses the manufacturer battery fee and specifies the manufacturer or importer requirements.~~

A “replacement lead-acid battery” is a new lead-acid battery that is sold at retail subsequent to the original sale or lease of the equipment or vehicle in which the lead-acid battery is intended or designed to be used. A replacement lead-acid battery does not include a spent, discarded, refurbished, reconditioned, rebuilt, or reused lead-acid battery.³

The California battery fee is only imposed on the purchaser of a new replacement lead-acid battery that is used for any of the following purposes:

- As a starting battery that is designed to deliver a high burst of energy to an internal combustion engine until it starts.**
- As a motive power battery that is designed to provide the source of power for propulsion or operation of a vehicle, including a watercraft.**
- As a source of auxiliary power to support the electrical systems in a vehicle, as defined in VC section 670, including an implement of husbandry as defined in VC section 36000, or an aircraft.⁴**

The California battery fee is not imposed on the purchaser of a new replacement lead-acid battery that is used as a stationary storage or standby battery that is designed to be used in systems where the battery acts as either electrical storage for electricity generation equipment or a source of emergency power, or otherwise serves as a backup in case of failure or interruption in the flow of power from the primary source.⁵

CALIFORNIA BATTERY FEE—~~BR~~ LAB ACCOUNTS

0425.20

The Business Tax and Fee Division (BTFD) is responsible for the administration of California battery fee accounts for **dealers required to collect the California battery fee**~~retailers of replacement lead-acid batteries~~. **A confidential Account Type,**

¹ HSC section 25215.1(f)

² Regulation 3210(j)

³ HSC section 25215.1(n)

⁴ HSC section 25215.25(a)

⁵ HSC section 25215.25(a); Regulation 3230(b)(6)

California Battery Fee (LAB), was created in the system for dealers of replacement lead-acid batteries. The LAB account requires separate registration and filing from all other CDTFA tax programs. A new Taxable Activity Type (TAT), BR, was created for retailers of replacement lead acid batteries. The BR account requires separate registration and filing from all other TATs (SR, SC, RB, etc.). All dealers required to collect the California battery fee~~retailers of lead acid batteries~~ are required to register for a ~~BR-LAB~~ account in addition to **any other accounts**~~their seller's permit~~.¹

RETAILER~~Dealer~~

~~Dealers of replacement lead acid batteries are required to charge and collect the California battery fee from consumers at the time of the sale. A “dealer” is defined as a person who engages in the retail sale of replacement lead-acid batteries directly to persons in California. “Dealer” includes a manufacturer of new lead-acid batteries that makes retail sales of lead-acid batteries directly to consumers in California through any means, including, but not limited to, transactions conducted through a sales outlet, catalog, or internet website, or any other similar electronic means. “Dealer” also includes a marketplace facilitator, as defined in RTC section 6041, that facilitates a retail sale of a replacement lead-acid battery by a marketplace seller and is the dealer for purposes of collecting and remitting the California battery fee imposed on the consumer in regard to that retail sale under RTC section 6043.1.² sells replacement lead acid batteries at retail in this state. This includes manufacturers who make retail sales directly to a person in California through any means. For purposes of this section, a replacement lead acid battery dealer is referred to as a retailer.~~

A “retail sale” includes a “drop shipment” of a lead-acid battery by a “drop shipper,” as defined in Regulation 3210(h), and when there is a drop shipment of a lead-acid battery to a consumer in California, the drop shipper is deemed to be the dealer making the retail sale to the consumer if the drop shipper is subject to the jurisdiction of this state.³ Also, for purposes of the California battery fee, a person is subject to the jurisdiction of this state if the person is a “retailer engaged in business in this state,” as defined in RTC section 6203(c), or has a substantial nexus with this state for purposes of the Commerce Clause of the United States Constitution.⁴

~~REPLACEMENT LEAD-ACID BATTERY~~

~~A replacement lead acid battery is a new lead acid battery sold at retail in California as a replacement for the lead acid battery that originally came with the vehicle, watercraft, aircraft, or other equipment in which the new lead acid battery is intended or designed to be used. A replacement lead acid battery does not include spent, discarded, refurbished, reconditioned, rebuilt, or reused lead acid batteries.~~

~~LEAD-ACID BATTERIES SUBJECT TO THE CALIFORNIA BATTERY FEE~~

~~The California battery fee applies to sales of new replacement lead acid batteries primarily composed of both lead and sulfuric acid, whether sulfuric acid is in liquid, solid, or gel form, weighing over five kilograms (about 11 pounds) with a capacity of six~~

¹ HSC section 25215.45

² HSC section 25215.1(d); Regulation 3210(a)

³ Regulation 3210(h)(1)

⁴ HSC section 25215.1(h)(2)(B); Regulation 3210(i)

~~or more volts that is used for any of the following purposes:~~

~~As a starting battery that is designed to deliver a high burst of energy to an internal combustion engine until it starts.~~

~~As a motive power battery that is designed to provide the source of power for propulsion or operation of a vehicle, including a watercraft.~~

~~As a source of auxiliary power to support the electrical systems in a vehicle, as defined in section 670 of the Vehicle Code, including a vehicle as defined in section 36000 of the Vehicle Code, or an aircraft.~~

Exclusions and Exemptions~~THE CALIFORNIA BATTERY FEE DOES NOT APPLY TO~~

The California battery fee does not apply to:¹

- A sale **of a battery** for purposes of resale in the regular course of business.
- **A sale of a battery to a person who will incorporate it into new equipment for subsequent resale of the new equipment with the battery as a single item to the consumer.**
- A sale of a replacement lead-acid battery **for which**~~where~~ the California battery fee has already been ~~imposed and~~ paid.
- ~~A~~ **sale of a** replacement lead-acid battery temporarily stored or used in California for the sole purpose of preparing it for use **solely**~~only~~ outside the state and that ~~it~~ is subsequently transported and used solely outside of the state.
- **A replacement lead-acid battery incorporated into a “used vehicle” (as defined in VC section 665) that is sold or leased by a new motor vehicle dealer (as defined in VC section 426).**
- ~~A battery sold for incorporation into new equipment for subsequent resale.~~
- ~~The~~**A** replacement **of a** lead-acid battery ~~replaced~~ under a vehicle or battery warranty² or a vehicle service contract, **described**~~as defined~~ under **Insurance Code** section 12800, ~~of the Insurance Code~~ **without charge to the consumer.**
- A **sale of a** battery intended for use with, or contained within, a medical device, as defined in the ~~F~~**f**ederal Food, Drug, and Cosmetic Act (21 U.S.C. 321(h)). For specific medical devices, view the **Federal Drug Administration's**~~S~~ searchable database.
- ~~Any lead-acid battery used as a stationary storage or standby battery that is designed to be used in systems where the battery acts as either:~~
 - ~~Electrical storage for electricity generation equipment,~~
 - ~~A source of emergency power, or~~
 - ~~Otherwise serves as a backup in case of failure or interruption in the flow of power from the primary source.~~

If a replacement lead-acid battery is sold or will be used in a manner or for a purpose excluding or exempting it from the California battery fee, the dealer must

¹ HSC section 25215.1(p); Regulations 3210 and 3230

² ~~A battery replaced under warranty, with no additional cost to the purchaser.~~

obtain written certification from the purchaser that the lead-acid battery will be used in a manner or for a purpose entitling the dealer to regard the purchase as not subject to the fee.¹ CDTFA-230-L, General Exclusion & Exemption Certificate-For Lead Acid Batteries Not Subject to the Lead-Acid Battery Fees, may be used for that purpose. If a written certification is timely taken from the purchaser in the proper form and in good faith, the dealer is not required to collect the California battery fee from the purchaser on the sale of that battery. However, the purchaser will be liable for the fee if they make such a certification and subsequently sell or use the battery in a manner that is not excluded or exempted from the fee.²

AUDITS OF ~~BR-LAB~~ ACCOUNTS

0425.25

The Audit Examination Branch (AEB) conducts audits of ~~BR-LAB~~ accounts in the same manner as other special tax and fee programs. Audit ~~staff~~-**team members** are responsible for verifying that ~~dealers~~**retailers** of replacement lead-acid batteries are properly registered and in compliance with reporting requirements.

~~The Lead Acid Battery Fees Program was implemented April 1, 2017. If a BR-LAB account is audited in conjunction with another program, each audit will have a separate audit ID. LAB audit reports will follow existing digital audit procedures. two case ID numbers will be used. A separate audit report is prepared for BR accounts using the Audit Forms (Start 21) and the Audit Workbook.~~

~~Audit staff may obtain the transcript of California battery fee returns filed for BR accounts in the same manner as other special tax and fee accounts.~~

~~AUDIT PROCEDURES~~**Audit Procedures**

Audit ~~staff~~**team members** will conduct ~~BR-LAB~~ audits similar to other ~~special tax~~ audits;-. **Team members should i.e.,** reconcile recorded ~~to~~**and** reported sales, verify exclusions **and -exemptions**, such as sales for resale, and **sales of** lead-acid batteries for use outside California., etc., ~~and include the following procedures: Audits of LAB accounts will follow the existing audit procedures established for other business tax programs, and perform the following procedures:~~

- Verification of ~~Batteries~~**batteries** ~~Subject~~**subject** to the ~~Fees~~**fee**

Audit ~~staff~~**team members** should verify that the ~~dealer~~**retailer** is correctly ~~collecting~~**charging** the California battery fee on sales of replacement lead-acid batteries. See **AM** sections 0425.20 and 0425.30 and the **Lead-Acid Battery Fees Guide on the CDTFA website**, for information on batteries subject to the lead-acid battery fees as well as applicable exclusions **and/or exemptions**~~from the fees~~.

- Reimbursement ~~Costs~~

~~Dealers~~**Retailers** may retain 1.5%- **percent** of the California battery fee collected as reimbursement for **any**~~their~~ costs **associated with**~~of~~ collecting the fee.³ The reimbursement amount is automatically calculated and deducted on the ~~BR-LAB~~ return. Audit ~~staff~~**team members** should verify that the retailer correctly

¹ HSC section 25215.25; Regulations 3230 and 3240.

² HSC section 25215.25; Regulation 3240.

³ HSC section 25215.25(a)(3)

reported their ~~California battery fees they collected~~ replacement lead-acid battery sales prior to deducting the reimbursement amounts costs.

- **Petitions for redetermination and claims for refund**

Petitions for redetermination (petitions), claims for refund, and other appeal related requests for LAB accounts follow the normal appeals procedures currently in place for special tax and fee accounts governed by the Fee Collection Procedures Law (FCPL).¹ However, if a petition or claim for refund is based upon grounds that an item is or is not a lead-acid battery, the Appeals and Data Analysis Branch (ADAB) will acknowledge the appeal and forward a copy of the petition or claim for refund to the Department of Toxic Substances Control (DTSC) for review at Fees@dtsc.ca.gov. No determination will be made by CDTFA as to whether an item is or is not a lead-acid battery.²

Appeals cases are found on the Account springboard, under the Task tab, Cases sub-tab. Refunds that have been initiated and/or fully processed can be viewed under the Financial tab, Refunds sub-tab, of the Account springboard.

AUDIT UPLOADS

~~BR audit report uploads follow the existing procedures for special tax and fee accounts. Additional noncompliance codes for “Lead Acid Batteries Overstated” and “Lead Acid Batteries Understated” specific to the California battery fee are available.~~

SALES AND USE TAX (SUT) AND OTHER SPECIAL TAX AND FEE (STF) AUDITS OF DEALERS ~~RETAILERS~~ SELLING BATTERIES

When an ~~SUT~~ or other STF audit **is conducted** or field billing order is prepared, audit ~~staff~~**team members** should indicate whether ~~or not~~ the business sells lead-acid batteries ~~in the system~~ on the Audit Springboard, Audit Tab, under the Attributes subtab **in the system. Audit team members should determine whether an account is needed for the taxpayer, if an audit is appropriate, and, if so, discuss it with the audit supervisor.** ~~If the audit investigation results in a No Opinion Warranted (NOW) report, audit staff should indicate whether or not the business sells lead-acid batteries in Section B of the CDTFA 1010. A copy of the CDTFA 1010 should then be emailed to BTFD-PCD Ops Memo 1096. Audit staff from SUT and AEB will prepare separate audit reports for each account.~~

~~PETITIONS AND CLAIMS FOR REFUND~~

~~In general, petitions and claims for refund for BR accounts follow the normal appeals procedures currently in place for special tax and fee accounts governed by the Fee Collection Procedures Law (FCPL).~~

~~The Appeals and Data Analysis Branch (ADAB) processes all petitions and claims received unless based upon the grounds that a battery is, or is not, a lead-acid battery. The ADAB shall forward any petition or refund claim based on those grounds to the Department of Toxic Substances Control (DTSC) for review.~~

¹ **Regulations 35015 and 35039**

² **HSC section 25215.45(a)(2); Regulations 35014 and 35033.**

CONSUMERS PAYING THE CALIFORNIA BATTERY FEE DIRECTLY TO CDTFA

Consumers buying replacement lead-acid batteries **from dealers for storage, use, or other consumption** in this state **are liable for the California battery fee.** ~~who did not pay~~ **The fee should be paid** to a registered ~~California dealer~~ **retailer, or consumers** can pay the California battery fee directly to ~~the~~ CDTFA by check¹. An arbitrary account will be ~~set up~~ **established** for ~~the consumers~~ **purchaser's** payments of the California battery fee. The online registration system does not allow ~~consumers~~ **purchasers** to **register to** report and pay the California battery fee for the one-time purchase of a replacement lead-acid battery. **Consumers** ~~Purchasers~~ cannot report ~~and pay~~ the California battery fee on their state income tax returns **or pay the fee** to the Franchise Tax Board.

MANUFACTURER BATTERY FEE—~~BC~~ **LAM** ACCOUNTS

0425.30

~~The BTFD is responsible for the administration of manufacturer battery fee accounts for manufacturers of new lead acid batteries. A new Taxable Activity Type (TAT), BC, was created for manufacturers of lead acid batteries. The BC account requires separate registration and filing from all other TATs (SR, SC, RB, etc.). All manufacturers of lead acid batteries are required to register for a BC account even if they currently hold a seller's permit or certificate of registration — use tax.~~ **BTFD is responsible for the administration of lead-acid battery manufacturer accounts. A confidential Account Type, Manufacturer Battery Fee (LAM), was created in the system for manufacturers of lead-acid batteries. LAM accounts require separate registration and filing from all other CDTFA tax programs. Manufacturers of lead-acid batteries are required to register for a LAM account even if they currently hold a seller's permit or certificate of registration – use tax.**²

Manufacturers who make retail sales of lead-acid batteries directly to consumers in California, such as a sale through a sales outlet, catalog, Internet website, or any other similar means, must also register as a ~~dealer~~ **retailer** for a ~~BR~~ **LAM** account **in addition to a LAM account.**³ **Manufacturers making retail sales of lead-acid batteries directly to consumers in California must also** collect, and pay the ~~\$1.00~~ California battery fee ~~to the CDTFA~~, in addition to reporting and paying the manufacturer battery fee, **directly to CDTFA.**⁴ See **AM** section 0425.20 and the *Lead-Acid Battery Fees Guide on the CDTFA website* for more information.

~~MANUFACTURER~~ **Manufacturer**

Only one person is the manufacturer of a lead-acid battery for purposes of liability for the manufacturer battery fee.⁵ ~~A lead-acid battery manufacturer is generally the person who manufactures~~ **a** ~~the~~ lead-acid battery and ~~who~~ sells, offers for sale, or distributes the lead-acid battery in California **is the manufacturer of the battery if that person is subject to the jurisdiction of this state.**⁶ If the person who manufactured the battery is not subject to the jurisdiction of this state, **then the manufacturer of the battery is the person who imports the lead-acid battery into**

¹ HSC section 25215.25(a)(5)

² HSC section 25215.45(b)(2)

³ HSC sections 25215.1(d) and 25215.45(b)(1)

⁴ HSC sections 25215.25(a)(3) and 25215.35(c)

⁵ Regulation 3220(b)

⁶ HSC section 25215.1(h); Regulation 3210(f)(1)

California for sale or distribution (importer), including delivery to a consumer, if that person is subject to the jurisdiction of this state.¹ Also, for purposes of the manufacturer battery fee, a person is subject to the jurisdiction of this state if the person is a “retailer engaged in business in this state” as defined in RTC section 6203(c) or has a substantial nexus with this state for purposes of the Commerce Clause of the United States Constitution.²~~the person who imports the lead-acid battery into California for sale or distribution is regarded as the manufacturer for purposes of the fee and is responsible for the manufacturer battery fee. For purposes of this section, an “importer” refers to any person who imports the lead-acid battery into California for sale or distribution in this state.~~

A person who manufactures a lead-acid battery and is not subject to the jurisdiction of this state may agree in writing with the importer to pay the manufacturer battery fee on the importer’s behalf.³ A person who enters into such a written agreement with an importer will be credited, pursuant to HSC section 25215.56, for the payment of the manufacturer battery fees on behalf of the importer, provided they do the following:

- Submit to the jurisdiction of this state and register with CDTFA to report and remit the fees on behalf of the importer;
- Provide the importer a statement on the invoice, contract, or other record documenting the transaction that includes their LAM account number, identifies the batteries sold to the importer that will be subject to the fee, and a statement that they will pay the fees imposed on the importer due to the sale of those batteries to CDTFA on the importer’s behalf; and
- Retain sufficient records for at least four years to document that the lead-acid batteries for which the person has agreed to pay the manufacturer battery fee were delivered for retail sale in California, the identity of the importer of the batteries, and that the required statement was provided to the importer of the batteries in a timely manner.⁴

An importer who receives a timely statement shall be relieved from paying the manufacturer battery fee imposed on the importer due to a sale of a lead-acid battery identified in the statement, if the person that provided the statement remits the fee to the Department for the sale of that battery. A statement shall be considered timely if it is issued before the person that provided the statement bills the importer for the lead-acid battery or within the person’s normal billing and payment cycle, before delivery of the battery to the importer, or before the date on which a return would be due for the period in which the battery was sold by the importer. The importer remains liable for the fee if it is not paid.⁵ Also, an importer who has paid the manufacturer battery fee for a lead-acid battery and who subsequently receives an untimely statement that the fee has been paid for that battery, may file a claim for a refund for any overpaid fees.⁶

¹ HSC section 25215.1(h)(2); Regulation 3210(f)(2)

² HSC section 25215.1(h)(2)(B); Regulation 3210(i)

³ HSC section 25215.3(a); Regulation 3220(e)(1)

⁴ HSC section 2515.3(b); Regulation 3220(e)(1)

⁵ HSC section 25215.3; Regulation 3220(e)(2)

⁶ HSC section 25215.3(c)(2)

Exclusions and Exemptions~~LEAD-ACID BATTERIES SUBJECT TO THE MANUFACTURER BATTERY FEE~~

~~The manufacturer battery fee applies to the sale, in California, of all lead-acid batteries primarily composed of both lead and sulfuric acid (liquid, solid, or gel), weighing over five kilograms (about 11 pounds), with a capacity of six or more volts, that is used or designed to be used for any of the following purposes:~~

- ~~• As a starting battery that is designed to deliver a high burst of energy to an internal combustion engine until it starts.~~
- ~~• As a motive power battery that is designed to provide the source of power for propulsion or operation of a vehicle, including a watercraft.~~
- ~~• As a stationary storage or standby battery that is designed to be used in systems where the battery acts as either electrical storage for electricity generation equipment or a source of emergency power, or otherwise serves backup in case of failure or interruption in the flow of power from the primary source.~~
- ~~• As a source of auxiliary power to support the electrical systems in a vehicle, as defined in section 670 of the Vehicle Code, including a vehicle as defined in section 36000 of the Vehicle Code, or an aircraft.~~

~~THE MANUFACTURER BATTERY FEE DOES NOT APPLY TO~~

The manufacturer battery fee does not apply to:¹

- A **sale of a** lead-acid battery for which the manufacturer battery fee has previously been paid **by a person subject to the jurisdiction of this state or a person that registered with the Department to report and pay the fee on behalf of an importer.**
- A **sale of a** lead-acid battery temporarily stored or used in California for the sole purpose of preparing it for use **thereafter solely** ~~only~~ outside the state and ~~that it~~ is subsequently transported and used solely outside of the state.
- A **sale of a lead-acid battery to a person who will incorporate it** ~~for incorporation~~ into new equipment for subsequent resale **of the new equipment with the battery as a single item to the consumer.**
- **The replacement of A-a** lead-acid battery ~~replaced~~ under a vehicle or battery warranty² or a vehicle service contract **described, as defined** under **Insurance Code** section 12800, ~~of the Insurance Code~~ **without charge to the consumer.**
- A **sale of a** battery intended for use with, or contained within, a medical device, as defined in the ~~F~~**f**ederal Food, Drug, and Cosmetic Act (21 U.S.C. 321(h)).

If a lead-acid battery is sold or will be used in a manner or for a purpose excluding or exempting it from the manufacturer battery fee, the manufacturer must obtain written certification from the purchaser that the lead-acid battery will be used in a manner or for a purpose entitling the manufacturer to regard the purchase as

¹ Regulation 3220(c)

² ~~A battery replaced under warranty, with no additional costs to the purchaser.~~

not subject to the fee.¹ CDTFA-230-L, General Exclusion & Exemption Certificate-For Lead Acid Batteries Not Subject to the Lead-Acid Battery Fees, may be used for this purpose. If a written certification is timely taken from the purchaser in proper form and in good faith, the manufacturer is not required to pay a manufacturer battery fee on the sale of that battery. However, the purchaser will be liable for the fee if they make such a certification and subsequently sell or use the battery in a manner that is not excluded or exempted from the fee.²

AUDITS OF ~~BC~~-LAM ACCOUNTS

The ~~Audit Examination Branch (AEB)~~**AEB** will follow the same procedures for audits of ~~BC-LAM~~ accounts as audits of ~~BR-LAB~~ accounts outlined in **AM** section 0425.25, with the exception of **the procedures for auditing Reimbursement-Costs**, which does not apply to the manufacturer battery fee.

~~PETITIONS AND CLAIMS FOR REFUND~~Petitions for Redetermination and Claims for Refund

~~In general, p~~**P**etitions **for redetermination (petitions), and** claims for refund, **and other appeal related requests** for ~~BC-LAM~~ accounts follow the normal procedures currently in place for special tax and fee accounts governed by the FCPL. ~~The ADAB will process all petition and refund claims received from manufacturers and importers unless it~~ **However, if a petition or claim for refund** is based upon the grounds that a battery is not a lead-acid battery-, ~~The ADAB will~~ **acknowledge the appeal and** forward ~~any petition or refund claim based on those grounds~~**a copy of the petition or claim for refund** to ~~the~~ DTSC for review **to Fees@dtsc.ca.gov**. **No determination will be made by CDTFA as to whether an item is or is not a lead-acid battery.**³

¹ HSC section 25215.35(d)(1); Regulations 3220 and 3240

² HSC section 25215.35(d)(2); Regulation 3240

³ HSC section 25215.45(a)(2); Regulations 35014 and 35033

CALIFORNIA TIRE RECYCLING FEES

0612.45

~~The California Tire Recycling Act assesses a fee on the retail purchase of new tires intended for use with, but sold separately from, on road or off road motor vehicles, trailers, motorized equipment, construction equipment, or farm equipment. The fee also applies to new tires (including the spare) sold with the retail purchase of new or used motor vehicles, trailers, construction equipment, or farm equipment. The fee is imposed on the purchaser of the new tire and is collected and remitted by the retailer. The fee imposed is not part of the retailer's taxable gross receipts. If an amount in excess of the mandated fee is charged on the sale of a new tire, the excess amount is taxable.~~

~~When auditing a sales and use tax account that sells tires, the auditor should verify that the retailer holds a valid California Tire Fee account. If an account is not found to be in existence, the auditor should create a case in the Audit Springboard to prepare a Memorandum of Tax Liability. The form fields are similar to that of the CDTF 1164, *Audit Memorandum of Possible Tax Liability*. Auditors should complete the case and import attachments. These should be routed to the Audit Examination Branch Administrator (MIC 48).~~

CALIFORNIA TIRE RECYCLING FEE

0428.00

GENERAL

0428.05

The California Tire Recycling Act¹ provides that CDTFA is responsible for collecting the California tire fee pursuant to the Fee Collection Procedures Law² (FCPL) on behalf of the California Department of Resources Recycling and Recovery (CalRecycle) and the California Air Resources Board (CARB).³ The California tire fee is imposed on every person who purchases a “new tire.”⁴ A “new tire” means a pneumatic or solid tire intended for use with onroad or off-road motor vehicles, motorized equipment, construction equipment, or farm equipment that is sold separately from the motorized equipment, or a new tire sold with a new or used motor vehicle, as defined in PRC section 42803.5, including the spare tire, construction equipment, or farm equipment. “New tire” does not include retreaded, reused, or recycled tires.⁵

The California tire fee is imposed on the purchaser of the new tire and, the retail seller is responsible for collecting and remitting the fee to CDTFA. The California tire fee shall be charged by the retail seller to the retail purchaser separate from, and not included in, any other fee, charge, or other amount paid by the retail purchaser and must be listed separately on the invoice or receipt given to the purchaser at the time of sale.⁶

Registration

Retail sellers selling new tires in California are required to register with CDTFA for the California tire fee program.⁷ This includes marketplace facilitators selling new tires on their own behalf and marketplace facilitators that are the retailer for purposes of collecting and remitting the California tire fee on sales of new tires that they facilitate for marketplace sellers.⁸ The fee payer registration requirement provided by RTC section 55021 is in addition to the requirement to maintain a sales and use tax account.⁹

Reimbursement

Until January 1, 2034, retail sellers may retain 1.5 percent of the fee as reimbursement for any costs associated with the collection of the fee and must

¹ Public Resources Code (PRC) sections 42860-42895

² Revenue and Taxation Code (RTC) sections 55001 - 55381

³ PRC section 42885(c)

⁴ PRC section 42855(b)(1)

⁵ PRC section 42855(g)

⁶ PRC section 42855(b) and (d)

⁷ RTC sections 55021; PRC Section 42885(c)

⁸ RTC section 6043.1

⁹ RTC sections 55021

pay the remainder to CDTFA.¹ On and after January 1, 2034, retail sellers may retain 3 percent of the fee as reimbursement.²

Current and historical California tire fee rates may be found on the [Special Taxes and Fees – Tax Rates](#) page on our website.

Leases of New or Used Motor Vehicles

Lessors of new or used motor vehicles, construction equipment, or farm equipment that includes new tires may be subject to the California tire fee. Lessors are generally considered the purchasers on leases or rentals of four months or less in duration and are responsible to pay the fee, either by paying to the retailer whom they purchased from or self-reporting to CDTFA. For leases or rentals of more than four months duration, the lessor is generally considered the retailer and must register for a tire fee account, collect the fee from the lessee as part of the lease cost, and remit it to us.³ Invoices or receipts on leases or rentals where the lessee is charged must clearly state the California tire fee separately.⁴

AUDITS OF CALIFORNIA TIRE FEE ACCOUNTS

0428.10

The Audit Examination Branch (AEB) conducts audits of California tire fee accounts. Audit team members are responsible for verifying that retail sellers of new tires are properly registered and in compliance with reporting requirements. If a California tire fee account is audited in conjunction with another tax or fee program, each audit will have a separate audit ID and follow existing digital audit procedures.

For more information about the California tire fee and its requirements, see [publication 91](#), *California Tire Fee*, and the [California Tire Fee Guide](#), on our website.

Audit Procedures

Sales and Use Tax

When auditing a sales and use tax account that includes sales of new tires, the auditor should verify that the retailer also holds a valid California tire fee account. If a California tire fee account does not exist, the auditor should prepare a Memorandum of Potential Tax Liability case from the Audit Springboard. Auditors should complete the case, attach supporting documents, and stage the case appropriately in the system. In addition to preparing the Memorandum of Potential Tax Liability, auditors may also assist the feepayer with registration through online services.

Auditors are required to answer the “*Seller of Tires?*” question in the system under the Audit Attributes tab when performing an audit. A “no” response

¹ PRC section 42885, as amended (as amended by Stats. 2022, ch. 335, sec. 20) by Stats. 2024, ch. 42, sec. 1, operative January 1, 2005, to December 31, 2033

² PRC section 42885(b)(3), as amended (as amended by Stats. 2022, ch. 335, sec. 20) by Stats. 2024, ch. 42, sec. 1, operative January 1, 2034

³ Annotation Short-Term Rental of Motor Vehicles and Equipment 5/28/09

⁴ PRC section 42885(d)

indicates the taxpayer does not sell new tires. A “yes” response indicates the taxpayer sells or leases new tires. This information allows us to generate informational and statistical reports as needed.

Special Tax and Fee

When auditing a California tire fee account, the auditor should verify that the retail seller holds a valid sales and use tax account. If a sales and use tax account does not exist, the auditor should prepare a Memorandum of Potential Tax Liability case from the Audit Springboard. Auditors should complete the case, attach supporting documents, and stage the case appropriately in the system. In addition to preparing the Memorandum of Potential Tax Liability, auditors may also assist the feepayer with registration through online services.

Exemptions

Tires not subject to the California tire fee include tires intended for use on or sold with:¹

- A self-propelled wheelchair.
- A motorized tricycle or motorized quadricycle as defined in California Vehicle Code section 407.
- A vehicle that is similar to a motorized tricycle or motorized quadricycle and is designed to be operated by a person who, by reason of that person's physical disability, is otherwise unable to move about as a pedestrian.

PETITIONS FOR REDETERMINATION AND CLAIMS FOR REFUND 0428.15

Petitions for redetermination (petitions), claims for refund, and other appeal related requests² related to the California tire fee follow the normal appeals procedures currently in place for special taxes and fees collected pursuant to the FCPL.³

Excess Fee Reimbursement

While performing the audit, if it is determined that a retail seller collected an amount in excess of the fee due, the auditor should review the excess amount and determine whether the amount was refunded to the customer or previously reported and paid to CDTFA.⁴ If neither action has occurred, the retailer must make a reasonable and documented effort to return the excess amount to the customer. If the retailer is unable to do so, the excess amount is required to be remitted to the CDTFA.

The statute of limitations for filing a claim for refund is the filing deadline that is the latest of the following dates: ⁵

¹ PRC section 42885(h)

² Regulation 35002(a)

³ Regulations 35015 and 35039

⁴ RTC section 55221.5

⁵ RTC sections 55222, 55222.2

- **Three years after the last day of the calendar month following the close of the reporting period for which the claimed overpayment was made,**
- **Six months after the date of the claimed California tire fee overpayment,**
- **Six months after the date a determination (billing) became final if the claimed overpayment was made under the determination, or**
- **Three years after CDTFA collected an overpayment by involuntary means, such as from a levy or lien.**

Refund requests should be forwarded to the ADAB inbox for processing and review at adab@cdtfa.ca.gov, along with a completed CDTFA-101, *Claim for Refund or Credit*. Appeals cases are found on the Account springboard, under the Task tab, Cases sub-tab. Refunds that have been initiated and/or fully processed can be viewed under the Financial tab, Refunds sub-tab, of the Account springboard.

UNDERGROUND STORAGE TANK MAINTENANCE FEE AUDITS **0429.17**

~~The Audit Examination Branch (AEB) within the Audit and Carrier Division (ACD) is responsible for performing Underground Storage Tank Maintenance Fee audits. The fee is assessed on the owner of the UST for each gallon of petroleum products placed into an underground storage tank (UST). Petroleum products subject to the fee include, but are not limited to, gasoline, diesel, waste oil, and heating oil. Whenever possible, the auditor should use the SG return amounts to verify the reported amounts on the UST return. Any differences between Schedule A and Schedule G of the SG return should be examined in detail.~~

UNDERGROUND STORAGE TANK MAINTENANCE FEE AUDITS **437.40** **GENERAL**

CDTFA administers the Underground Storage Tank Maintenance Fee Law.¹ The Audit Examination Branch (AEB) within the Audit and Carrier Bureau (ACB) is responsible for performing Underground Storage Tank Maintenance Fee (UTF) audits. Unless an exemption applies, the owner of an underground storage tank (UST) as defined in Regulation 1201(d) must pay the UTF, which is imposed by the Health and Safety Code (HSC), based on the number of gallons of petroleum placed into the UST in a reporting period.² “Petroleum” means crude oil, or any fraction thereof, which is liquid at standard conditions of temperature and pressure, which means at 60 degrees Fahrenheit and 14.7 pounds per square inch absolute. Petroleum includes products that are blends of hydrocarbons derived from crude oil through processes such as separation, conversion, upgrading, or finishing.³ Examples of petroleum products subject to the fee include, but are not limited to aviation gasoline, gasoline, diesel and biodiesel, denatured ethanol or ethanol blended with gasoline, jet fuel, waste oil, heating or lighting oil, and including any additives or solvents added to these. The UTF applies every time petroleum or petroleum products are placed into a UST, regardless of whether the fee has previously been paid for gallons of petroleum that were removed from a UST and placed into another UST or redeposited into the same tank in which they were previously stored.⁴ The UTF does not apply to a tank of 1,100 gallons or less capacity which is located on a farm or property used primarily for dwelling purposes and which is used for storing motor vehicle fuel for purposes other than resale, or to a tank used for storing heating oil for consumptive use on the premises where stored because they are not USTs.⁵

¹ RTC sections 50101 – 50162

² HSC sections 25299.41 and 25299.43, and RTC section 50109.

³ Regulation 1201(c)

⁴ Regulation 1212(b)

⁵ Regulation 1201(d)

The owner of a UST is liable for paying the UTF, even if another person is the operator of the UST.¹ “Owner” means the owner of a UST containing petroleum and includes any city, county, or district, or any agency or department thereof, but does not include the state or any agency or department thereof, or the federal government.² So, a city, county, district, or any of their agencies or departments can be an owner, but the state and federal government are not owners, and therefore the UTF does not apply to them. “Operator” means any person who is in control of, or has responsibility for, the daily operation of a UST.³ “Operator” also includes any city, county, or district, or any agency or department thereof, but does not include the state or any agency or department thereof, or the federal government.⁴ The UTF also does not apply to banks and other financial institutions, insurance companies, and any person of Indian descent who is entitled to receive services as an Indian from the U.S. Department of the Interior (U.S.) when the UST is located on an Indian reservation or any land held in trust by the U.S. for any Indian tribe or individual Indian.⁵

There is a rebuttable presumption that the owner of the real property is the owner of the UST located on the property for purposes of the UTF, even if the real property is leased to another person. This presumption may be overcome by showing that ownership of the UST rests with someone other than the real property owner. Evidence to rebut the presumption may include, but is not limited to, the following:⁶

- Evidence that the lessee installed the UST at the location, and the lease agreement gives the lessee the right to remove the UST at the termination of the lease, regardless of whether the lessor's approval of the removal is required;
- Evidence that the lessee installed the UST at the location, and the lease agreement states that any improvements installed by the lessee are the property of the lessee during the term of the lease;
- Documentation, such as a bill of sale, showing the transfer of ownership of the UST(s) to a person other than the real property owner;
- Evidence that the UST is depreciated on the state or federal income tax returns of a person other than the real property owner;
- Evidence that the UST existed at the premises at the time the lease agreement was signed, and the lease agreement specifies that the UST is

¹ Regulation 1212(a)

² HSC section 25299.21

³ Regulation 1201(b)

⁴ HSC section 25299.20

⁵ Regulation 1220

⁶ Regulation 1205

owned by and title thereto is vested in the lessee during the term of the lease.

Lessees are generally considered operators of USTs on the real property they lease, not owners, and an operator of a UST is not liable for the UTF unless the operator is also the owner of the UST.¹ An operator may have an agreement with the owner to report and pay the UTF on behalf of an owner. However, Regulation 1213 requires the owner to execute and notarize a Statement of Underground Storage Tank Owner, the operator to execute and notarize a Statement of Underground Storage Tax Operator, and requires both documents to be filed with CDTFA before CDTFA will mail returns and notices for the owner's UTF account to the operator and credit the operator's payments to the owners UTF account. The owner also remains liable for the UTF until such payments are credited to their account. Forms CDTFA-5TK-2, *Statement of Underground Storage Tank Owner*,² and CDTFA-5TK-3, *Statement of Underground Storage Tank Operator*,³ may be used for this purpose. The owner's statement will remain in effect until the owner advises CDTFA and the operator in writing of any change. The operator's statement will remain in effect until the operator advises CDTFA and the owner in writing of any change. Owners or operators may log into the owner's UTF account to submit the necessary documentation.

REGISTRATION

Every person who is an owner of a UST as defined in Regulation 1201(d) containing petroleum is required to register with CDTFA.⁴ Audit team members will ask the taxpayer if there are USTs located on the real property they own, lease, or where they operate their business. The owner of the UST is required to register with us and pay the fee. A "yes" response from the taxpayer requires team members to determine whether the taxpayer is the owner of the UST and has a UTF account with us. If the taxpayer is not the owner of UST(s), team members should request information to help identify or locate the owner(s) of the UST, such as:

- UTF account number(s) of the UST owner(s),
- Address(es) where UST(s) is/are located,
- UST owner's name, address, and phone number (operators of multiple locations may have multiple UST owners), and
- Any other information that would help to identify or locate the owner(s) of the UST.

If an account exists, audit team members will review the account and verify that the UST is still registered to the current owner. An owner, operator, or person filing on behalf of the owner or operator may file their returns online using the

¹ Regulation 1201(b)

² Regulation 1213 Exhibit A

³ Regulation 1213 Exhibit B

⁴ RTC section 50108.1

CDTFA-501-TK, *Underground Storage Tank Maintenance Fee Return* and CDTFA-501-TKX, *Summary by Location – Underground Storage Tank Maintenance Fee forms*.

Auditors may discover that the real property owner is not the owner of a UST on their property or that ownership of the property and/or UST has changed, which may result in a delinquent fee liability. Team members should indicate “yes” to the UST question in the Audit Attributes section of the Audit in the system and, if applicable, obtain a copy of the lease agreement or bill of sale and upload it into the system along with an audit verification comment, prior to submitting the audit to the supervisor for approval. When the taxpayer does not provide the requested information, the auditor will add an audit comment indicating that the information was requested, but not provided.

UTF AUDITS

Whenever possible, auditors should use the reported Schedule G return amounts to verify the reported UTF return amounts. Schedule G of the Sales and Use Tax (SUT) return is used to claim prepaid sales tax that the retailer paid to the fuel supplier. Schedule A of the Motor Vehicle Fuel Pre-Collection Return is used by a wholesaler or supplier to report the prepaid sales tax collected from a retailer. Any differences between Schedule A and Schedule G amounts should be examined in detail. Generally, differences in the Schedule G amounts and the UTF return amounts are due to timing, or because the site location has above ground tanks in addition to USTs, or that the Schedule G includes activity for multiple sites. In some instances, a SUT return, and accordingly, Schedule G could be used to report amounts for multiple sites, whereas the UTF return could be for one or more sites. The auditor should review the SUT and UTF accounts to verify that a one-to-one site relationship exists before utilizing the Schedule G amounts.

If the Schedule G of a return includes amounts for multiple sites, or petroleum products placed into above ground storage tanks, the auditor should request records for all petroleum products placed into underground and above ground storage tanks and reconcile to the UTF return amounts. Auditors should take note to include products that contain trace amounts of petroleum products, such as fuel grade ethanol and biodiesel (B99.9 or lower) in the total gallons of petroleum products placed in the USTs. Auditors should request and review copies of the returns filed and any supporting documents used by the taxpayer to prepare the returns, including:

- Purchase invoices for all petroleum products purchased for the audit period, including meter tickets and bills of lading.
- Purchase journals showing gallons of petroleum products purchased.
- Petroleum products inventory records.
- Sales or usage records, including pump meter readings.

Auditors may need to review additional documents to verify ownership of the UST(s), including:

- Property tax statements and/or deeds of trust on properties where UST(s) are located.

- Leases, contracts, tank installation records, federal income tax return depreciation schedules, or any other documents that verify ownership of the UST(s).

SUT AUDITS OF RELATED ACCOUNTS AND REFERRALS

Airports, gas stations or other fuel suppliers and retailers often have USTs. During SUT audits of these taxpayers, team members should verify proper registration for a UTF account as noted above, and team members should prepare a Memorandum of Potential Tax Liability case if review of the Schedule G of the SUT return or purchases of petroleum products and UTF return amounts indicate the taxpayer under-reported the UTF. The referral process is the same for SUT and special taxes and fees audit team members.

For information on how to add a Memorandum of Potential Tax Liability case, please refer to the general audit procedures titled “Memorandum of Potential Tax Liability Case” found in the appropriate guidance.

PETITIONS FOR REDETERMINATION AND CLAIMS FOR REFUND

Petitions for redetermination (petitions), claims for refund, and other appeal related¹ requests for UTF accounts follow the normal appeals procedures currently in place for special tax and fee accounts.²

The statute of limitations for filing a claim for refund is the latest of the following dates:³

- Three years after the last day of the calendar month following the close of the reporting period for which the claimed overpayment was made,
- Six months after the date of the claimed overpayment,
- Six months after the date a determination (billing) became final if the claimed overpayment was made under the determination, or
- Three years after CDTFA collected an overpayment by involuntary means, such as from a levy or lien.

Claims for refunds should be forwarded to ADAB for processing and review, and taxpayers may use CDTFA-101, *Claim for Refund or Credit*, to submit their claims.

¹ Regulation 35002(a)

² Regulations 35015 and 35039

³ Regulation 35034

ACCOUNT RECORDS CHANGE REQUESTS RECEIVED FROM CDTFA TEAM MEMBERS

305.015

Verifying Taxpayer Contact Information

When team members are in contact with a taxpayer, whether in person, on the phone, or via email, an updated phone number, email address, and business address should be requested. Team members should also inquire about any ownership or ~~site~~**business** ~~location~~ changes, if appropriate. Notes must be added in the system regarding any account changes made. For special tax and fee accounts, only team members of the ~~Audit and Carrier Bureau or Program and Compliance Bureau~~ **Motor Carrier Office (MCO) or Program and Compliance Bureau (PCB)** should make changes to the account.

Team members who do not have the rights to perform the necessary updates should create a *Request Account Maintenance* work item in the system. ~~and send an email or system bookmark to their supervisor or their designee for sales and use tax accounts.~~ For special tax and fee accounts, ~~an email should be sent to the Registration Section at BTFDPCBRegMaintClose@edtf.ca.gov~~ ***Request Account Maintenance* work item should be created in the system from the special taxes and fee account springboard.**

Requirements for Requesting a Taxpayer Identification Number (TIN) Merger

Each customer profile has an associated TIN. When a customer has more than one TIN, all duplicate TINs should be merged into a single ‘surviving TIN’. Duplicate TINs can occur due to conversion or registration errors and may be discovered during registration or collection activities. When duplicate TINs are located, a request to merge all duplicate customer profiles should be submitted to registration team members. Generally, registration team members will be responsible for completing the TIN merger and only designated registration team members have the security access to modify an online services profile in the system. However, both collection and registration team members have security access in the system to complete customer-level and account-level changes.

When a team member encounters a duplicate customer profile, a TIN merger should be requested. To request a TIN merger when there are only sales and use tax, prepaid mobile telephony services (MTS), lumber assessment, and/or motor vehicle fuel pre-collection accounts, associated with the duplicate TINs, the *Request Account Maintenance* work item should be generated from the surviving customer springboard. To request a TIN merger when there are special tax and fee accounts associated with the duplicate TINs, the *Request Account Maintenance* work item should be generated from the special tax and fee account springboard. The request type will be “Other.” The *Owner* of the work item will be unassigned, but a team member can subscribe to be notified when completed. The team member submitting the request will:

- Enter detailed notes in the *Request Info* field, including:
 1. A TIN merger is requested.
 2. All the TIN numbers that are being merged and identify the surviving TIN.
 3. How ownership was verified and how it was confirmed the TINs are for the same customer.
 4. Any other information that may be important to the TIN merger.
- The Cross Reference tab of the work item can be used to add the duplicate TINs to be merged. This will assist the team member completing the work item.

Instructions for completing a TIN merger are available on the CDTFA's intranet site by navigating to the Tax Policy Bureau webpage, and selecting Resources for Collectors under the Resource Links, Compliance heading. The *Account Transfer and TIN Merger Guide* provides detailed instructions on completing TIN mergers for customers with sales and use tax accounts and other accounts handled by the field offices. For customers with special tax and fee accounts, only team members of MCO or PCB should complete a TIN merger.

Requirements for Updating Corporate Officer, ~~or~~ LLC Member, or Partner Information

When ~~the~~ CDTFA receives information regarding any changes in the status of an officer, ~~or~~ member, **or partner**, documentation must be obtained prior to making any update in the system. When the person requesting an update is a CDTFA team member (i.e., auditor, collector), proper forms ~~must~~ **and supporting documentation should** be attached to the ~~work item~~ **appropriate springboard** in the system. ~~, along with supporting documentation for the requested changes as provided below.~~

- CDTFA-245-COR-1, *Corporate Officer Registration Update*, completed by the taxpayer and signed by all corporate officers.
- **CDTFA-245-LLC, *LLC Member Registration Update*, completed by the taxpayer and signed by all LLC members.**
- **CDTFA-245-PAR, *Partner Registration Update*, completed by the taxpayer and signed by all partners.**
- CDTFA-1296, *Account Update Information*, completed by the auditor.
- ~~CDTFA-1296-RAM, *Registration and Account Maintenance Update*, completed by the collector.~~

~~Additional documents~~ **Supporting documentation** used to verify an officer, ~~or~~ member, **or partner** change include, but are not limited to, the following:

- Validated copies of Secretary of State (SOS) forms filed ~~with the SOS~~, **or information obtained from the SOS online business search such as the current *Statement of Information* form.**

- A copy of ~~the corporate~~**meeting** minutes stating a change of officers **or LLC members (for officers these would be corporate minutes), or a partnership agreement for partner changes.**
- A signed letter from the corporation **or limited liability company**, preferably on ~~corporate~~ letterhead, authorizing the requestor to make such changes and documenting the officer or member changes.
- ~~SOS information obtained from the SOS online business search.~~

Sale of a Licensed Cannabis Business Site or Changes in Ownership

Sales of licensed cannabis business sites and changes to the ownership structure of a cannabis business, such as a change in corporate officers, LLC members, or partners, must be approved by the Department of Cannabis Control (DCC).¹ When CDTFA receives a request to update a site or change the ownership of a cannabis business, team members must first confirm these changes have been made on the DCC website prior to updating a cannabis account in the system. Team members can verify the most recent information by selecting “Search for a license” located on DCC’s website.

¹ Cal. Code Regs., tit. 4, §§ 15003, 15023

PAYMENT PLANS**770.000****GENERAL****770.005**

All collectors will collect amounts owed to the California Department of Tax and Fee Administration (CDTFA) in a fair, efficient, and timely manner. When a collector contacts a tax/fee payer for payment, he or she should request payment in full and should not solicit the taxpayer to request a payment plan. However, when payment in full is not feasible, accepting payments over time may be the best alternative. RTC section 6832¹ provides ~~the~~ CDTFA discretionary authority to allow an installment payment agreement (payment plan) in cases of financial hardship. In such cases, allowing a payment plan may accommodate a taxpayer's economic realities while allowing the taxpayer to meet its obligation to ~~the~~ CDTFA.

Taxpayers may request a payment plan online via the CDTFA website or while in contact with a collector. When a payment plan is requested online and meets certain criteria, it may be approved automatically without any action by ~~staff~~ **team members**. When a payment plan is not automatically approved, collectors will review the account history and the taxpayer's financial situation to determine if a payment plan is appropriate and if so, the duration and payment amount.

ONLINE PAYMENT PLANS**770.010**

When an online payment plan request is automatically approved, the required payments will be automatically debited from the taxpayer's bank account or charged to their credit card (see CPPM section 770.022). The details of the payment agreement can be viewed in the system. Except in certain circumstances outlined in this section, payment plans initiated by the taxpayer through ~~the~~ CDTFA's online services are generally auto approved if they meet the following criteria:

- ~~Any~~ **Outstanding balances amount less than \$50,000** that will be paid in full within 24 months, ~~or~~
- ~~Any~~ **Outstanding audit** balances ~~\$50,000 and greater~~ that will be paid in full within ~~12~~ **36** months,
- **Any combined outstanding audit and self-assessed balance that will be paid in full within 24 months**, and
- Monthly payments are at least \$10

Auto Approval of Online Payment Plans

A taxpayer can set up a payment plan online to include both final and non-final bill items. When contacted by a taxpayer who meets the criteria for auto approval, **team members should direct** the taxpayer ~~should be directed~~ to apply online and the system should approve the plan without requiring the taxpayer to provide financial documentation.

Online payment plans will **not** be auto approved **or may be blocked** if **an account contains** any of the following ~~exist on an account~~:

- ~~An a~~ **Active** bankruptcy
- Periods discharged from bankruptcy
- ~~An o~~ **Outstanding** delinquency
- **Cause delinquency established (i.e., Failure to pay balance due)**

¹ RTC Section 6832 refers to Sales and Use Tax Law; similar provisions exist for special taxes and fees.

- ~~A revoked license~~**Revocation**
- ~~An a~~**A**ctive earnings withholding order for taxes (EWOT), levy, or notice to withhold
- ~~An e~~**E**xisting active payment plan
- ~~A~~**P**rior payment plan ~~that was defaulted or~~ terminated **more than once** within the last 12 months
- ~~An a~~**A**ctive keeper warrant or till-tap
- ~~A d~~**D**ealer or liquor license cancellation/suspension
- Listed on the Top 500 Sales & Use Tax Delinquencies in California
- ~~A j~~**J**eopardy determination billed within the past 30 days
- ~~An a~~**A**ccepted and approved offer in compromise (OIC)¹
- ~~The taxpayer is registered~~**Registration** as a Receivership/Fiduciary
- Investigation ~~I~~**I**ndicator

If an account is prevented from requesting an online payment plan, the system will display a message stating, “You are currently ineligible to request a payment plan using online services. Please contact CDTFA to set up a payment plan.” When this occurs, a team member should review the account and assist the taxpayer. If the account is delinquent for filing, a message will display stating, “You are currently delinquent. Please file a return.” Once the delinquent return is filed and processed by the system, the taxpayer can request the payment plan online, usually the next business day.

Online Logon Parameters

To request a payment plan online, taxpayers generally log in with their username and password. If they do not log in with a username and password, they may use the Letter ID from their payment voucher. If a Letter ID is used to establish the payment plan, it will include only the periods of liability on the payment voucher.

Only taxpayers who log in with their username and password will have the ability to view the total amount due, view the current status, and update bank information.

Taxpayers must enter the following information when requesting a payment plan:

- Name and phone number (non-logged in requests only),
- Payment amount (payment must be \$10 or more),
- Frequency (weekly, biweekly, or monthly),
- First payment date (first payment must be within 45 days of request), and
- Bank information (routing number, account type, and account number) or credit card information.

The system provides a review screen for taxpayers to verify the information entered and the terms of their proposed payment plan for accuracy. The taxpayer can edit or cancel the request prior to submitting it. Once submitted, the taxpayer will be immediately advised if the plan was approved or submitted for review. They will also be provided a confirmation number. The confirmation number can be found on the Customer springboard “Online Services” tab, “Processed” subtab.

Payment plans that meet the criteria for auto approval will be immediately approved without any action required by the collector. If a customer initiates a payment plan online, it is created immediately with the first payment defaulting to 5 days out, or up to 45 days if the taxpayer chooses another date. For purposes of the Collection Cost Recovery Fee (CRF) assessment, the

¹ Taxpayers with an OIC case under review may enroll in a payment plan.

effective date of the payment plan will be the date of the request.

The method in which the taxpayer requests the payment plan (logged in or non-logged in user) and whether the payment plan is auto approved or approved after a collector's review determines which forms, if any, are required. When a payment plan is auto approved, an approval message displays and no action is required by the collector. See CPPM section 770.012 for the required forms when the payment plan is not auto approved.

REVIEW OF THE REQUEST

770.012

When the payment plan is not automatically approved, a work item is created in the system. The collector must evaluate the financial ability of the taxpayer to determine if the request for a payment plan is reasonable. Before accepting a payment plan, the collector will have thoroughly investigated the financial condition of the taxpayer and determined that a payment plan is the most effective method available to collect the amount due. **Collectors may use the secure electronic Payment Plan Analyzer tool to request, receive, and analyze the taxpayer's financial documentation for a financial review.**

The primary consideration to accept a payment plan is whether the plan is in the best interest of the state. When it is not in the best interest of the state, ~~the~~ CDTFA is not required to accept a taxpayer's payment plan request. Collectors must review the taxpayer's past payment history, the merits of the proposal, and the viability of the business when determining whether to accept the proposed payment plan. When reviewing a taxpayer's past payment history, the taxpayer's record under related accounts as an individual, partner, or corporate officer should also be considered. Although a taxpayer's payment history may be unsatisfactory, the responsible office has discretion to grant an exception. Collectors must document the justification in the system. In addition, financial documentation may be needed to determine the financial need for a payment plan, and to evaluate reasonable repayment terms.

If the taxpayer can pay the liability in full or has assets that can be liquidated or borrowed against to pay the liability, he or she should be required to do so. Some examples of sources to borrow from include:

- Lines of credit – secured and unsecured,
- Life insurance policies or retirement funds,
- Equity in real property interests,
- Equity in vehicles, vessels, or aircraft,
- Credit cards,
- Cash advances,
- Stock certificates or bond holdings, or
- Interests in certain estates or trusts.

By requiring the taxpayer to exhaust other means to pay off the existing liability, ~~the~~ CDTFA is relieved of the burden of financing the tax/fee debt. If the taxpayer can pay the liability in full but refuses to do so, the collector should proceed with collection action. If borrowing funds is not an option for the taxpayer, they should attempt to arrange with other creditors to defer payments, or make smaller payments, and thus allow for the payment in full or the ability to make larger payments towards the delinquent tax/fee liability.

Online Requests Requiring Collector Review

The system displays the terms of the proposal as submitted. The collector will review the proposal and make the decision to accept or deny the request. If the proposal is acceptable, the collector will send a CDTFA-407-CN, *Confirmation/Online Payment*, to the taxpayer, which is available in the system. If the proposal is not acceptable, the collector must contact the taxpayer

to discuss acceptable terms.

Once new terms are agreed upon, the collector will deny the original request in the system and have the taxpayer **resubmit a new request online**. If the taxpayer is not able to resubmit the request online in a timely manner (i.e., in time for the first payment to be processed, or before a Collection Recovery Fee (CRF) is assessed), the original request should be modified in the system.

The payment plan may be modified only after contact is made with the taxpayer and the terms are negotiated. If the plan is modified or changed, a CDTFA-407 with the new payment plan terms is sent to the taxpayer. Once the signed CDTFA-407 is received from the taxpayer, the payment plan is modified by the collector in the Payment Plan springboard and it is sent to the supervisor for approval.

Direct Contact from Taxpayer

Taxpayers may call a collector directly asking to set up a payment plan. The collector should first request that taxpayers pay their liability in full. Taxpayers who are unable to pay in full should be directed to make their payment plan request online. For those taxpayers unable to make their request online, collectors will evaluate the requested payment plan and if accepted, must send the taxpayer a CDTFA-407 (available in the system) to complete and return, ensuring that all terms of the agreement are documented on the CDTFA-407.

Before accepting a proposal for a payment plan that does not meet the criteria for auto approval, the collector will have thoroughly investigated the financial condition of the taxpayer and determined that a payment plan is the appropriate method to collect the amount due.

REQUESTING FINANCIAL INFORMATION

770.013

Documentation may be required to determine the taxpayer's need for a payment plan and financial ability to meet its terms. **If a financial review is required, collectors may use the secure Payment Plan Analyzer tool to request, receive, and analyze the taxpayer's financial documentation electronically.**

If the taxpayer is unable to use the Payment Plan Analyzer, the collector will direct the taxpayer to complete the appropriate financial statement, either a CDTFA-403-E, *Individual Financial Statement*, which evaluates the taxpayer's individual financial condition, or a CDTFA-403-C, *Business Financial Statement*, which evaluates an active business' financial condition.

When evaluating ~~a taxpayer's financial situation, the collector may~~ **the financial condition of a taxpayer who does not have an active business, the collector will** require an individual to submit information as listed on the CDTFA-58, *Payment Plan – Need Information (Individual)*. ~~A corporation or other entity type may be required to submit information as listed on the CDTFA-60, *Payment Plan – Need Information (Non-Individual) Review*.~~ Such documentation ~~may~~**should** include:

- ~~A~~CDTFA-403-E, ~~*Statement of Financial Condition*~~***Individual Financial Statement***,
- Bank statements (~~both~~ personal ~~and business~~),
- ~~Merchant card statements,~~
- Income tax returns,
- ~~Accounts receivable listings (including names, addresses, phones numbers, and amounts owed),~~
- ~~Income and expense (or profit and loss) statements,~~
- ~~Balance sheets,~~

• ~~Cash flow statements, and~~

- Other documentation relating to the taxpayer's finances.

A corporation, LLC, or other entity type may be required to submit information as listed on the CDTFA-60, *Payment Plan – Need Information (Non-Individual)*. Such documentation should include:

- **CDTFA-403-C, *Business Financial Statement***
- **Bank statements (business),**
- **Credit card statements (business),**
- **Merchant card statements,**
- **Income tax returns,**
- **Accounts receivable listings (including names, addresses, phones numbers, and amounts owed),**
- **Income and expense (or profit and loss) statements,**
- **Balance sheets,**
- **Cash flow statements, and**
- **Other documentation relating to the taxpayer's finances.**

Sole proprietors, married co-partnerships, or other similar entities may need to have their business and personal income and expenses reviewed.

The collector should not make a blanket request for information, but should tailor the requested documents to each taxpayer's specific situation.

One example of documentation that may be requested, but should not be requested as a matter of routine, is evidence of a loan in process or loan denial letter. While taxpayers should be encouraged to seek other sources of funds to repay their tax debt, **staffcollectors** should not request evidence of a loan in process or denial letter from taxpayers who do not have the means to get a loan. This documentation should also not be requested from taxpayers who meet the criteria for a payment plan without providing financial documentation as outlined in CPPM section 770.012.

Additional information and verification may be required as deemed necessary by the collector; however, only documentation that provides financial information may be requested. **StaffCollectors** should not request any documents that do not provide financial information (e.g., dual questionnaires), and may not require such documents as a condition of acceptance of the payment plan.

The collector should require the taxpayer to start making the proposed payments while financial information is compiled by the taxpayer and evaluated by the collector.

If the payment plan exceeds 2 months on an active account, the taxpayer may be required to make weekly or monthly payments against anticipated liabilities for the upcoming periods in addition to the payment plan payments. This requirement will ensure that the taxpayer does not incur further debt with CDTFA and does not accrue further penalty for failure to file, or to pay, a tax or fee return timely. Since payment plans with automatic debit payments cannot accommodate unbilled future liabilities, these payments must be made separately by the taxpayer.

ANALYZING FINANCIAL INFORMATION

770.014

The financial information submitted in support of a payment plan request should indicate how much money the taxpayer is able to pay in order to satisfy the liability in full, including interest accruals, within the time frame specified. The taxpayer's income should be compared to his or her claimed expenses. If expenses exceed income, the taxpayer must provide an explanation (i.e., what expenses are not currently being paid).

Evaluating a payment proposal for an active business can be less straightforward than a proposal for a closed account where, for example, the source of income is wages and the only expenses to consider are household expenses. In addition, active businesses owned by sole proprietors or partnerships require a financial review of both the individual owner(s) and the business. For businesses owned by other entities (e.g., corporations, LLCs), the documentation may consist of financial statements and bank records.

The following guidelines are based on the *Financial Analysis Handbook* published by the Internal Revenue Service (IRS) and may be helpful when analyzing a taxpayer's financial condition.

Determining Individual Income

Generally, all household income will be used to determine the taxpayer's ability to pay. Income consists of the following: wages, interest and dividends, net income from self-employment or Schedule C of the Federal Income Tax Return Form 1040, net rental income, pensions, child support, alimony, or other income (e.g. royalties, gambling winnings, payments from a trust account). Income claimed on the CDTFA-403-E, *Individual Financial Statement*, should be compared with bank statements, tax returns, and all other financial documents. The taxpayer should be asked to explain any differences noted by the collector.

Business Financial Statements

Many businesses employ accounting firms to maintain books and records or use over-the-counter software programs. ~~Because of~~**Due to** the complexity of some business entities, reviewing these records may be very important in determining the business' ability to pay and the true value of its assets.

When determining ability to pay, the income and expense information must reflect a sufficient time frame to accurately determine the monthly average that could be expected for the entire year. Seasonal variations in business income ~~must~~**should** be considered, as well as extraordinary events that can lead to excessive increases or decreases in income or expenses at a particular time. Information provided on the ~~CDTFA-403-E~~**financial statement(s)** as it pertains to income, assets, and expenses, should match the information provided on other financial statements, tax returns and schedules, and other sources used to verify assets or encumbrances. **An active business with the ownership type of sole proprietor, married co-partnership or similar entities may need both the CDTFA-403-C, Business Financial Statement, and the CDTFA-403-E, Individual Financial Statement. However, corporations, LLCs, or similar entities, will only need the CDTFA-403-C Business Financial Statement.** Discrepancies ~~must~~**should** be addressed and documented in the system.

The following is a list of financial statements and the information contained in them that may be used to evaluate a payment proposal:

- **Income Statement (Profit and Loss Statement)**

The Income Statement (Profit and Loss Statement) shows a business' revenue, expenses, and profit during a given accounting period, usually either quarterly or annually. Along with the balance sheet, the income statement is a tool used to assess the health and prospects of a company. The income statement shows revenue and expenses, including operating expenses, depreciation, income taxes, and extraordinary items. ~~Staff~~**Collectors** should be able to determine funds available for a payment plan based on cash flow, profit margins, and other important indicators of how the business is doing by reviewing the income statement.

- **Balance Sheet**

A business' balance sheet is a snapshot of its financial picture on a given day. A balance sheet shows the financial position of a company by indicating the resources that it owns, the debts that it owes, and the amount of the owner's

equity in the business. One side of the balance sheet totals up assets, moving from the most liquid (cash) to least liquid (plant and equipment or goodwill). The other side lists liabilities in order of immediacy or urgency. Remember that assets must equal liabilities plus shareholder's/owner's equity. Although the balance sheet by itself may not clearly show funds available for a payment plan, it should be used to identify assets and other liabilities.

- **Cash Flow Analysis**

StaffCollectors may also request a cash flow analysis. This is often completed when taxpayers seek loans or investors and may already be available for ~~staff's~~ review. Cash flow is net income minus preferred dividends plus depreciation (as given in the income statement). Generally, depreciation charges are not considered an allowable expense as they are not genuine bills that have to be paid. Cash flow is the key to a company's ability to cover debts and can be especially useful in assessing businesses in capital-intensive industries where huge depreciation charges can hide healthy profits. Cash flow projections are used by a business to forecast future income to meet upcoming expenses. They are based on comparing money owed to expected revenues. This information is useful when dealing with a business that does not have the ability to pay in full within a short period of time. This information will help determine if the business can remain current with operating expenses and taxes, and also pay the delinquent taxes. The cash flow analysis will help ~~staff~~**the collector** determine an appropriate and sustainable payment amount based on revenue and expenses.

Analysis of income and expenses may identify many of the assets the taxpayer has available. For example, rental income may identify real property or equipment owned. Expenses such as taxes and licenses may indicate assets such as machinery and equipment. The IRS *Financial Analysis Handbook* identifies common sources of income, expenses, and assets that may be listed on the taxpayer's income tax return.

Determining Equity in Assets

To determine the equity in an asset, ~~staff must~~**the collector should** determine its value, whether there are encumbrances against it, and the priority of the Notice of State Tax Lien. Proper valuation of an asset is necessary to determine whether it is a source for collection. Some assets can be complex or difficult to value. The Fair Market Value (FMV) of an asset is the price set between a willing and able buyer and seller in an arm's length transaction where both parties have full knowledge of the relevant facts. The FMV can be influenced by market conditions, age of the asset, condition of the asset, demand, and other factors. The Quick Sale Value (QSV) of an asset is an estimate of the price a seller could get for the asset in a situation where financial pressures motivate the seller to sell in a short period of time, usually 90 days or less. Generally, the QSV is calculated at 80% of the fair market value. A higher or lower percentage may be appropriate depending on the type of asset and current market conditions. Sources for determining FMV may also depend on the type of asset. For vehicles, for example, there are several online tools available to help determine the value.

Once the equity in an asset is established, ~~staff~~**the collector** may determine the taxpayer has the ability to pay the liability in full if they can liquidate, refinance, or borrow against the asset. Taking payments over time is not in the best interest of the state if the taxpayer's financial information indicates an ability to pay their liability in full.

ANALYZING EXPENSES FOR INDIVIDUALS

770.015

Allowable expenses are segregated into two categories: "necessary" and "conditional." Necessary expenses are those expenses that must be paid in order to support health, welfare, and production of income. Conditional expenses are expenses that the taxpayer may be allowed to

continue paying if all of the taxpayer's liability, including interest accruals, can be paid during the stipulated time.

When analyzing the necessary and conditional expense allocations of the taxpayer, collectors should use the *Collection Financial Standards* tables published by the IRS. These standards are based on the Federal Bureau of Labor Statistics, Consumer Expenditure Survey.

These national standards serve as a guide for determining the average expense levels applicable to a taxpayer who is applying for a payment plan. Whenever a taxpayer lists an amount lower than the standard, collectors should use the actual figure given by the taxpayer. Whenever the taxpayer lists an amount higher than the IRS standard and higher than local averages, the collector should question the amount and determine if the claimed amount is excessive.

Necessary Expenses

The first category of expenses on the IRS's Collection Financial Standards page is the [National Standards: Food, Clothing and Other Items](#), which has a table that provides a set amount allowed depending upon the number of family members. The table lists the following necessary expenses:

1. Food
2. Housekeeping supplies
3. Apparel and services
4. Personal care products and services
5. Miscellaneous - The miscellaneous allowance is for expenses a taxpayer may incur that are not included in any other allowable living expense items, or for any portion of expenses that exceed the standards.

In addition to the table of allowable living expenses for food, clothing, and other items, the IRS website has links to tables for [out-of-pocket health care expenses](#), [housing and utilities](#), and [transportation](#). The table for housing and utilities is organized by state and, once the collector clicks on the California link, by county. The transportation table has an allowance for car ownership (limited to two cars) and is then segregated into operating cost by region. Also listed is a nationwide allowance for public transportation.

Other expenses that do not appear in the IRS tables can be "necessary" if they meet the necessary expense test (health, welfare, or production of income), but the amount of the claimed expense must be reasonable. For example, childcare and dependent care services do not have standardized costs, and the cost for these services can vary greatly depending on a number of factors. The collector should analyze the cost for these types of expenses based on the prevailing living standards where the taxpayer is incurring the expense. In addition, the collector should use his or her best judgment and experience when determining if the amount of the claimed expense is necessary and reasonable. Adequate documentation should be provided when an expense falls into this category and the amount is questionable. The taxpayer is responsible for determining the specific areas in its budget that can be modified or eliminated in order to pay the tax liability.

The following list describes some of the various types of expenses in the "other" category.

1. Accounting and legal fees are necessary only if they meet the necessary expense test. Otherwise, accounting expenses and legal fees are conditional expenses, but they may be allowed if the liability owed to ~~the~~ CDTFA can be paid in full, including projected interest and penalty accruals, within three years.
2. Charitable contributions include donations to tax exempt organizations such as civic groups, religious organizations, and medical services or associations. Contributions to religious organizations as a condition of membership (tithing and educational

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donations) should be allowed if the amount donated matches the amount required by the organization.

3. Childcare costs, such as baby-sitting, daycare, nursery school, and preschool, can vary greatly, and the collector must determine whether the cost appears reasonable in relation to the type of care provided. If a portion of a childcare expense seems excessive, the taxpayer should be required to provide an explanation or to submit documentation to support the claimed amount.
4. Dependent care expenses for the elderly, handicapped, or infirm are necessary if the taxpayer has no recourse except to pay the expense.
5. The cost of education is a necessary expense if it is required for a physically or mentally challenged child, and no public education providing a similar service is available. If childcare is provided by the educational institution and the cost for the childcare is included as part of the educational expense, it should not also be included by the taxpayer as an additional childcare expense. Where the charge for the childcare is segregated from the charge for the educational expense, the childcare expense should be claimed separately from the educational expense. The cost of education is also a necessary expense if it is required as a condition of employment. Current licensure is a requirement for many professionals in order for them to work. Therefore, continuing education units for professionals such as attorneys, accountants, teachers, healthcare workers, realtors, and other professions that are required to maintain a current license are necessary expenses.
6. The cost incurred in obtaining medical insurance when a separate premium is paid, or when the premium is taken as a deduction from the taxpayer's wages, qualifies as a necessary expense. Medical and dental services, prescription drugs and medical supplies, eyeglasses and contact lenses, and guide dogs for the visually impaired are also necessary expenses.
7. Involuntary deductions such as Medicare, mandatory union dues, and wage garnishments are necessary expenses. If the taxpayer has extra withholding taken from net wages to offset future income tax liability, this may be allowed if the liability owed to ~~the~~ CDTFA can be paid off within twelve months. Otherwise, the taxpayer must make other arrangements or adjustments to eliminate the extra tax withholding. The taxpayer must arrange for this increase in income to be paid to ~~the~~ CDTFA.
8. The payment of insurance premiums for a life insurance policy is generally a necessary expense. However, many insurance policies are also used as a vehicle for saving money and the taxpayer may be able to borrow against these funds. For a life insurance policy to be a necessary expense, the policy must be a term-life policy that is already in effect at the time of the taxpayer is billed. Even for term-life policies, expensive premiums must be justified. The collector should determine if the payoff of the policy is high compared to the lifestyle of the beneficiaries. For whole-life policies, the taxpayer should be required to obtain a loan against the value, withdraw the cash value (if it can be done without penalty) or suspend payments while the payment plan is in progress (if allowable by the insurance company). If policy premium payments cannot be suspended, the expense will be considered as conditional.
9. Payments to creditors may be necessary for secured or legally perfected debts. If the claimed debt meets the necessary expense test, then payments to these creditors will be allowed to continue; however, the taxpayer must substantiate that the payments are being made regularly.
10. Current federal and state taxes that are withheld from wages, including FICA withholding, are necessary expenses.

11. Minimum payments to creditors for unsecured debts (such as money due for credit card purchases) will be allowed if the liability owed to ~~the~~ CDTFA, including projected penalty and interest accruals, will be paid in full within three years. With the exception of credit card minimum payments, payments on unsecured debts will not be allowed if omitting them would permit the taxpayer to pay the liability in full within 90 days.
12. Miscellaneous expenses are expenses the taxpayer claims are necessary but that CDTFA ~~staff~~ considers questionable. Examples include extracurricular activities for children, monthly Christmas savings account deposits, and expenses for newspapers, magazines, and trade publications. Allowing or disallowing these expenses is left to the discretion of the collector or the collector's supervisor.

Conditional Expenses

Conditional expenses are those that do not meet the necessary expense test but may be allowable if the tax liability, penalty, and interest accruals are paid in full within the following guidelines:

1. **Three years.** For substantiated conditional and excessive expenses to be allowed, the tax debt must be paid in full within 3 years.
2. **One year.** If the tax liability cannot be paid in full within 3 years, conditional and excessive expenses may be allowed if the taxpayer agrees to modify or eliminate the expense within 12 months. This period may be adjusted from 1 to 12 months based on the nature of the expense.
3. **90 days.** Payments on unsecured debts, other than credit card debt, will not be allowed if omitting these payments would permit the taxpayer to pay its tax liability in full within 90 days. Minimum payments will be allowed on credit cards to preserve a taxpayer's credit rating.

Conditional expenses, and some necessary expenses (e.g., wage garnishments, child support payments, and other court ordered payments), may have an expiration date. The responsible collector should determine whether the expense will expire within the timeframe of the payment plan. If the expense does end within the period of the payment plan, the collector should require the additional available funds to be directed toward paying ~~the~~ CDTFA's liability and not paid to other creditors.

Examples of Conditional Expenses

The following conditional expense items do not constitute an exhaustive list of all the expenses a taxpayer may have incurred. If a claimed expense is questionable, the collector should ask for an explanation or documentation as the case requires.

1. Accounting and legal fees are necessary only if they meet the necessary expense test (health and welfare or production of income). Other accounting expenses and legal fees are conditional expenses.
2. An expense incurred for private education (unless it meets the criteria for a necessary expense, as previously stated) is considered to be a conditional expense.
3. Housing costs other than for the taxpayer's primary residence are conditional expenses. Expenses to maintain a secondary dwelling that are not necessary for the health, welfare, or production of income should be disallowed. If the taxpayer owns the secondary dwelling, and if sufficient value in the property exists, the taxpayer should attempt to borrow against the equity and pay off the liability. A state tax lien subordination will generally be allowed in order to refinance a home for purposes of increasing the payments offered in the payment plan or for a lump-sum payment in full from the refinance.

4. Other expenses not associated with the maintenance of the primary residence are considered conditional expenses. For example, pool and gardening services are conditional expenses.
5. Transportation charges falling within the standards in the IRS tables are generally allowable. Excess transportation charges and claimed expenses for more than one vehicle must pass the necessary expense test. Expenses claimed for items such as boats, motor homes, or extra vehicles must be substantiated. In addition:
 - a. In order to claim ownership costs as an allowable expense, the taxpayer must provide documentation of a lease or loan on his or her vehicle, vessel, or aircraft.
 - b. Transportation costs such as gasoline, maintenance and repairs, vehicle insurance, license and registration fees, towing charges, tolls, and automobile service clubs may also qualify as allowable expenses as long as they are necessary expenses.

Other transportation expenses such as fares for mass transit (buses, trains, ferry services, taxis, airlines, and private school buses) are allowable provided they can be documented as a requirement in the production of income, or they pass the necessary expense test.

ACCEPTING A PAYMENT PLAN

770.020

After the taxpayer's documentation has been analyzed and the amount and frequency of payments have been discussed and agreed to, the collector should direct the taxpayer to ~~use the CDTFA website and enter the agreement~~ **submit the request online. The payment plan will either be automatically approved by the system or a work item will be sent to the collector for review.** The collector will then approve the online request and send a CDTFA-407-CN, *Confirmation/Online Payment* (see CPPM section 770.010), **which is available from the Payment Plan springboard.** If the taxpayer is unable to submit the request online, the collector must send the taxpayer a CDTFA-407, *Payment Plan Agreement*, and ~~the~~ cover letter, CDTFA-407-A. These forms are available ~~in the system~~ **on the Collection springboard** and must be completed ~~only~~ for taxpayers that are unable to submit their request online. All terms of the agreement must be documented on the CDTFA-407. **A signed copy of the CDTFA-407 and the taxpayer's documentation must be saved in the system on the Collection springboard.**

Payment Plans Requiring Use of the CDTFA-407 and CDTFA-407-A

When a payment plan has been agreed upon and the taxpayer is unable to ~~make~~ **submit** the request online, the collector must send the taxpayer a CDTFA-407 and CDTFA-407-A. The collector should complete all applicable sections of these forms prior to mailing them to the taxpayer. All terms of the agreement must be documented on the CDTFA-407, and the collector must discuss those terms with the taxpayer. Specifically, the collector must explain the circumstances under which a lien may be filed, CRF fees may be assessed, or an FTB refund may be ~~offset~~ **intercepted**. In addition, the collector must also explain that failure to comply with the agreement will result in its termination.

The taxpayer must sign the CDTFA-407 indicating agreement with the terms **of the payment plan**. Payments ~~should~~ **are required to** be made by automatic debit (debit payments), ~~and in most circumstances. The taxpayer must provide~~ banking information ~~must also be completed on the form,~~ as well as the bank account owner's **name and** signature authorizing the account to be debited. ~~Debit payments are required in most circumstances~~ (see CPPM 770.022 for information regarding the automatic debit requirement).

~~Payment plans are monitored by the system for appropriate taxpayer notifications and collector follow-ups. All payment plans consisting of three or more payments require supervisory approval and the approval must be noted in the system. Single or two-part payment plans with~~

~~automatic debit payments also require supervisory approval.~~

Entering the Payment Plan in ACMS

~~Detailed instruction on entering payment plan information is available on CDTF's intranet by selecting the ACMS heading under the Technology Services tab, and then selecting the "Promise to Pay" link.~~

~~The collector must select one of two categories of payment plans, "Manual" or "Auto Pay." In a Manual payment plan, payments are initiated by the taxpayer. Manual payment plans should generally only be used in situations where the taxpayer is unable to set up debit payments from his or her bank account. For Manual payment plans entered into ACMS, a reminder notice is automatically mailed to the taxpayer several days before the payment due date. Note that when a payment plan is already in effect for the account, the collector will not be able to input another payment plan in ACMS, and therefore a reminder notice will not be sent, and the collector must monitor the payment plan manually. Auto Pay is selected when payments will be automatically debited from the taxpayer's bank account. Under Auto Pay, the taxpayer will not receive a notice of the debit payment from CDTF.~~

Liabilities Included in Payment Plans

~~The p~~**Payment plans**~~s can be viewed from the Customer, Account, or Collection springboards.~~
~~The details of the payment plan~~**Payment plan details** ~~are displayed on the Payment plan springboard.~~

In most cases, team members should add all eligible bill items to the payment plan by selecting *add all* from the Payment Plan springboard when setting up a payment plan. Team members may limit the liabilities included in the payment plan by manually selecting the *add* box next to the individual bill item.

To exclude liabilities that do not have a separate bill item, collectors must create an irregular payment plan (standard payment plan with an irregular schedule) and manually calculate the amount to be excluded from the payment plan.

~~For accounts in ACMS, the Take a Promise to Pay screen will automatically display all unpaid, final liabilities available for a payment plan. By default, all liabilities will be selected for inclusion in the payment plan except those that are identified in IRIS as having been discharged from bankruptcy (DFB Difference Status code). If a "Manual" payment plan is selected, no modification can be made to liabilities included in the payment plan. If Auto Pay is selected, ACMS will allow the liabilities and amounts included in the payment plan to be modified, when necessary.~~

~~Liabilities included in an active payment plan are identified in IRIS with the Difference Status code PRM. The PRM status code will automatically be removed from the liabilities when the payment plan is no longer active (i.e., completed or terminated).~~

Review Date for accounts in ACMS

~~A review date can be selected for any payment plan with three or more payments. A review date would be entered, for example, to schedule a date to contact the taxpayer for a review of his or her financial condition. A review date can be set for up to one year in the future. When the review date is reached, the account will route to the Promise Review work state in ACMS. While an account is in Promise Review, the payment plan remains in effect and debit payments or payment reminder notices (for Manual payment plan) will continue. Regardless of whether or not a review date is entered, the account will automatically route to Promise Review once the account has been in the Promise to Pay state for 365 days. If the account routes to a different state within that time the 365 time period starts over.~~

Payment Plan Statuses

The status of the payment plan indicates its current disposition. The following is a list of statuses:

- Active – The payment plan is active and ongoing. Debit or credit card payments are automatically initiated, ~~or payment reminder notices are automatically sent.~~
- Cancelled – The payment plan has been cancelled.
- Collector Review – The payment plan is awaiting collector review.
- Defaulted – The payment plan is defaulted.
- In Grace – The payment plan **was defaulted and the system automatically created a** termination warning letter ~~is automatically created if the plan was put into In Grace status by the system. Otherwise, the collector must create~~ **or the collector manually created** the termination letter and mailed **it** to the taxpayer.
- Inactive – The payment plan ~~had gone~~ **is** inactive.
- Paid in Full – All liabilities included in the payment plan have been paid in full.
- Pending Approval – The payment plan ~~has been~~ **was** entered **into** the system, but is pending approval.
- Rejected – The payment plan ~~has been~~ **was** rejected.
- Request Additional Information – The payment plan is not yet approved and additional information is requested from the taxpayer.
- ~~Supervisor Approval – The payment plan is awaiting supervisor approval.~~

Accounts in ACMS:

- ~~Pending – The payment plan has been entered in the system, but it has not been approved by a supervisor. While a payment plan is in pending status, debit payments and payment reminder notices will not occur. While in pending status, the payment plan can be modified. However, if the payment plan was submitted online, some fields cannot be modified.~~
- ~~Active – The payment plan is active and ongoing. The debit payments will be initiated, or payment reminder notices will be sent. Liabilities included in the active payment plan are identified in the system by the PRM status code. This status not only indicates there is an active payment plan for the account but identifies the specific liabilities included in the payment plan. While in Active status, bank account information fields can be modified in the Promise to Pay screen.~~
- ~~Completed – All liabilities included in the payment plan have been paid in full or the amount required to be paid by the taxpayer (i.e., the “Maximum Amount”) has been received.~~
- ~~Terminated – The payment plan is terminated. The status changes to terminated after the collector has initiated the termination process, a CDTEFA 407 T, *Payment Plan – Notice of Termination*, has been sent, and the 15-day period from the date the Notice of Termination was sent has passed. Note: during the 15-day period, the status of the payment plan remains active and debit payments and reminder notices continue.~~
- ~~Cancelled – The payment plan has been cancelled by the collector. . If, for example, a new payment plan is negotiated with the taxpayer due to a change in the tax/feepayer’s circumstances, the existing payment plan must be cancelled before a new one can be entered into the system.~~
- ~~Taxpayer Cancelled – The payment plan has been cancelled at the taxpayer’s request.~~
- ~~Legal Cancelled – The payment plan has been cancelled as a result of a bankruptcy~~

~~case filed by the taxpayer or other legal proceeding. The status will automatically change to Legal Cancelled when bankruptcy information is entered in IRIS. For all non-bankruptcy related legal types in IRIS, the payment plan will not be cancelled automatically. Collectors with supervisor security capability in ACMS have the ability to change the status to Legal Cancelled.~~

- ~~• Denied — The pending payment plan has been denied by a collector or supervisor.~~
- ~~• Unable to be Processed — The status of the pending payment plan will automatically change to Unable to be Processed when any of the following enter ACMS:~~
 - ~~o New bankruptcy~~
 - ~~o All periods of liability are paid in full and/or adjusted to zero~~
 - ~~o All periods of liability become non-final~~

Approving a Payment Plan in the System

~~Other than~~ **Online** payment plans that ~~have been~~ **are not** automatically approved, ~~payment plans with automatic debit payments require supervisor approval in the system prior to becoming active. Manual payment plans with three or more payments also require supervisor approval~~ **must be approved by a collector and manually staged to Active**. Until the payment plan is ~~a~~ **Active**, ~~no~~ payments are **not** debited ~~and no payment reminder notices are mailed~~. Therefore, timely review and approval of a pending payment plan is imperative.

All attempts should be made to review and approve (if appropriate) these payment plans **no later than two business days prior to the due date of the first debit payment**. In instances where an automatic debit payment plan is not approved within this time period, the payment dates identified on the payment plan will need to be modified prior to approval. Generally, this involves retaining the previously agreed to payment schedule and merely advancing the start date of the payment plan to the date of the next regularly scheduled payment. If the only modification to the payment schedule is the date of the first payment, the taxpayer is not required to complete a new CDTFA-407. The taxpayer should, however, be informed of the new date on which the debit payments will begin. Additionally, the taxpayer should be requested to make the “missed” payment online or by check.

~~Supervisors review and approve or deny payment plans in the system. To initiate the supervisor approval, the status of the payment plan must be changed from Collector Review to Supervisor Approval and all details regarding the payment plan should be reviewed prior to approval. When reviewing the payment plan, the supervisor must select one of the following three options:~~

- ~~• Approve — The payment plan is approved and the status changes to Active.~~
- ~~• Reject or Deny (ACMS) — The payment plan is not approved and the status changes to Denied.~~
- ~~• Send Back — The payment plan is not approved, but is returned to the collector for additional work. All payment plan information is retained and the status remains Pending.~~

~~Once approved by a supervisor, a CDTFA 407-CN, Confirmation/Online Payment, may be sent to the taxpayer.~~

Payment plan proposals assigned to Tax Technicians and Business Taxes Representatives who are within their probationary period must be approved by a designated reviewer. Designated reviewers must be at the Business Taxes Compliance Specialist level or above and are selected by the Administrator. Designated reviewers will ensure probationary team members adhere to CDTFA collection policies and that the payment plan proposal is in the best interest of the State. Special attention must

be given to payment plans extending beyond 36 months to validate that the payment plan is the most effective method for collecting the liability.

To initiate a review, probationary team members must enter a note on the Collection springboard summarizing the terms of the payment plan proposal and the reason why the plan should be approved. The designated reviewer may be notified of the payment plan by email or bookmark in the system. All details of the payment plan should be reviewed prior to approval. For payment plans submitted on a CDTFA-407, the probationary team member must obtain approval from the designated reviewer prior to entering the payment plan into the system.

All other collectors may review and approve their own payment plan assignments. Collectors and designated reviewers must enter a note on the Payment Plan springboard summarizing the rationale for approval and ensuring relevant documents are attached on the Collection springboard.

Once the payment plan is *Active*, a CDTFA-407-CN, *Confirmation/Online Payment*, may be sent to the taxpayer.

PAYMENT METHOD

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Automatic debit payments are the preferred payment method for all payment plans established in the system. However, if a payment plan calls for only one or two payments, taxpayers are not required to pay using automatic debit. These taxpayers should generally be directed to make their payments online, or if they are unable to pay online, payment made by check, money order, etc., will be accepted.

~~Payments by credit card are acceptable in most cases.~~ The system will limit the payment plan to 12 months when using a credit card. When a customer's payment plan is approved, and they have opted to pay by credit card, the system will redirect the customer to the ACI Payments, Inc. website. ACI Payments, Inc. charges a service fee for each credit card payment. When the payment due dates occur, ~~the~~ CDTFA will transmit the customer's name and an electronic key (eKey) to ACI Payments, Inc., who will then place the transaction on the customer's credit card and return the payment to CDTFA.

~~For accounts in ACMS, the CDTFA requires that the payments be made by automatic debit when the payment plan will have three or more payments. The only exceptions to the mandatory requirement are the Water Rights Fee and the Cigarette and Tobacco Products Internet Program Excise Tax.~~

~~For all other accounts in ACMS, only in the following circumstances will the taxpayer be allowed to pay by another method:~~

- ~~• The taxpayer does not have a checking or savings account,~~
- ~~• The taxpayer's financial institution is unable to process Automated Clearing House (ACH) payment transactions (debit payments), or~~
- ~~• More than one payment plan exists for the account (e.g., partnership accounts), and a payment plan is already established.~~

Note: Accounts should not be set up for automatic debit payments when any Legal status (e.g., bankruptcy, probate) exists on the account, and payment plans should be established using the manual payment plan method, if appropriate.

The CDTFA-407 is used only when taxpayers cannot enter their payment plan online. When the CDTFA-407 is used, the section with the banking information and signature for authorization for payments to be debited, must be completed. Attached to the CDTFA-407 is ~~an information sheet (CDTFA-FAQ)~~ **the CDTFA-407-FAQ, Automatic Payments – Frequently**

Asked Questions. ~~Another type of authorization form (CDTFA-407-CA) is available in the system, and also has a CDTFA-FAQ attached. The CDTFA-407-CA would be used when a taxpayer already in an active payment plan wants to change bank accounts from which payments are debited. If a taxpayer with an existing payment plan needs to change the bank account from which their payments are debited, they will need to submit a CDTFA-407-CA, Automatic Payment Authorization.~~ Completed authorization forms must be received before the payment plan can be processed. ~~Forms received by fax are acceptable.~~ **The completed CDTFA-407 and any other documents received from the taxpayer must be saved in the system as an attachment on the Collection springboard. After physical documents are scanned and uploaded, they must be placed in a confidential destruction bin or returned to the taxpayer, if requested.**

Bank Account Information

A checking or savings account may be used for debit payments. The bank name, ~~and~~ routing number and ~~the taxpayer's~~ bank account number are required. Since taxpayers may be unfamiliar with routing and bank account numbers, the CDTFA-FAQ is automatically sent with the CDTFA-407. The CDTFA-FAQ provides detailed information about bank account and routing numbers and asks taxpayers to provide a copy of a cancelled check or bank specification sheet. In some instances, a financial institution may use a unique routing number for ACH transactions (debit payments) that is different from the routing number on the taxpayer's checks. In addition, the numbers on deposit slips are generally not the routing number for debit payments. ~~Therefore, t~~ Taxpayers should be ~~requested~~ **asked** to verify the routing number with their financial institution ~~and/or~~ provide the bank specification sheet if appropriate.

Before entering the bank information in the system, the collector should compare the numbers on the CDTFA-407 to the numbers on the cancelled check or bank specification sheet. If a simple error is found (e.g., transposed numbers), the collector should use the number on the cancelled check, etc., and enter a comment in the system regarding the correction. If the banking information provided on the CDTFA-407 differs significantly from the cancelled check or bank specification sheet, or if there is any question as to the correct bank account information, the taxpayer should be contacted to determine the correct information. A comment must be entered in the system detailing the contact and identifying the correct bank information.

ACH Debit Block/Filter

In some cases, a taxpayer's bank may have an ACH debit block on their bank account. If a taxpayer makes an ACH Debit payment and has an ACH Debit block on their account, they must inform their financial institution of ~~the~~ CDTFA's Company Identification Numbers to avoid their payment from being rejected. The taxpayer should provide ~~all three~~ **both** of CDTFA's Company Identification Numbers to their financial institution to ensure the payment ~~goes through~~ **is successfully processed**. The CDTFA Company Identification Numbers are 2822162215, ~~and~~ 1822162215, ~~and~~ 1282435088.

Collection Cost Recovery Fee

Generally, a Collection Cost Recovery Fee (CRF) is imposed on past due liabilities over \$250 that remain unpaid for more than 90 days from the date of the demand notice, unless the liability is included in an active payment plan.

In some instances, the CRF may be automatically assessed when it may not be appropriate. For example, the collector may exclude penalty amounts from the payment plan when entering the promise in the system. This is done when the taxpayer has requested or will request relief of the penalty. When all amounts included in the payment plan have been paid, the promise will automatically **"complete"**, resulting in the payment plan status being removed in the system.

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This may result in the CRF being assessed on the outstanding penalty amount for which the taxpayer has requested relief. The collector should inform the taxpayer that this may occur when the payment plan is initially established. Assuming relief of the penalty is granted, the CRF amount will be adjusted to zero by the office granting the relief. In instances where relief of penalty is denied, relief of the CRF may be granted assuming the taxpayer pays the penalty amount in full.

The collector should also be mindful when a taxpayer qualifies for relief of the finality penalty. If the finality penalty is excluded from the payment plan and the taxpayer qualifies for relief, a CRF could be assessed on the outstanding finality penalty if the account is no longer in payment plan status. A CRF relief request is not required and the removal of the CRF should be included in their recommendation to relieve the finality penalty.

Court-ordered restitution (COR) can only be considered a payment plan with respect to the CRF exclusion when the COR ~~expressly~~**clearly and explicitly** established a defined payment plan and the COR was issued prior to the CRF being assessed. When this occurs, the collector must follow procedures to initiate adjustment of the CRF amounts (see CPPM section 525.045).

Payment Processing

The debit payment process starts two days prior to the due date of a payment. This generally allows ~~the~~ CDTFA to debit a taxpayer's bank account on the actual due date of the payment. If the due date falls on a weekend or bank holiday, the payment will be debited from the taxpayer's bank account on the first banking day following the due date.

In rare instances the final debit payment received may exceed the balance of the liabilities in the payment plan. This can happen if, for example, the taxpayer makes an additional payment that is not reflected **in** the system until after the automatic payment is debited. If this occurs, the excess payment will generally be applied automatically to any other billed, unpaid liabilities that exist on the account. If no other billed liabilities exist on the account, the overpayment will be refunded. ~~However, for accounts managed in ACMS, the overpayment may remain unapplied until a refund is requested or the payment is moved to a period of liability.~~

Reversed Payments

~~Usually a~~**A** debit payment is **usually** reversed due to insufficient funds or an invalid or closed bank account. If the bank information is valid, but the funds were not available on the date the debit was attempted (insufficient funds or uncollected funds), a second attempt will automatically be made **by the bank** two to three business days after the first attempt. If funds are not available after the second attempt, the payment will be identified as "reversed" or "rejected." Information regarding the reversed payment, including the specific reason, is captured in the system.

The system reverses the allocations for the payment, effectively removing the payment from the system, and changes the status of the payment to *Reversed*. The reversed allocation can still be viewed on the Payment springboard on the History tab. However, the application or details of the payment cannot be updated when a check is returned from the bank for insufficient funds. The instructions to **manually** reverse a payment can be found in the system's Help Manager, under the Fully Reverse a Payment topic.

If the payment is reversed for any reason other than insufficient funds (e.g., the bank account is closed, payment was not authorized, taxpayer is deceased, etc.), the ~~collector must terminate the payment plan immediately.~~**system will automatically add a Stop ACH Debit indicator to the customer. If there is an open payment plan, it will stop pulling funds from the bank account and will generally stage the plan to In Grace. Team members must review the payment plan, contact the taxpayer, and attempt to update the bank**

account on file before removing the Stop ACH Debit indicator. Payment plans In Grace should be reviewed each workday. Team members will not be able to stage or reforecast a payment plan to Active if the Stop ACH Debit indicator is active. Continuing to debit the taxpayer's account after the payment was reversed for these reasons may constitute a violation of **Nacha (formerly National Automated Clearing House Association)** rules and may result in ~~the~~ CDTFA being fined. ~~Generally, reversed payments will cause the account to route into the In-Grace or Broken Promise work state in the system which must be reviewed~~ **daily** (see CPPM section 770.024).

A report containing information for all reversed payments will automatically be produced. The report will be produced for statistical purposes and will assist management in identifying any potential issues with the debit payments.

Moving Payments

Collectors with the appropriate security level ~~necessary to move payments in the system will~~ have the ability to move debit payments. However, these payments should generally **not** be moved from one liability to another. If a payment is moved to a liability that was **not** included in the payment plan, this could result in ~~the~~ CDTFA debiting the taxpayer's bank account for an amount ~~in excess of~~ **more than** the sum of the total payment plan. Supervisor approval is required for any payment or portion of a payment over \$5,000 that is moved.

Unscheduled Payments

An unscheduled payment (e.g., FTB offset payment) is not considered part of the payment plan and will not cause the due date of the next scheduled debit payment to change, unless the liability in the payment plan is paid in full.

Payment Errors

When establishing the payment plan, reasonable precautions should be taken to avoid potential debit payment errors. For example, the collector should call the taxpayer to resolve any apparent issues with bank account information before proceeding. Collectors must also use care when inputting the payment information, including bank account information, payment terms, etc.

Regardless of the precautions taken, the possibility exists that an error may occur. Errors may consist of debiting an incorrect bank account if the account number was entered incorrectly, debiting the wrong amount if the payment amount was entered incorrectly, or continuing to debit the bank account after the taxpayer requested to cancel the agreement (see CPPM 770.032 for cancellation requests).

Resolving Payment Errors

~~The~~ CDTFA will most commonly be made aware of a payment error when a taxpayer or other person contacts ~~the~~ CDTFA to resolve the problem. The collector assigned to the account is responsible for taking prompt action to confirm and resolve the error before another debit payment is attempted. If the assigned collector is not available, the designated back-up collector, supervisor, or other designee must ~~provide assistance~~ **aid** in resolving the error.

First, the collector must confirm the error occurred by reviewing the debit payment information input in the system and comparing it to the information provided on the taxpayer's payment plan agreement (CDTFA-407) or authorization form (CDTFA-407-CA), and then comparing it to the payment information in the system. If the error is on the agreement or authorization form, a corrected CDTFA-407-CA should be obtained from the taxpayer. The correction must also be made in the system. An error with the bank routing number or bank account number can be corrected by updating the existing (active) payment plan. Errors involving the payment amount and frequency will require the existing payment plan to be cancelled and a new

(corrected) payment plan input.

The collector must then take action to correct the payment error. Depending on the circumstances of the error, the erroneous payment transaction can either be reversed or refunded. The following table identifies the recommended action for resolving a payment error based on **the** type of error and the number of banking days that have passed since the person's bank account was debited:

Error Type	6 Days or Less Since Debit Occurred	7 Days or More Since Debit Occurred
Incorrect Bank Account	Payment Reversal	Payment Reversal*
Incorrect Payment Amount	Payment Reversal	Refund Check
Debit After Cancellation	Payment Reversal	Refund Check

** A refund check can be issued if a payment reversal is not possible.*

Reversal of Payment due to Error – 6 Days or Less

A payment reversal is similar to a stop payment for a check and must, ~~therefore,~~ be initiated by the taxpayer. To initiate a reversal, taxpayers must contact their financial institution and request an ACH dispute to reverse the transaction.

Reversal of Payment due to Error – 7 Days or More

Reversal of a payment transaction after six banking days requires ~~the~~ CDTFA to authorize its financial institution to allow the reversal. CDTFA authorization must occur prior to the attempted reversal of the payment. To authorize the reversal, the collector must provide the following information in an email to their supervisor (or designee):

- Subject line should be "Payment Reversal Authorization,"
- Taxpayer's name and the CDTFA account number to which the payment was applied,
- Name on the bank account that was debited in error,
- Name, title, and phone number of the person requesting the reversal,
- Copy of payment screen showing the remittance to be reversed, and
- Copy of system notes pertaining to the error added to the remittance.

The supervisor is responsible for reviewing the request and confirming an error has occurred requiring reversal. The supervisor should also confirm the email contains all necessary information for **a** Return Analysis Unit (RAU), Return Processing Branch (RPB), or Motor Carrier Office (MCO) ~~representative~~**team member** to authorize the reversal. The supervisor should enter a comment in the system stating that the request has been reviewed and approved. Requests should be marked as high importance and ~~sales and use tax, prepaid MTS, lumber assessment, and motor vehicle fuel pre-collection accounts should be~~ forwarded to the RAU ~~email group at BTFDPPDD–RAU–Auto Pay Reversal Refund Group~~ **for sales and use tax, prepaid MTS, lumber assessment, and motor vehicle fuel pre-collection accounts., and** **Reversal request for all** special taxes and fees accounts ~~should be forwarded to the designated RPB or MCO representative~~ **are sent by creating a STF Action Request work item at the Account or Period level. Depending on the account type, the work item will automatically be routed to RPB or MCO.**

Team members in RAU, RPB, or MCO are responsible for contacting ~~the~~ CDTFA's financial institution to request the reversal of the erroneous payment. ~~The CDTFA initiate the reversal through CDTFA's financial institution on a specific form.~~ Afterwards, RAU, RPB, or MCO will

inform the collector whether the reversal was completed or if a problem was encountered.

Refund Check

~~The~~ CDTFA will issue a refund check for erroneous debit payments in instances where:

- The taxpayer's financial institution refuses to reverse the payment; or
- The taxpayer prefers that CDTFA issue a refund in lieu of a reversal of the transaction.

A refund check cannot be issued unless seven or more banking days have passed since the bank account was erroneously debited. This is necessary to confirm the debit payment is valid and not rejected. In instances where the incorrect bank account that was debited belongs to someone other than the taxpayer, a payment reversal should be used to correct the error if possible.

Prior to initiating a refund request, the collector should first confirm the mailing address on the taxpayer's CDTFA account is accurate since this is the address to which the refund check will be mailed. If the taxpayer wants the refund check mailed to a different address, the taxpayer must provide a signed, written request identifying the mailing address for the refund check. A signed request is also required when issuing a refund to a person that does not have a CDTFA account.

To initiate the refund request, the collector must provide the following information in an email to his or her supervisor (or designee):

- Subject line "Payment Refund Authorization,"
- Taxpayer's name and the CDTFA account number to which the payment was applied,
- The name on the bank account that was debited in error,
- The name, title, and phone number of the person requesting the refund,
- The mailing address to which the refund check should be mailed if different than the mailing address on the taxpayer's CDTFA account or if **the** refund is being issued to a person that does not have a CDTFA account,
- Copy of the payment screen showing the remittance to be reversed, and
- Copy of the system notes pertaining to the error the collector added to the remittance.

The supervisor is responsible for reviewing the request and confirming an error has occurred which requires a refund. The supervisor should also confirm the email contains all information necessary for RAU or the designated RPB or MCO representative to initiate a refund of the erroneous payment. The supervisor should enter a comment in the system stating that the request has been reviewed and approved. Requests should be marked as high importance and forwarded to ~~the RAU email group BTFD~~ **RAU at PPDD**-RAU-Auto Pay Reversal Refund Group for sales and use tax, prepaid MTS, lumber assessment, and motor vehicle fuel pre-collection accounts, ~~and those related to~~ **Refund request for all** special taxes and fees accounts ~~should be forwarded to the designated RPB or MCO representative~~ **are sent by creating a STF Action Request work item at the Account or Period level. Depending on the account type, the work item will automatically be routed to RPB or MCO.** If applicable, the signed, written request regarding the mailing address for the refund check must be ~~faxed to RAU or provided to the RPB or MCO representative~~ **attached to the Customer springboard.**

RAU, RPB, or MCO team members are responsible for taking actions necessary to initiate the refund. Processing of the refund should be expedited by all sections and units involved in the process so that the taxpayer receives the payment as quickly as possible. However, refunds over \$50,000 require approval from the appropriate Deputy Director (or designee). In addition, if CDTFA determines that a claim for refund in excess of \$50,000 should be granted, the

decision must be made available as a public record for at least ten days ~~before it becomes effective~~**after the date of determination.**

Requesting Waiver of Bank Fees

In some instances, an erroneous debit payment may cause the taxpayer to incur bank fees. For example, a taxpayer may be assessed fees for items returned due to insufficient funds. If the erroneous payment was caused by ~~an error on the part of a CDTFA employee~~**a CDTFA error**, the collector is responsible for providing the taxpayer's financial institution with a letter on CDTFA letterhead requesting any bank fees associated with the erroneous debit payment be waived. The request should be addressed to the taxpayer's financial institution and should include pertinent information regarding the erroneous payment (e.g., bank account, settlement date, payment amount). The request should either be faxed or mailed to the financial institution and a copy of the letter provided to the taxpayer.

In situations where the financial institution will not waive bank fees relating to an erroneous payment caused by **a CDTFA error**, the account holder may file a claim for reimbursement. Under Revenue and Taxation Code (R&TC) section 7096, and equivalent special taxes and fees statutes, a taxpayer may file a claim for reimbursement of bank charges and any other reasonable third-party check charge fees incurred as a direct result of an erroneous levy or notice to withhold, erroneous processing action, or erroneous collection action by ~~the CDTFA~~ (see CPPM section 155.025 ~~for detailed information about requirements under the RTC sections and what constitutes "CDTFA error"~~). These claims must be filed in writing within 90 days from the date the bank or third-party charges were incurred by the taxpayer. Responsible offices and headquarters units should forward claims for reimbursement to the Taxpayers' Rights Advocate (TRA) **Office**. Claims forwarded should include:

- The original, written claim filed by the taxpayer/feepayer/claimant,
- A copy of the notice of charge(s) from the taxpayer's/feepayer's/claimant's bank, and
- A memorandum explaining the facts that led to the filing of the claim and a recommendation whether the claim should be paid. The memorandum should be written by the collector that is knowledgeable of the case and approved by his or her immediate supervisor.

The statute requires a response within 30 days; therefore, the responsible offices ~~or headquarters units~~ should review and forward **the claims** as soon as ~~they are~~**it is** received. **A note detailing the financial institution's response must be entered in the system on the Customer springboard prior to forwarding the claim.** The TRA **Office** will evaluate the claim and notify the claimant of its decision. If the claim is approved, it will be forwarded to the Accounting Section of the Financial Management Division for payment and the claimant will receive a check from the State Controller approximately two to four weeks later.

Notice of Change to Banking Information

Banks routinely notify ~~the CDTFA~~ of changes to a taxpayer's banking information. Changes in banking information can occur, ~~for example, as a result of~~ **due to** bank mergers or acquisitions. A bank may notify CDTFA of a change in banking information for a specific taxpayer in response to ~~the CDTFA~~ debiting the taxpayer's bank account. ~~The CDTFA must take action~~**act** on these items to avoid future debit payments ~~from~~ being reversed. The correct bank information on the Notification of Change must be corrected within **six banking days** of receipt or before initiating another entry, whichever is later.

As a result of receiving updated banking information, **such as a routing number, account number, bank name, or bank address**, the system will automatically update the information. If the automatic update cannot be completed, an ACH Notice of Change work item is created

and RAU assigns the work item to the responsible collector. If the work item is for a special tax or fee program, RAU assigns the work item to a designated representative of that program. An email is created for the responsible collector, with a copy to their supervisor, that contains the banking information received. The email should be ~~sent as a high priority~~ **marked as high importance** and should have "Auto Pay Bank Information Change" in the subject line.

If the payment plan is still ~~a~~ **Active**, the collector must put notes in the system stating the banking information has been changed. Taxpayers are not required to complete a new authorization form since electronic banking guidelines allow ~~the~~ CDTFA to update the information based on what was provided by the bank.

REJECTING A PAYMENT PLAN

770.023

A taxpayer's payment proposal may be rejected if the taxpayer's financial circumstances do not warrant ~~the~~ CDTFA accepting payments over time. Rejection of a payment proposal may also occur for other reasons, such as the failure of the taxpayer to provide adequate documentation to support the need for a payment plan. Collectors must be able to show that the reasons for rejecting a taxpayer's payment proposal are justified. **Payment plan proposals that would qualify for automatic approval should be accepted.**

The reason for rejecting a taxpayer's payment proposal must be entered into notes in the system. The responsible collector should contact the taxpayer and verbally explain why the payment proposal was not acceptable. This contact should be followed by mailing a CDTFA-407-D, *Payment Plan Denial Letter*, to the taxpayer that summarizes the verbal explanation and declines the payment proposal. **The CDTFA-407-D is available on the Collection springboard.**

If a payment proposal is declined, **copies of** all documentation provided by the taxpayer should be ~~returned or~~ **uploaded as an attachment on the Collection springboard. All physical documents must be** placed in a confidential destruction bin **unless the taxpayer has requested the documents be returned.** If the taxpayer subsequently makes a new request for a payment plan, the collector should request current financial documents.

Payment plans should be rejected when any Legal status (e.g., bankruptcy, probate) exists on the account, otherwise the automatic stay may be violated. Contact the Collections Support Bureau for questions regarding accounts or customers with a Legal status.

REVIEWING ~~ACCOUNTS~~ **A PAYMENT PLAN – IN GRACE OR BROKEN PROMISE (ACMS)**

770.024

When the system determines the payment plan is in default, ~~it will route to the In Grace/ Broken Promise work state in the system~~ **the status of the payment plan will change to In Grace.**

In Grace status occur when:

- The balance of the payment plan ~~isn't reduced to the~~ **exceeds** forecasted balance by the due date,
- ~~One installment payment is skipped~~ **A payment is missed,**
- ~~The~~ **A** payment ~~was~~ **is** reversed (insufficient funds),
- A subsequent return or prepayment is not filed and paid in full when due.

~~Broken Promise in ACMS is generally due to:~~

- ~~• A payment that is dishonored because of insufficient funds,~~
- ~~• Failure to file a current return or prepayment, or~~
- ~~• Failure to make a manual payment on time.~~

While ~~accounts are in the In Grace or Broken Promise work state~~ **the status of the payment plan is In Grace**, the payment plan is still active and debit payments ~~and payment reminder notices will~~ continue.

The collector must review the account thoroughly to determine if the payment plan is actually in default, and not ~~in~~ **In** Grace ~~or Broken Promise~~ in error (e.g., payment erroneously applied to another account or another reporting period). If it is determined that the plan is in default, the collector should call the taxpayer first to try to resolve the issue immediately. In some instances, a payment agreement may need to be modified, or temporarily modified, due to the taxpayer's unexpected financial crisis, but a history of any defaulted payment plans should be considered, and documentation to support the situation should be requested prior to modifying the payment plan.

If a debit payment is rejected for **an** invalid or closed bank account, a Stop Automatic ACH Debit indicator is automatically placed on the account. If ~~the~~ CDTFA receives notification that a plan payment was dishonored for any reason other than insufficient funds or uncollected funds, the collector **must cancel the payment plan or modify the banking information immediately**. Continuing to debit the taxpayer's account after the payment was dishonored may constitute a violation of National Automated Clearing House Association rules and may result in ~~the~~ CDTFA being fined. Therefore, all collection accounts ~~in~~ **In** Grace ~~or Broken Promise~~ must be reviewed **daily each workday**. To determine why the debit was dishonored, the collector must ~~highlight the "Returned Payment" history line in the system and click the "Details" button to open the history detail window. The reason for the dishonored payment will appear in the top center of the window.~~ **Review the Payment Plan springboard**. Note: To prevent another debit attempt, the cancellation must occur at least two business days prior to the scheduled due date of the payment.

In any case, if the payment plan is in default and resolution is not immediate, the collector should terminate the agreement (see CPPM section 770.025).

Reforecast/Modify a Payment Plan

A payment plan can be modified in the system. The ~~supervisor~~ **collector** will update the payment plan schedule through the change schedule button ~~in~~ **on** the Payment Plan springboard.

~~For accounts in ACMS, the collector will update the payment plan using the Modify Promise to Pay screen in ACMS if the payment plan is in Pending or Active status. When a payment plan is in Active status, only the banking information fields can be modified. If any other information needs to be changed, the payment agreement must be cancelled, and a new payment plan entered.~~

If banking information is updated, the collector may send a CDTFA-407-CC, *Payment Plan – Confirmation, Automatic Payment Modification*, **from the Payment Plan springboard** to the taxpayer informing them the bank information has been updated.

Skipping a Payment

Collectors ~~can~~ **may** allow the taxpayer to skip ~~at~~ **two** payments **every 12 months** without terminating the payment plan. The collector responsible for the account has the discretion to determine ~~whether or not~~ **if** a taxpayer should be allowed to skip a payment based on the circumstances. **To skip a payment**, ~~T~~he payment plan schedule must be updated through the Change Schedule button ~~in~~ **on** the Payment Plan springboard. ~~For accounts in ACMS, supervisor approval is not required to skip a payment once every 365 calendar days, up to a maximum of two times during the entire length of the payment plan. The skip payment option is available in the Modify Promise to Pay screen in ACMS.~~

~~Skipping a payment is not an option for payment plans with only one or two payments, and is not available for accounts where termination of the payment plan has been initiated.~~ For a debit payment to be skipped, the collector must initiate the skip payment option at least two business days prior to the due date of the payment to be skipped. ~~Otherwise, the following payment will be skipped instead.~~ For ~~M~~ manual payment plans, the skip payment option can be initiated up to, and including, the due date of the payment. Where appropriate, a CDTFA-407-SP, *Payment Plan – Notice of Skipped Payment*, may be sent to the taxpayer **from the Payment Plan springboard**.

TERMINATING A PAYMENT PLAN

770.025

Under **Revenue and Taxation Code (RTC)** section 6832, and equivalent special taxes and fees statutes, ~~the~~ CDTFA has authority to terminate a payment plan upon default of the agreement by the taxpayer. It requires CDTFA to mail a notice of termination to the taxpayer, and requires ~~the~~ CDTFA to wait 15 days after the notice **was mailed** before taking collection action. The CDTFA-407-T, *Notice of Termination*, states that if the requested items are not received within 15 days, the payment plan will be terminated, and collection action will be taken. ~~The~~ CDTFA-407-T also advises of the taxpayer's right to an administrative review.

RTC section 6832, and equivalent special taxes and fees statutes, also allows ~~the~~ CDTFA to bypass the required notification process if it finds that collection of the liability is in jeopardy. Collectors seeking to terminate a payment plan must fully document their reasons in the system and, if the liability is in jeopardy, they must secure supervisory approval before initiating collection action.

While a taxpayer may terminate the payment plan at any time, ~~the~~ CDTFA may only terminate it when the taxpayer defaults on the agreement and the provisions in the law for terminating a payment plan have been met. A taxpayer defaults on the payment plan when any ~~or all~~ of the terms in the agreement are not met. It is considered ~~to be~~ in default **for when there are** missed or late payments, delinquent or partial remittance returns, or failure to disclose assets or income on a financial statement. Failure to increase the payment amount when a financial review warrants an increase, or failure to comply with a required financial review, may likewise result in default of the agreement.

The termination process is initiated from the Payment Plan springboard ~~or for accounts in ACMS, the Modify Promise to Pay screen~~, and is only available for payment plans in Active status (Note: If a payment plan is in Pending status, the only way to terminate it is ~~for the supervisor to deny approval to reject the payment plan~~). When termination is initiated, the CDTFA-407-T is automatically displayed in the system so that it can be printed and provided to the taxpayer.

The collector must immediately mail the CDTFA-407-T when a taxpayer defaults on the payment agreement. The taxpayer then has 15 days from the mailing date of the CDTFA-407-T to file a written request for an administrative review. ~~during which~~ **During this** time, collection action will be suspended, except when collection of the liability is in jeopardy (RTC section 6832(d) and equivalent special taxes and fees statutes). Any scheduled debit payments ~~or payment reminder notices~~ **will** continue during the 15-day period. After the 15-day period has elapsed, collection action may begin even though an administrative review has been scheduled or is ongoing. A supervisor has discretion to extend the hearing period if the taxpayer can provide a reasonable explanation as to why an administrative hearing cannot be set within the 15-day period.

Situations can occur where a payment plan is not formally established because the taxpayer did not complete and return a CDTFA-407, but a termination letter (CDTFA-407-T) must still be sent, and the 15-day period must have passed before collection action may be taken. To decide

whether a termination letter should be issued, the collector should first determine whether the actions taken have given the taxpayer a reasonable presumption to believe that they are in a payment plan. Generally, if the collector and taxpayer agree to a payment plan, and the collector sends the CDTFA-407, and the taxpayer does not return the form, the collector should still send a CDTFA-407-T and suspend collection until the 15-day period has passed. Below are three examples of possible situations:

1. The taxpayer proposes a monthly payment plan of \$500 and the collector verbally accepts the offer. A CDTFA-407 is not issued or, if one is issued, the taxpayer did not sign and return it. Although there is no further contact between the collector and taxpayer, the taxpayer has paid some of the agreed upon payments. In this situation the taxpayer can reasonably presume the acceptance of the payment proposal since we have not indicated anything to the contrary and have been accepting the taxpayer's payments without contacting the taxpayer to inform them otherwise. If the taxpayer defaults on the verbal agreement, they should be contacted and a CDTFA-407-T should be issued before initiating any new collection action.
2. The taxpayer proposes a monthly payment plan of \$500, which is verbally agreed to pending receipt of supporting documentation. The taxpayer does not remit any payments and does not provide any supporting documentation ~~(i.e. or financial information)~~. In this situation, the taxpayer has not made any effort toward compliance and cannot reasonably presume that a payment plan is in effect. The collector does not need to send CDTFA-407-T in this situation, but an attempt to contact the taxpayer prior to initiating any new collection action should be made.
3. Same situation as #2 above, however; the taxpayer sends us the financial information and begins making voluntary payments while the financial information is being reviewed. The payments being remitted are not sufficient to pay off the liability in a reasonable amount of time, but they are accepted while we are reviewing the account. To ensure there is no misunderstanding, **the financial information must be reviewed immediately, and the taxpayer should be sent a letter stating must be informed** that the voluntary payments are being accepted only until the ~~financial information has been reviewed~~**review is complete. Assuming the financial information is reviewed timely, sending the taxpayer a CDTFA-407-T is not required.** The collector should contact the taxpayer once the review of the financial information is completed and provide them with the appropriate payment proposal form to complete and return **if they agree to the terms. If they do not agree to the proposed payment plan terms, the collector should send a CDTFA-407-T.**

REINSTATING A PAYMENT PLAN

770.030

~~A~~**The** payment plan ~~can~~**may** be reinstated ~~if~~**after** the termination process has been initiated, ~~as long as~~ **if** the status has not ~~changed to Terminated~~**yet stated to Defaulted**. Once the reason causing the payment plan to be In Grace is resolved, the system will change the status to Active **if the CDTFA-407-T was sent by the system. For accounts in ACMS, reinstatement of the payment plan is initiated in the Modify Promise to Pay screen. Once the payment plan is reinstated, the**~~If the CDTFA-407-T was manually sent, the collector must evaluate the payment plan and determine if the termination should be cancelled and the status of the payment plan changed back to Active. If the payment plan is staged back to Active, the~~ termination process is cancelled and the ~~status of the payment plan remains active. A payment plan can be reinstated up to a maximum of three times during the length of the payment plan~~**payment plan is reinstated.**

~~After reinstatement, a CDTFA 407 R, Payment Plan — Notice of Reinstatement, must be provided to the taxpayer. This letter is available in the system and documents the fact that the payment plan is not being terminated and informs the taxpayer that the payment plan will~~

~~continue.~~

Although the system will allow a payment plan to be reinstated if new liabilities or delinquencies exist on the account, only liabilities that were included in the payment plan when it was originally approved will be included in the reinstated payment plan. To add new liabilities that were not included in the original payment plan, if appropriate, the existing payment plan must be cancelled and a new one established. The taxpayer should be directed to request the new payment plan online. If the payment plan is not auto approved, but is accepted by the collector, it must then be ~~approved by the supervisor~~ **staged to Active**. A CDTFA-407-CN must then be sent to the taxpayer. If the taxpayer is unable to make the request online, the collector will send a CDTFA-407 that includes the new liabilities and outlines the terms of the agreement. The CDTFA-407 must be received by the collector, **approved, and** entered into the system ~~and approved by the supervisor~~ before the new payment plan is ~~confirmed~~ **Active**.

ADMINISTRATIVE REVIEW UPON TERMINATION

770.031

A taxpayer's request for an administrative review upon termination of a payment plan by CDTFA will be conducted at a time convenient for the taxpayer but within the 15- day period mentioned in CPPM section 770.025. The taxpayer may choose at which CDTFA office to have their administrative review. For special taxes and fees accounts, the administrative review will be held ~~in~~ **at** CDTFA Headquarters in Sacramento. ~~if convenient or by~~ **Administrative reviews may also be conducted by video conference or** conference call.

The review will be informal and the reviewing officer will be a compliance supervisor who, if ~~at all~~ possible, will not be the assigned collector's direct supervisor. The reviewing officer will verbally notify the taxpayer of the time and place of the administrative review when possible; and may also send a CDTFA-407-AR, *Payment Plan - Notice of Administrative Review*, to the taxpayer's address of record. The reviewing officer will document this action in the system.

The reviewing officer will advise the taxpayer that the issues subject to discussion are limited to the reasons for terminating the payment plan. Any documentation presented at the review must relate to the reasons why the taxpayer defaulted on the payment plan.

Within 5 calendar days following the administrative review, the reviewing officer must issue a written decision to the taxpayer and the originating office indicating whether the payment plan was:

1. Reinstated,
2. ~~Referred back~~ **Returned** to the originating office for further evaluation, or
3. Terminated.

If the reviewing officer determines that the original payment plan terms should be modified, the termination will be reversed, and the case sent back to the originating office. The originating office will re-evaluate the circumstances and modify the agreement accordingly. Modification of a payment plan can only occur with the mutual consent of the taxpayer and the reviewing officer. If the terms of the original agreement are modified, a new CDTFA-407 must be completed.

CANCELLING A PAYMENT PLAN

770.032

A payment plan in Active status can be cancelled in the system. ~~The three different cancellation status types are Cancelled, Taxpayer Cancelled, and Legal Cancelled~~ (sSee CPPM section 770.020). Cancellation of a payment plan in Pending status can only be accomplished by ~~having a supervisor deny approval~~ **rejecting the payment plan**.

A taxpayer whose payments are automatically debited can request CDTFA to stop debiting the account at any time. Taxpayers can request cancellation either verbally or in writing. Taxpayers are advised in writing on the CDTFA-407 that a request to cancel the agreement and stop a debit

payment must be received at least five business days prior to the due date of a payment. This allows ~~the~~ CDTFA time to process the request prior to the next scheduled payment. Regardless of ~~the manner in which~~ **how** a cancellation request is received, it must be processed immediately to avoid the taxpayer's bank account ~~from~~ being erroneously debited. After cancelling the payment plan, the collector should send the taxpayer a CDTFA-407-C, *Payment Plan – Notice of Automatic Payment Cancellation and Termination*, which can be accessed ~~in the system~~ **from the Payment Plan springboard**. The letter advises the taxpayer that the automatic payment has been cancelled and the payment plan will be terminated after 15 days. The collector must wait for the 15-day period to pass before taking collection action.

ANNUAL REVIEWS

770.033

All payment plans lasting more than a year must be reviewed every 12 months, at a minimum. After 12 months, a work item called "Yearly Review of Payment Plan" is created **in the system**. ~~For accounts in ACMS, accounts in the Promise to Pay work state (XX05) for 365 days will automatically be routed to the Promise Review state (XX65). If the account routes to a different state within that time, the 365 time frame starts over. A note summarizing the review must be added to the Payment Plan springboard.~~

For payment plans that are automatically approved, meet the criteria set forth in the CPPM section 770.010, and the account has remained in compliance, only a cursory review is warranted. Collectors will review the account to ensure all returns have been filed and paid timely. The review must also determine the status of the business and if there is any indication of the business being sold, closed, or dissipating assets.

~~The review will be recorded in notes. As part of the review~~ **For payment plans not meeting the automatic approval criteria**, collectors must verify the taxpayer's current income by obtaining recent payroll stubs, copies of the current income tax returns, etc. Collectors should also review **any financial documents that may be saved as attachments in the system, including** the original CDTFA-403-E, *Individual Financial Statement*, **or the CDTFA-403-C, Business Financial Statement, or both** ~~to see if any claimed expenses previously allowed have been paid in full. If the taxpayer has paid off some claimed expenses, the amount of payment previously directed to that debt is to be paid to the CDTFA~~ **and compare them to current financial documents to see if the taxpayer's financial condition has improved and a change in payment plan terms is warranted.**

When performing a review of an existing payment plan, collectors will use the appropriate review letters **identified below** when requesting updated financial documentation from the taxpayer. The review letters are **as follows**:

- ~~the~~ CDTFA-59, *Payment Plan — Review (Individual)*, **available on the Payment Plan springboard**; and
- ~~the~~ CDTFA-61, *Payment Plan — Review (Non-Individual)*, **available on the Collection springboard**.

Collectors will review the agreement as discussed above and, ~~when appropriate, route the account back to the Promise to Pay state (ACMS)~~ **complete the work item**. When ACMS routes the accounts into the Promise Review state, the payment plan remains in effect and any scheduled debit payments or promise reminder notices scheduled to be mailed to the taxpayer will continue. Existing payment plans determined to still be in the State's best interest will be manually routed back into the Promise to Pay state by the collector.

If cancellation of a payment plan is necessary, collectors will ~~route the account to their supervisor. Accounts remaining on the Promise Review state for more than 15 days are automatically routed to the work list of the assigned collector's supervisor.~~ **send the CDTFA-**

407-T, Payment Plan Termination, terminating the payment plan. Taxpayers will be subject to collection actions 15 days after the termination of the payment plan.

~~When performing an annual review of a payment plan, the collector must check to see if any liability periods will become 30 months old prior to the next annual review. Liability periods exceeding 30 months may be nearing the 3 year statute of limitations for filing liens and are subject to CDTFA's lien policy outlined in CPPM section 757.000. Prior to requesting a lien, the collector will mail a CDTFA 407-L, Notice of Intent to Lien, to the taxpayer. If the taxpayer does not remit payment for the aged liability periods within 45 days of the CDTFA 407-L mailing date, the lien request will be initiated through the system.~~

SUCCESSFUL COMPLETION - RELIEF FROM FINALITY PENALTY

770.035

A finality penalty is a penalty assessed pursuant to Revenue and Taxation Code (RTC) sections 6565 or 55086 and similar provisions for special tax and fee programs. Pursuant to RTC sections 6832(e) (~~in the~~ Sales and Use Tax Law), 55209(e) (~~in the~~ Fee Collection Procedures Law), and similar **special tax and fee** statutes ~~under certain special tax and fee programs,~~ except in the case of fraud, ~~the California Department of Tax and Fee Administration (CDTFA) will generally~~ **we will** relieve finality penalties for taxpayers who satisfactorily complete payment plans under certain conditions¹.

To be eligible for relief, the **following requirements must be met:**

- 1. The** liability must be CDTFA-assessed; and
- 2. theThe** payment plan must be entered into within 45 days from the **duefinality** date ~~of the determination or redetermination (billing).~~

If the finality penalty is relieved, all finality penalty amounts ~~actually~~ remitted by the taxpayer (if any) must be refunded ~~to the taxpayer~~. The taxpayers ~~are~~ **is** not required to submit a request for relief of finality penalty or file a claim for refund to receive this relief. Furthermore, the six-month statute of limitations for refunds is not applicable.

Relief of finality penalties will not be granted when:

1. The determination includes a fraud penalty. Fraud requires clear and convincing evidence of a deliberate intent to deprive the state of taxes or fees legally due, or intent to evade the payment of taxes or fees.
2. The taxpayer fails to complete the payment plan as agreed. This does not include payments which are late due to circumstances beyond the taxpayer's control including, but not limited to, late U.S. Postal Service delivery of timely mailed payments and checks dishonored due to bank error.

This section only applies to relief of a finality penalty when the basis for relief is successful completion of a payment plan. All other requests for relief from penalty must be requested through the process outlined in CPPM section 535.055.

~~For payment plans made online that are approved, the finality penalty is included in the payment plan, so relief is not automatically granted or processed. Therefore, on a monthly basis, each office must review the Payment Plan Reports and identify the accounts that qualify for relief of the finality penalty. Once identified, the collector will set a reminder to review the account for a date immediately prior to completion of the payment plan and take action to prevent the finality penalty amount from automatically being debited.~~

Payment Plans Entered on or After May 30, 2024

Payment plans entered on or after May 30, 2024, and entered within 30 days from the finality date will not have a finality penalty automatically applied to the liability on the

46th day. And payment plans entered 31-45 days from the finality date will have the penalty automatically reversed. If the payment plan defaults or is cancelled prior to completion of the agreement, the system will automatically apply the finality penalty to the liability and the penalty will be due and payable. If the payment plan is cancelled erroneously, the collector will need to initiate a manual adjustment of the applied finality penalty.

CDTFA is required to comply with public record requirements for adjustments in excess of \$50,000, per RTC sections 6901, 6981, and equivalent special taxes and fees statutes. The system will email a report for adjustments in excess of \$50,000 to the Petitions Section at PetitionSection@cdtfa.ca.gov for sales and use tax accounts, and the Appeals and Data Analysis Branch (ADAB) at BTFD-ADAB.IncomingAppeals@cdtfa.ca.gov for special taxes and fee accounts to handle.

Payment Plans Entered Prior to May 30, 2024

For payment plans entered prior to May 30, 2024, relief is not automatically granted or processed. The system will create a “Finality Penalty Adjustment” work item when payment plans with a finality penalty eligible for adjustment are completed. This work item directs team members to review the bill item that may be eligible for adjustment.

For adjustments under \$50,000~~After the payment plan is completed,~~ the collector will initiate the adjustments in the system ~~if the adjusted amount does not exceed \$50,000 and the~~ **system will create a work item for a supervisor to approve.** Note: ~~the~~**The** collector should **not** create a relief case to process these adjustments because it ~~will negatively affect relief requests that are~~**may affect future requests for relief of penalties** submitted online. The collector should include the following in the adjustment **work item** note:

- Name of the taxpayer who entered into the payment plan
- Account number associated with the request
- Payment plan start date and completion date
- Audit period/return period
- Determination date and finality date
- Finality penalty amount and collection cost recovery fee amount
- All other penalties associated with the liability

~~The collector will send a request in the system~~**In the system, the collector will assign the adjustment** to their supervisor for review. The supervisor will add notes indicating approval or denial. If the supervisor does not approve the adjustment, the reason will be provided in the notes and the assignment will be sent back to the collector. If the adjustment is approved, the supervisor will send the assignment to the ~~Office Administrator, or equivalent~~**office or section administrator, or designee**, for final approval. ~~See the cheat~~**Cheat** sheets **are** available on ~~the~~ CDTFA's intranet for instructions on ~~the~~ relief from **the** finality **penalty** process in the system.

~~In the case where~~**If** the payment is applied to the finality penalty, the system will process the credit automatically after the ~~Office A~~administrator's approval. If a refund is due and does not process automatically, the collector should contact the Audit Determination and Refund Section **for sales and use tax, ADAB for special taxes and fees, or the Motor Carrier Office for motor carrier accounts**, after the adjustments have been processed.

~~Adjustments in excess of \$50,000 must be processed by the Petitions Section or the Appeals and Data Analysis Branch (ADAB) since they are responsible for submitting these adjustments to the public record pursuant to RTC sections 6901 and 6981 and equivalent special taxes and fees statutes. If the Petitions Section or ADAB processes the adjustment to the finality penalty, they will also adjust the Collection Cost Recovery Fee, if needed. The collector must not process~~

~~adjustments in excess of \$50,000.~~ After the payment plan is completed, **adjustments of more than \$50,000 require** the collector ~~will make to submit~~ a written recommendation for relief of the finality penalty to their supervisor, and if appropriate, the supervisor will forward the request to the **office or section** administrator. ~~If approved, the administrator will send a memo to the Petitions Section for sales and use tax, or the Appeals and Data Analysis Branch for special taxes and fees, stating that the finality penalty is to be waived. The memo should be sent to the Petitions Section's shared mailbox, BTFD-HOD-Petitions.~~ If, in the opinion of the **office or section** administrator, relief should not be granted, ~~the administrator will provide the~~ reason for denying relief **will be provided** to the collector's supervisor. **If approved, the office or section administrator will send an email to the Petitions Section's shared mailbox, PetitionsSection@cdtfa.ca.gov for sales and use tax, or ADAB's shared mailbox, BTFD-ADAB.IncomingAppeals@cdtfa.ca.gov for special taxes and fees, stating that the finality penalty is to be waived. If the Petitions Section or ADAB processes the adjustment to the finality penalty, they will also adjust the Collection Cost Recovery Fee, if needed. The Petitions Section and ADAB are responsible for submitting a public records case in the system for these adjustments.**

Verbal Payment Agreements

While verbal payment agreements do not qualify for relief under RTC sections 6832, 55209, and similar special tax and fee statutes, if the agreement is made within 45 days from the ~~due date of the determination or redetermination~~ **finality date**, the taxpayer may still qualify for relief under RTC section 6592(c), ~~or~~ 55044(c), and equivalent special taxes and fees statutes. If the terms of the verbal agreement are completed, the administrator ~~of the office of account~~ may request the finality penalty be waived by sending a recommendation to the Petitions Section or ~~the Appeals and Data Analysis Branch~~ **ADAB**. Unlike relief under RTC section 6832, the collector should not make the adjustment in the system, nor should they create a relief case in the system. Relief of the penalties in these instances shall constitute an efficient resolution pursuant to RTC section 6592(c), and equivalent special taxes and fees statutes.

INACTIVE CORPORATION/LLC

776.070

A recommendation for write-off is appropriate when a corporation or limited liability company ~~is found to be~~ **meets all of the following conditions:**

1. ~~Inactive or suspended~~ **It is inactive with all accounts ceased in the system.**
2. ~~Without~~ **It has no** assets.
3. ~~Without~~ **There are no** valid personal guarantors on file.
4. ~~Without any~~ **All** collection **options** against secondary parties ~~due to collection being~~ **have been** exhausted and **their liabilities are being recommended for write-** ~~written~~ **off.**

See CPPM section 776.185 for information on automated write-offs initiated by the system for balances greater than \$500. Collectors should continue to submit manual write-offs when appropriate.

**AUTOMATED WRITE-OFF OF CORPORATION/LLC WITH
BALANCES GREATER THAN \$500**

776.185

The system will automatically write off the liability of a corporation or limited liability company when all the conditions below are met:

- 1. Balance is over \$500.**
- 2. Liens are filed for amounts over \$2,000.**
- 3. All accounts have a cease date and process date over 40 months old.**
- 4. No SCO collected account exists with a balance (as indicated by the banner at the customer level).**
- 5. All bill items have been final for at least 180 days.**
- 6. Collection case has a create date over 12 months old.**
- 7. No available recommendation to levy exists within the collection case.**
- 8. No active dual/primary billing indicator exists.**
- 9. No other active impacts exist that would prevent write-off, such as delinquency, test period review, stop billing, on Top 500 list, court-ordered restitution, associated partnership in debt, or prior balances written off.**
- 10. No open work items or other cases exist such as payment plans, audit, bankruptcy, or garnishments.**
- 11. No active security account or security deposit case exists.**
- 12. No payments were deposited during the last 12 months.**
- 13. No prior write-off case was created during the last 180 days.**

This automated process and its conditions do not prevent the responsible collector from submitting a manual write-off for a corporation or limited liability company when appropriate. When a manual write-off is submitted, the procedures in CPPM sections 776.010–776.150 must still be followed.

If the liability should not go through the automated process, a Stop Write-Off indicator should be placed in the system at the customer level with explanatory notes. When applicable, a future end date (Effective To) can be added. Once the indicator is removed, the collection case will be reviewed for automated write-off by the system, or a manual write-off can be submitted.