

Compliance Policy and Procedures Manual

Chapter 6

Closeouts and Clearances

Business Tax and Fee Division

*California Department of
Tax and Fee Administration*

Table of Contents

CLOSEOUTS AND CLEARANCES	600.000
General Statement on Closeouts	605.000
The Closeout Worksheet, CDTFA-406	605.020
When to Close Out an Account	605.030
PREPARATION OF CDTFA-406, SECTION A	610.000
Return(s) Furnished and IRIS Input.....	610.005
Close Out of Master and Sublocations.....	610.006
Escrow, Security, and Unapplied Payments	610.007
Closeout Date.....	610.010
Owner(s).....	610.020
Account Number.....	610.030
Location of Business	610.040
New or Forwarding Address	610.050
Type of Nature of Business	610.060
New Owner(s).....	610.070
Successor's Liability	610.090
Purchase Price	610.100
Reasons for Cease in Operations	610.110
Reporting Basis	610.120
Starting Date.....	610.130
Related CDTFA Account Number(s).....	610.140
Closeout Prepared By — Office — Date	610.150
Account Record Verified By.....	610.160
PREPARATION OF CDTFA-406, SECTION B	615.000
Value of Fixtures and Equipment Sold — Subject to Tax	615.010
Taxable Sales of Fixtures and Equipment not Reported	615.020
Sale of Fixtures and Equipment Subsequent to Date of Closeout.....	615.030
Fixtures and Equipment Included in Final Return.....	615.040
Source of Information for Value of Fixtures and Equipment	615.050
Disposition of Inventory Purchased for Resale or From Out-of-State	615.060
Location of Records.....	615.090
In Care of.....	615.100
Date Prior Audit Completed	615.110
Audit Recommended	615.120
Audit Approval	615.150
PREPARATION OF CDTFA-406, SECTIONS C AND D	620.000
CDTFA-467 Issued	620.005
Request in Writing for CDTFA-471, Certificate of Payment of Sales and Use Tax	620.007
Escrow Agent.....	620.010
Tax Liability in Predecessor's Account	620.015
Disposition of Security Available.....	620.020
Order of Application of Cash Deposit at Closeout	620.030
Application of Cash Deposit to Amounts Delinquent on Closeout Date.....	620.040

CLOSEOUTS AND CLEARANCES

Application of Cash Deposit to Interest and Penalty	620.050
Erroneous Refunds of Cash Deposits	620.060
PROCESSING CLOSEOUTS	625.000
Routing the CDTFA-406 Between Offices	625.010
Closeout of Account in Revoked Status	625.030
ACCOUNT CLOSED IN ERROR	635.000
General Limitations.....	635.010
Reopen After Closeout — Revoked Account.....	635.020
Reopen Account Closed in Error	635.030
Change of Incorrect Cease Date	635.060
MISCELLANEOUS — CLOSEOUTS.....	645.000
Proof of Payment.....	645.010
Closeouts of Temporary Seller's Permits.....	645.020
Disposition of Permits and Licenses.....	645.030
Collection Responsibility on Closeout Accounts.....	645.040
Clearing Delinquent Closed out Accounts	645.045
Clearing Delinquencies of Small Accounts	645.050
Records Not Available at Time of Closeout	645.060
Out-of-State Closeouts — Sales Tax.....	645.070
Out-of-State Closeouts — Single Outlet, In-State Location.....	645.080
Taxpayer Departed from State With Records	645.090
Closeout Procedures of Vehicle Dealers in California	645.120
Annual Review of Accounts Reporting No Sales.....	645.130
TAX CLEARANCES	650.000
Effect of Certificate of Tax Clearance	650.010
When To Issue a Tax Clearance	650.020
Interoffice Cooperation	650.021
Escrow Procedures	650.023
Tax Clearance Forms	650.024
Certificate of Payment	650.025
Conditional Tax Clearances.....	650.030
Cancellation Letter.....	650.032
Tax Clearance for Non-Taxable Operations.....	650.040

CLOSEOUTS AND CLEARANCES

600.000

GENERAL STATEMENT ON CLOSEOUTS

605.000

This chapter includes policy and procedures for the closeout of sales and use tax accounts. It covers the reinstatement of accounts closed out in error, correction of erroneous closeout dates, and the issuance of certificates of tax clearance under the California Sales and Use Tax Law. Instructions on how to enter closeout information in the the system are located on iCDTFA under the CT-1: Registration, Customer Support and Account Maintenance and are not detailed in this chapter.

The policy and procedural statements in this chapter generally follow the same sequence as the items shown on the CDTFA-406, *Closeout Worksheet*, beginning with Section A, *Identification of Account*. The form is available on iCDTFA.

All closeouts are processed in IRIS by the office of control. Closeouts may be processed in IRIS without completing a CDTFA-406, dependent upon the circumstances and the office’s policy. Staff should consult with their immediate supervisor to determine when a CDTFA-406 is required.

THE CLOSEOUT WORKSHEET, CDTFA-406

605.020

The CDTFA-406 is used only by the field offices and is generally used as a control tool to follow up on accounts with outstanding items such as security, delinquencies, escrow clearances, successors, and tax due on the sale of fixtures and equipment. Processing closeout information in IRIS removes the account from active status. If the permit is revoked, it also removes the revocation status. Offices should establish procedures to ensure that the closeout process is completed properly. In cases where completing the CDTFA-406 serves no useful purpose and is not required by the office, the information may be entered directly in IRIS with appropriate comments.

When staff closes a permit, they should provide information on how to obtain relevant regulations and publications on the California Department of Tax and Fee Administration (CDTFA) website. Any publications, forms, and regulations that are furnished to the taxpayers should be noted in IRIS. The following table provides guidelines for which publications, forms, and regulations should be provided.

Closeout Reason (see 610.110)	1	2	3	4	5	6	7	8	9
Publication 74, <i>Closing Out Your Seller’s Permit</i>	Y	Y	Y	Y	Y	Y	Y	Y	
CDTFA-449, <i>Letter Re: Permits Required</i>				Y	Y				
CDTFA-467, <i>Notice of Requirements in the Sale of a Business</i>				Y	Y				
Regulation 1595, <i>Occasional Sales – Sale of a Business – Business Reorganization</i>				Y	Y				
Regulation 1596, <i>Buildings and Other Property Affixed to Realty</i>				Y	Y				
Regulation 1702, <i>Successor’s Liability</i>				Y	Y		Y		

WHEN TO CLOSE OUT AN ACCOUNT

605.030

A permit must be closed whenever the operation of a business is terminated or whenever there is a change in the ownership of a continuing business. Closeout information should not be entered in IRIS until it has been verified, to the extent possible, that the business has been terminated, rather than moved to another location, or is only temporarily inactive. In cases where the taxpayer cannot be located, but investigation indicates the business has closed, a CDTF-288, Close Out Under Section 6072, may be sent to the mailing address of record, and/or the last known address. The CDTF-288 can be found under "Send Letter" in the Automated Compliance Management System (ACMS).

PREPARATION OF CDTFA-406, SECTION A 610.000

RETURN(S) FURNISHED AND IRIS INPUT 610.005

Check “yes” in the upper left corner of the CDTFA-406 to indicate the taxpayer was informed how to file electronically, and which periods the taxpayer was directed to file. If paper returns were furnished, enter which periods. If the taxpayer was not informed to file electronically and no return was furnished, check “no.” In the “IRIS Input” box, enter the date the closeout is entered in IRIS and your name.

CLOSE OUT OF MASTER AND SUBLOCATIONS 610.006

If the master permit and all sublocations close out on the same date and for the same reason, the Yes box is checked and it is not necessary to close out the locations individually. If the Reason Code No. 4, Business Sold (New Entity) is checked, it indicates that all locations were purchased by one entity. If the sublocations are closed on different dates and for different reasons, entering the information in IRIS is sufficient unless there is a reason to use the CDTFA-406 as a control document, such as a sale of one or more of the sublocations.

ESCROW, SECURITY, AND UNAPPLIED PAYMENTS 610.007

Check the appropriate box if an escrow is involved (i.e. business was sold). For escrow procedures, see CPPM section 650.023.

Check the box if a security deposit is posted to the taxpayer’s account, and refer to CPPM section 620.020 for security deposit procedures.

Check the box if unapplied payments are displayed on the taxpayer’s account. No unapplied payments should be left on a closed out account. Every effort should be made to investigate and resolve the unapplied payments to determine if the payment was intended for tax, penalty, or interest, or if the payment is intended for a particular return that may be under review by the Return Analysis Unit (RAU). Staff may contact RAU if they are unable to resolve the unapplied payment.

CLOSEOUT DATE 610.010

The closeout date entered in the upper right corner of the CDTFA-406 should be the actual date, if known, the entity of record discontinued operations, stopped making sales, or no longer required a permit or license. If the exact date is not known, an approximate closeout date is used.

Generally, a good rule to follow in selecting a closeout date, if the actual date is not known, is to use the last day of the month in which it is known the business was terminated.

If an approximate date is used as the closeout date, it may be corrected in IRIS if the actual day is subsequently determined.

OWNER(S) 610.020

The entry made in this position should be the same as the owner’s name shown on the registration record. The business name (DBA) should also be entered here.

ACCOUNT NUMBER 610.030

The account number must be identical with that shown on the registration record. It must be legibly printed or typed so that it will not be misread, potentially resulting in closing out the wrong account on the registration record.

CLOSEOUTS AND CLEARANCES

LOCATION OF BUSINESS

610.040

The entry should be the complete address and should agree with that shown on the registration record.

NEW OR FORWARDING ADDRESS

610.050

Enter the address and telephone number where the taxpayer can be reached and/or receives mail. If a partnership, update the address information for all partners. It is important to have forwarding information in the event the taxpayer must be contacted after the business has closed (e.g. closeout audit).

TYPE OF NATURE OF BUSINESS

610.060

This should be a description of the business operation. Whenever an Alcoholic Beverage Control (ABC) license is involved, the type of license should be described.

NEW OWNER(S)

610.070

Enter all partners' names, if applicable. If no new owner, show "None." Enter the new permit number, if issued. Otherwise, an alpha search should be made as part of a final review to determine if the new owner has been properly permitted.

Input of closeout information in IRIS should not be held up for new owner, permit number, or purchase price information. These items should be entered by staff on the CDTFA-406 and added to the registration record when they are obtained.

SUCCESSOR'S LIABILITY

610.090

Check the box to indicate whether there is a potential successor's liability. If there is a purchaser and the "no" box is checked, an explanation should be entered into the registration system.

Any purchaser who buys a business or a stock of goods and fails to withhold a sufficient amount of the purchase price to clear the account of the seller, or who fails to obtain a clearance, may be liable for the amount owed by the seller to the extent of the purchase price. It is important that the form show the purchase price as accurately as can be determined and whether the new owner can be held liable as a successor. Use section B, "Report on Closeout" to enter information about the selling price.

The information entered in this respect must be accurate since it will be the basis for holding the new owner liable as a successor, should such action become necessary. See CPPM section 650.000 for more information.

Reference: Revenue and Taxation Code section 6812, Regulation 1702

PURCHASE PRICE

610.100

An entry should be made when applicable. The dollar amount entered in this section should be the total price paid by the successor for the business including any liabilities assumed, goodwill, and the purchase of fixtures and equipment. If the total price includes inventory, show the approximate value of inventory separately.

REASONS FOR CEASE IN OPERATIONS**1 — Did not operate**

When a permit has been issued and it is later determined that the business never operated and no purchases were made with a resale certificate, the account will be closed with the same cease date as the starting date shown on the registration record.

2 — Business discontinued — no successor

When the business is terminated with no transfer to a successor, the closeout information should be entered in the registration record as soon as possible. Any person whose business is terminated but is holding a permit in anticipation of reopening, should be informed that the account will be closed and that they must apply for a new permit when they are ready to reopen the business.

Permits held solely for the purpose of making purchases at wholesale should be closed out. The provisions of Revenue and Taxation Code (RTC) section 6094.5 should be brought to the attention of the permit holder in these cases.

3 — Business discontinued — Assignment for Benefit of Creditors or Bankruptcy

When the person holding the permit makes an assignment for benefit of creditors or if a bankruptcy ruling has been granted, the account will be closed. This cease reason is used only when there is no continuation of the business by the assignee or fiduciary appointed by the court. For assignments or bankruptcies when the business is continued, see “Change in ownership - Other reorganization.”

4 — Change in ownership — Business sold (new entity)

If the business is sold, the account must be closed and the successor must register for all required permits, licenses, and accounts. This should be done as soon as possible after the change in ownership becomes known. A copy of the bill of sale or purchase agreement should be requested at this time. Follow-up of the predecessor/successor information is critical to ensure the appropriate account relationship is documented.

5 — Change in ownership — Change in partnership

The laws governing partnerships in this state were changed with the adoption of the Revised Uniform Partnership Act (RUPA) which provides for the survival (continuation) of a partnership when partners are added or dropped. Therefore, if the business will continue, but with the addition or deletion of a partner or partners, it is not necessary to close out the partnership permit. For information regarding partnership changes, see CPPM section 301.000.

6 — Change in ownership — Other reorganization

An example of “other reorganization” is when a business converts from one entity type to another. Another example is when there is an assignment for the benefit of creditors, bankruptcy, receivership, or probate where the business is continued by a fiduciary appointed by the court, in which the new owner is not liable as a successor.

For information regarding business conversions, mergers, and acquisitions, please see CPPM section 726.033.

CLOSEOUTS AND CLEARANCES

REASONS FOR CLOSEOUT

(CONT.) 610.110

7 — Issue and cancel

This cease reason is used when the cease date is entered at the same time the permit is issued. This occurs when a business has operated unlicensed prior to the time the permit is issued, it is no longer active, and payment in full has not been received.

8 — Close out after revocation

Closeout after revocation is when an account was closed after it was revoked. This cease reason is used in lieu of any other cease reasons on all revoked accounts.

Revoked accounts will be closed out only after investigation has confirmed the account has ceased operating, either through phone calls, field investigation or contact with the tax/feepayer. Returned mail in itself is NOT sufficient to close the permit as a tax/feepayer may be operating at another location. (See Section 340.140)

9 — Automatic closeout per inactivity

This cease reason signifies an account was closed out in the mass closeout process (See Section 645.130). These are accounts that have reported zero sales in a twelve-month period.

10 — Account no longer required

This cease reason is used when the business will continue to operate, but their activities do not require them to hold a permit, license, or account with the CDTFA.

REPORTING BASIS

610.120

This item must be checked to reflect the reporting basis shown on the registration system.

STARTING DATE

610.130

The month and year inserted here must agree with the registration record.

RELATED CDTFA ACCOUNT NUMBER(S)

610.140

This item must always show either “none” if no other accounts have been issued to the entity of record, or the other account numbers related to the owner(s) must be entered.

CLOSEOUT PREPARED BY — OFFICE — DATE

610.150

These items are self-explanatory and must be filled in. The date shown should be the date the CDTFA-406 is prepared.

ACCOUNT RECORD VERIFIED BY

610.160

The person who enters his or her initials in this box will be the person designated to verify the accuracy and legibility of the information entered on the form, if applicable. It is important that closeout information be accurate and entered correctly into the registration system.

PREPARATION OF CDTFA-406, SECTION B

615.000

VALUE OF FIXTURES AND EQUIPMENT SOLD — SUBJECT TO TAX

615.010

Tax applies to that portion of the gross receipts from the sale of a business that is attributable to the transfer of tangible personal property held or used in an activity for which the seller is required to hold a seller's permit, and acquired by the purchaser for use rather than for resale.

Tax may also apply to that portion of the gross receipts from the sale of a business that is attributable to the tangible personal property transferred, even though such property was held or used in an activity for which a seller's permit was not required. A person not otherwise engaged in an activity requiring the holding of a seller's permit may make a series of sales sufficient in number, scope and character to require the holding of a seller's permit. Generally the minimum number of sales to require the holding of a seller's permit by a person not otherwise engaged in a selling activity is 3 within any 12-month period. The sale that results in the requirement to hold a seller's permit and all subsequent sales are subject to tax, unless otherwise exempt.

In the case of contributions to commencing partnerships or corporations, the tax applies to that portion of the consideration received that does not represent capital interest in the new partnership or first issue stock in the new corporation (Regulation 1595).

Please note: The adding or dropping of a partner does not necessarily create a sale of fixtures and equipment (F&E).

Some sales are subject to a "contingency" if there is some uncertainty as to the sales price, which will ultimately be resolved when one or more future events occur or fail to occur. For example, the parties may agree to a contingent sales price for machinery by agreeing to a specific sales price for the machinery and also agreeing that the purchaser will pay a higher sales price if the machinery is able to exceed certain predetermined production levels over a specified period of time. When there is a sale of a business and the transaction contains a contingent sales price, the following guidelines should be followed to determine the proper measure of tax, the period in which the sale should be reported, and whether the taxpayer will need to subsequently file an amended return or claim for refund:

- **Specific Price Agreed to**

When the parties to a transaction have agreed to a specific price for the taxable F&E, then that price should be used to determine the taxable measure to be reported for the period in which the sale occurs. In addition, when the parties have agreed to a contingent sales price for the sale of a business, but have also agreed to a specific price for the sale of taxable F&E included in the sale, any subsequent adjustment to the total sales price of the business will **not** affect the specific sales price of the taxable F&E, unless the adjustment actually relates to the value of the taxable F&E.

- **No Specific Price Agreed To**

In instances where there is a bulk sale of a business and the parties have not agreed to a specific price for the taxable F&E, the parties have implicitly agreed to buy and sell the F&E at its current value, regardless of whether the total selling price for the business is fixed at the time of sale or is subject to a contingency. Therefore, when the parties agree to the sale of a business at a contingent sales price, but do not agree to a specific price for the taxable F&E included in the sale, the taxable measure should be determined by following the procedures set forth in Audit Manual section 1004.25, Bulk Sales of Businesses (Sales Price of Tangible Personal Property Not Specified).

To determine the sales price of taxable F&E, staff should look to at least one of four indicia of value: 1) book value, 2) appraised value for property tax purposes, 3) value determined by an independent appraisal, and 4) the taxpayer's estimate. Staff should then compare it to one other indicia to verify the accuracy of the value indicated. As a result, the value of the taxable F&E will generally be equal to the book value of such property. The taxable measure from the bulk sale should be reported on the return for the period in which the sale occurred because the value of the F&E can be determined by reference to its book value at the time of the sale, and there should not be a need to subsequently file an amended return or claim for refund.

TAXABLE SALES OF FIXTURES AND EQUIPMENT NOT REPORTED 615.020

If taxable sales of Fixtures and Equipment (F&E) occurred during the operation of the business, the taxpayer should report and pay the tax on the return for the period in which the sales occurred. Tax on sales of F&E should also be included on prepayment forms when the amount of prepayment due is determined by use of Prepayment Option 1 (see CPPM section 510.025). If the taxpayer neglected to report taxable sales of F&E, the additional tax should be reported on a Compliance Assessment (CAS) for F&E when payment in full is received. If payment in full is not received, a regular CAS should be prepared (see CPPM section 540.170).

If the sale of F&E was made in conjunction with the sale of the business it should be included in the closing return in the section titled "Sales of Fixtures and Equipment" when filing electronically. For a taxpayer who files a CDTFA-401-A2, State, Local, and District Sales and Use Tax Return, the sales of F&E should be entered on line 2 and marked "Fixtures and Equipment." It should also be included on prepayment forms when determining the amount of prepayment by use of Prepayment Option 1. If the closing return has already been filed by the time the closeout is made and the sale was not included, a regular CAS should be prepared. If payment in full has been received, a CAS for F&E should be prepared.

Determine Place of Sale for Purposes of Allocating the Local Tax

When a business location closes on a regular or consolidated account, and all that remains is the sale of F&E, an in-state business location where the principal negotiations occur is considered to be the place of sale for purposes of allocating the local tax. This may or may not be the business location where the F&E is located or a business location for which the taxpayer is required to hold a seller's permit. Prior to initiating a CAS for F&E, staff must make every effort to determine the location where the sale of the F&E was negotiated in order to determine the place of sale. Information regarding how to determine the business location where the sale of the F&E was negotiated is provided under Uniform Local Sales and Use Tax Regulation 1802 and Transaction and Use (District) Tax Regulation 1822. Further information regarding the application of District Tax is provided under Regulation 1823.

Document Place of Sale

Once the place of sale is determined, a specific comment should be entered in the Integrated Revenue Information System (IRIS) including the business address where the sale of the F&E was negotiated and how the local tax jurisdiction was determined. Staff should record these comments in the following:

- IRIS - TAR AI Comments (F11)
- ACMS - Close Out Summary

Assign Tax Area Code

A CAS based on prior returns normally has the district tax as well as the local tax automatically allocated by IRIS. However, IRIS does not automatically allocate these taxes for assessments that are: 1) consolidated with sub-locations in multiple jurisdictions (SR Y accounts), or 2) special sellers (SR S accounts). Most of these involve unreported sales of F&E subsequent to the filing of the final return. Additionally, accounts with multiple locations involving F&E assessments may also require adjustments for local and district taxes to reflect the F&E selling location. Therefore, staff must manually assign the district and local tax, prior to the billing, in accordance with the instructions outlined in IRIS Cheat Sheet – Compliance Assessments - Creating Schedules for Local and District Tax. When staff does not manually assign the district and local tax or an invalid district tax code is entered, IRIS places the CAS for F&E in suspense. When staff fails to properly assign the district and local tax, the Local Revenue Branch (LRB) receives the CAS on a quarterly report to resolve the suspense. If needed, LRB will request assistance from the office initiating the CAS to determine the place of sale. Staff may view the suspense status on the REV RN screen in IRIS. The Financial Obligation is in suspense when an "S" appears under the "TYPE" field.

CLOSEOUTS AND CLEARANCES

SALE OF FIXTURES AND EQUIPMENT SUBSEQUENT TO DATE OF CLOSEOUT

615.030

If a sale of F&E is not contemplated at the date of closeout, a subsequent single sale of the fixtures may be treated as an occasional sale. However, the single sale of F&E subsequent to the date of closeout is taxable if either:

1. The sale occurs within 60 days of the date of closeout and the taxpayer cannot establish that the sale was not contemplated at the time of closeout; or
2. The sale takes place after 60 days and within one year of the closeout date, and:
 - A contract of sale existed at the date of closeout, or
 - A lease with an option to buy exists, or
 - Arrangements are in existence evidencing a plan to sell the F&E in due course.

Unless the taxpayer makes sales that would otherwise qualify him as a retailer, a sale will be evaluated and may be regarded as an occasional sale if it occurs more than 12 months after the last prior sale. If the sale is subject to tax, a Fixtures and Equipment compliance assessment must be initiated.

FIXTURES AND EQUIPMENT INCLUDED IN FINAL RETURN

615.040

Check the appropriate box to indicate how the tax on the sale of F&E is being reported. If necessary, write in the appropriate type of assessment.

SOURCE OF INFORMATION FOR VALUE OF FIXTURES AND EQUIPMENT

615.050

Verify the source of information, such as escrow, buyer, seller, or books and records. Obtain a copy of the bill of sale or purchase agreement.

Another source of information is the Internal Revenue Service (IRS). The IRS requires the buyer and seller to report applicable asset acquisitions on Form 8594, Asset Acquisition Statement, and/or sales of property used in trade or business on Form 4797, Sales of Business Property. These forms are filed with their Federal Income Tax Return. For information on how to request Federal Income Tax Returns, please see CPPM section 720.031.

DISPOSITION OF INVENTORY PURCHASED FOR RESALE OR FROM OUT-OF-STATE

615.060

Verify disposition of inventory. Inventory purchased ex-tax and retained for personal use is taxable and should be reported on the final return

LOCATION OF RECORDS

615.090

Enter the physical location of the books and records of the owner(s).

IN CARE OF

615.100

This entry should show the name of the person who has control of the books and records, such as the taxpayer, an accountant, an attorney, a bankruptcy court, etc.

DATE PRIOR AUDIT COMPLETED

615.110

When applicable, this box should be completed, along with the next sections, covering period and liability recommended section.

AUDIT RECOMMENDED

615.120

Compliance personnel should make the initial audit recommendation. Information regarding audit selection may be viewed in the Taxpayer Profile screen (TPS TP). If the account is selected for audit, specific information regarding the audit (i.e., name of auditor and auditor's supervisor) may be viewed in the Audit Maintenance/Inquiry screen — AUD MC. It is suggested that compliance personnel check with the audit personnel periodically to set referral guidelines covering items such as types of business, sales volume, claimed deductions, or other factors known to be of significance by the office. Only a small portion of the total closeouts will be audited. Therefore, verification of payment or recommended assessments for additional tax due is the responsibility of the compliance section where no audit is to be made. Particular attention must be given to the disposition of remaining inventory and F&E.

The person making the audit recommendation should print and sign their name in this box, and enter the date of the recommendation in the next box.

AUDIT APPROVAL

615.150

This will show the signature or initial of the person or his/her designee having the responsibility for audit selection, and the date the recommendation was made.

CLOSEOUTS AND CLEARANCES

PREPARATION OF CDTFA-406, SECTIONS C AND D **620.000**

CDTFA-467 ISSUED **620.005**

Indicate if a CDTFA-467, Notice of Requirements in the Sale of a Business, will be issued.

REQUEST IN WRITING FOR CDTFA-471, CERTIFICATE OF PAYMENT OF SALES AND USE TAX **620.007**

This box must be checked either "yes" or "no" and the date it is received must be entered if the "yes" box is checked (See Section 650.000).

ESCROW AGENT **620.010**

If applicable, the name, address, and telephone number of the escrow agent should be entered in the appropriate section. If none, enter "none."

TAX LIABILITY IN PREDECESSOR'S ACCOUNT **620.015**

This should be marked either "yes" or "no" and the predecessor's account number entered in the box. If there is no predecessor, the word "none" should be entered in the box..

DISPOSITION OF SECURITY AVAILABLE **620.020**

Savings and Loan Certificates: Enter the dollar amount of the savings and loan certificate as its face value here. If the savings and loan certificate is to be cashed and applied, check the Cash and Apply box. If it is to be released, check the Release box.

Time Certificate of Deposit: Enter the dollar amount of the face value of the time certificate of deposit in this section. If the time certificate is to be cashed and applied, check the Cash and Apply box; if it is to be released, check the Release box.

Surety Bond: Enter penal sum, number, and effective date of bond.

Name of Surety: Enter the name of the surety company in this section.

Other: CDTFA-140s (personal guaranties), Federal, or State Credit Union Shares.

Security Under Other Business Taxes Accounts: Check "yes" or "no" in this section. If "yes" is checked, the amount section should show the face dollar value of the security; and the account number should be entered in the appropriate box.

Balances and Delinquencies: If applicable, these two sections should show how much money is due, the type of billing, and the period of the billing or what period is delinquent. The delinquency period should be shown by using the ending month and year of the period (e.g. 0314 for March and 1st quarter 2014).

Date Bal. and Del. Checked: Enter the date the balance and delinquencies were checked. This should be as current as possible. If an old date appears here, it should be erased or crossed out, balances and delinquencies checked again, and the new date entered.

Cash Deposit: Show the full dollar amount of the cash deposit available for application.

Returns and Billings: The Final Return section should be completed and correspond with the closeout date on the front of the CDTFA-406. The Period for this section should be written as indicated in the above delinquency examples.

There are two sections below Final Return that are captioned Return. These three sections should follow in consecutive periods beginning with the Final Return Period.

Field Billing Order: Enter (if applicable), the period and date of the field billing order.

DISPOSITION OF SECURITY AVAILABLE

Final Audit: The amount due from an audit should be filled in as soon as amount of the determination is known.

Unpaid Balance: Enter the type of billing and the period(s) covered by the billing.

Predecessor's Balance: Enter the period of the billing in this section.

Liability Under Related Account Numbers: Indicate the account number(s) in this section.

Total Due: Enter the total dollar amount due in each block corresponding to the appropriate left-hand column entry.

Amount Paid: An entry will be made here only when a taxpayer, his agent or representative, or an outside fiduciary, such as an escrow company has paid funds to the CDTFA for this account. Payment to clear a closed out account should be in cash or its equivalent. However, personal checks may be accepted, but before security can be released/refunded or a clearance certificate issued, either:

- Proof of payment of the check will be required, or
- A sufficient period of time must elapse to ensure the check will not be dishonored by the taxpayer's bank. A sufficient period of time is considered to be up to a maximum of sixty working days unless, in certain isolated instances, to protect the CDTFA's interests, a longer period is required. If a shorter period than sixty days, depending upon banking situations, bad check history, etc., can be used, you should do so.

All payments made by personal or business checks will be identified by circling the amount.

Evidence of Payment: Enter the date and receipt number of payments made in the field office, but not yet posted on the system. Otherwise, enter the cash date and batch number of the payment(s) posted on the system. If no proof is available, enter the word "none." For credit card payments, presentation of the credit card statement, which shows the charge due to the credit card company, is sufficient evidence of payment.

Deduct: This column is used to deduct from a savings and loan certificate, a time certificate of deposit, or a cash deposit. All deduct items should show the dollar amount in the Deduct column.

Total Deductions: This amount must not exceed the total amount of cash available to apply to the liability owed. If the total deductions are less than the total security available, another computation must be made in the section that says Amount to be Refunded. The box that indicates To: Name must be filled out completely, showing the address, city, state, and ZIP code, if available. This responsibility rests with the person and office preparing this part of the form even though a copy of the CDTFA-406 may be sent to the office of control for preparation of a refund check.

Balance Owning: Check and enter dollar amount, when applicable.

Escrow Claim Filed: The amount of the claim filed with the escrow company should be entered, if appropriate.

Escrow Withhold Filed: The amount of the withhold filed with the escrow company should be entered, if appropriate.

Escrow Release Approved By: The signature or initials of the person designated (usually the office supervisor) should be entered here.

Security Report Prepared By: The signature or initials and date will be entered in this section by the security clerk.

Security Report Approved By: The signature or initials of the person designated (usually the office supervisor) and the date will be entered in this section as evidence that all actions required have been taken.

CLOSEOUTS AND CLEARANCES

ORDER OF APPLICATION OF CASH DEPOSIT AT CLOSEOUT **620.030**

Whenever a cash deposit is to be applied to more than one period or liability, the order of allocation shown in CPPM section 707.020 should be followed.

No reallocation will be made in those instances where a deposit has been applied in compliance with the order of allocation and, at a subsequent date, additional unpaid liability is disclosed. For example, an audit liability established after a deposit has been applied in its entirety in accordance with the order of application, will not cause the deposit to be reallocated.

APPLICATION OF CASH DEPOSIT TO AMOUNTS DELINQUENT ON CLOSEOUT DATE **620.040**

If any portion of a cash deposit is applied upon closeout to an amount of tax which was delinquent on the closeout date, applicable penalties and fees must be included, and interest must be computed through the closeout date. If any liability of this type exceeds the amount of cash deposit available for application, interest and penalty must be computed to the date of payment on the portion not paid from the cash deposit.

APPLICATION OF CASH DEPOSIT TO INTEREST AND PENALTY **620.050**

No portion of a cash deposit should be applied to interest or penalty until all tax liability has been paid.

ERRONEOUS REFUNDS OF CASH DEPOSITS **620.060**

If a cash deposit, available on the closeout date of an account, is erroneously refunded instead of being applied to a timely filed return(s), interest or penalty will not be added to the amount which should have been paid timely from the security. However, a failure to pay penalty will apply if not paid within thirty days from the date of billing, and appropriate monthly interest will accrue from the last day of the month following the penalty date.

If a final audit is made, effect will be given to the erroneously refunded security (or any portion which would have been available to apply on the audit) in the computation of interest and penalty included in the billing. The billing (Notice of Determination) will, however, provide for additional penalty if not paid within thirty days and appropriate monthly interest will accrue from the last day of the month following the penalty date.

In cases where nothing is owed at the time a refund is made and a liability is later developed through an audit, interest and penalty charges will be added as though no security was available.

PROCESSING CLOSEOUTS

625.000

ROUTING THE CDTFA-406 BETWEEN OFFICES

625.010

Staff is not restricted from processing closeout information on another office's account. Therefore, when the CDTFA-406 is prepared in an office other than the office controlling the account, the information will be entered in IRIS before the form is routed to the office of control for further processing. However, this does not apply to out-of-state accounts which should only be processed by the Out-of-State office (see CPPM 645.070).

CLOSEOUT OF ACCOUNT IN REVOKED STATUS

625.030

The processing of a closeout will remove an account from revocation status. However, if the account is later reinstated, a reinstatement fee of \$100.00 will be required for each selling location reinstated.

ACCOUNT CLOSED IN ERROR

635.000

GENERAL LIMITATIONS

635.010

An account closed out (ceased) in error may be reopened no later than eighteen calendar months after the cease date, provided all delinquencies have been cleared.

Tax/feepayers can request to reopen an account closed in error for reasons other than revocation by logging into their account online and selecting the “Re-Open” link. The Re-open link will be available within 18 months after the cease date for any of the following reasons:

- Did not operate
- Business discontinued with no successor, or
- Automatically closed due to no activity (zero filing)

When the tax/feepayer initiates the request online, it creates a task in the system for staff to reopen the account. Staff will review the request and document their findings in the system, and then forward to their supervisor or designated lead person. If the request is approved, staff will manually reopen the account in the system, enter notes, and close the task.

If the account has been closed for more than 18 months, the tax/feepayer must contact the CDTFA and request the account be reopened as the link to reopen the account will not be available online. Field and headquarters registration and collection staff, with supervisor approval, has the ability to reopen accounts closed in error for up to 36 months following the cease date. If the online request is denied or the account was closed for more than 36 months, the tax/feepayer will be advised to register online for a new permit.

Where operations have actually ceased at a specific location and a cease date has been processed, the account will not be reopened if operations are resumed at this or any other location at a later date. The tax/feepayer will need to register online for a new permit.

When a tax/feepayer requests to reopen their account online, a task is created, then processed through the nightly job stream. To prevent any delay in the process, when tax/feepayers inquire about the closed account by phone or in person, staff should assist them rather than redirecting them to file a request online. Staff will follow the guidelines in this section if the account has been closed for more than 18 months.

REOPEN AFTER CLOSEOUT — REVOKED ACCOUNT

635.020

Accounts closed after revocation, are processed with the cease reason “Closeout after revocation.” In the event a revoked account is closed but the business is still operating, the account will be reopened in in the system. After the appropriate reinstatement fee(s) and delinquent returns or payments have been collected, the account will be reinstated. If an account, or site under that account, was closed after revocation and then reopened, the reinstatement fee(s), as well as any delinquent returns or payments, would be due and collectable at the time the account or site was reopened.

REOPEN ACCOUNT CLOSED IN ERROR

635.030

Accounts closed out with a cease reason other than “Closeout after revocation” can be reopened if the account, license or permit was closed out in error. In these situations, accounts, licenses or permits must be reopened no later than 18 months after the cease date. For cigarette and tobacco products licenses, a license fee may be required before reinstatement if the annual license expired when the account was closed. Where business operations ceased for a full reporting period, the account, license or permit may not be reinstated. A new account, license or permit will be required in this case (See Section 635.010).

If there are multiple sites, each site closed in error can be reopened individually in the system by staff.

CHANGE OF INCORRECT CEASE DATE

635.060

If the cease date is incorrect, the date may be corrected in the system. However, staff must be aware of the impact of changing the cease date and the potential for creating reporting delinquencies.

MISCELLANEOUS — CLOSEOUTS **645.000**

PROOF OF PAYMENT **645.010**

Proof of payment should be obtained for all payments made within 30 days of closing the business, if an escrow clearance or security release is required.

If at closeout there are delinquencies, the representative should attempt to get the taxpayer to file the returns and make payment(s) online. The same should be done with respect to any balances that might be owed. These items must be cleared before security can be released or an escrow clearance provided.

CLOSEOUTS OF TEMPORARY SELLER'S PERMITS **645.020**

It is not necessary to process closeouts on temporary seller's permits as they are closed out immediately by the system upon issuance.

DISPOSITION OF PERMITS AND LICENSES **645.030**

Upon closing an account, the former permittees should surrender their permits when possible, or be advised to destroy them.

COLLECTION RESPONSIBILITY ON CLOSEOUT ACCOUNTS **645.040**

The responsibility for collecting any balance due on a closed out account remains with the office of control in which the person last held a permit or license prior to the closeout date. If a balance is owed at the time of closeout, or is later developed, the amount due will remain on the accounts receivable of the office of control in which the person last held a permit or license until it is collected. No request for a transfer to another office of a closed out account should be made even though the person's residence is located outside the area of the office of control of the account. When this occurs, staff may request the office where the person has moved to make a field call, if warranted. Account files should not be transferred on closed out accounts.

CLEARING DELINQUENT CLOSED OUT ACCOUNTS **645.045**

Accounts that are closed out with delinquent returns due will be assigned to staff through the Automated Compliance Management System (ACMS). In addition, supervisors have access to a database in ACMS that can generate a report of accounts that are delinquent in filing returns (DelRev).

Personnel should take additional steps to clear delinquent periods:

- Contact by letter (CDTFA-65, Notice of Closeout for Seller's Permit, generated in ACMS) or telephone.
- Perform preliminary skip tracing (e.g. check references, registration records, and internet).
- Mail CDTFA-431-DP, Delinquent Return Letter, generated in ACMS.
- Delinquencies which are not cleared within 30 days of contact will be referred to the supervisor or as instructed.
- If the taxpayer cannot be contacted and the account appears to meet waiver of return criteria, initiate a Waiver of Liability. (See section 645.050) Also, CDTFA-288, Close Out Under Section 6072, may be sent to advise the taxpayer that the permit has been closed.

CLEARING DELINQUENCIES OF SMALL ACCOUNTS

645.050

Generally, part time itinerant, or temporary accounts fall into this category. Frequently, excessive amounts of time and effort are necessary to clear delinquencies even though a small liability is involved.

The Waiver of Liability process in IRIS may be used to reduce costs when closing out a small account. Where delinquencies exist, security is not available, there is no successor, the taxpayer cannot be located, and the potential tax liability is less than \$500, initiate a Waiver of Liability.

RECORDS NOT AVAILABLE AT TIME OF CLOSEOUT

645.060

Even though taxpayers and their records may be missing at the time of closeout, action must be taken to close their accounts, clear any delinquencies that might exist, and dispose of any security that might be posted.

If necessary, review revenue records in IRIS. This will provide information on sales reported for prior periods. This will also provide a basis for a possible Compliance Assessment (CAS) to clear any delinquencies that exist. If the business operated for a short period and no returns were filed, some reasonable method of estimating the sales must be established. The returns of a predecessor or successor for a similar type of business in the same area may provide some help.

All CAS estimates should be made on a sound basis. The estimated amounts should be as near as possible to the amount of tax actually due without regard to security available, possibility of immediate collection, or any other outside influence.

OUT-OF-STATE CLOSEOUTS — SALES TAX

645.070

When offices receive closeout information pertaining to an Out-of-State account, the CDTFA-406 should be completed insofar as possible from information available. After all information available is entered on the form, the CDTFA-406 and any related documentation will be forwarded to the Out-Of-State Office. In-state offices should not process Out-of-State closeouts in IRIS. The Out-of-State Office will handle the actual closeout of the permit.

OUT-OF-STATE CLOSEOUTS — SINGLE OUTLET, IN-STATE LOCATION

645.080

Single outlet in-state sales and use tax accounts with out-of-state books and records are assigned to the Out-Of-State Office. When closeouts of this type of account are made, the Out-Of-State Office will send a copy of the CDTFA-406 to the office involved. The Out-Of-State Office will also notify offices involved in interoffice transfers of these accounts.

TAXPAYER DEPARTED FROM STATE WITH RECORDS

645.090

If, after termination of a business, the taxpayer leaves the state with his/her records and the out-of-state address is known, the taxpayer should be informed by mail of the closeout requirements. If the taxpayer fails to respond and returns remain unpaid after the due date, a CAS may be recommended. If there appears to have been a substantial understatement of tax, an audit may be scheduled and referred to the Out-of-State Office with all information available.

Department of Motor Vehicles

When a DMV investigator finds that a vehicle dealer has closed or sold his/her business, or has not renewed his/her dealer's license, DMV will notify the local California Department of Tax and Fee Administration (CDTFA) office.

In the case of an audit, the CDTFA can request the Report of Sale (ROS) books, which the dealer turns over to the DMV; otherwise, the dealer's copies will be destroyed. The DMV retains its copies for one year. When there is no further need of the ROS books, they will be returned to DMV to be destroyed. DMV will also provide the closeout date and location of books and records if known.

When the DMV reviews a dealer's ROS books and finds evidence of noncompliance with DMV laws, copies of the reports of sale indicating noncompliance will be sent to the local CDTFA office.

Vehicle dealer information, including ROS and/or Administrative Fee Report information, can be obtained by sending an email to LODInfoReq@dmv.ca.gov. Staff must provide the following information when making their request by email:

- Name, mailing address and phone number of requestor,
- CDTFA's DMV Requestor code,
- Name of the party on which they are requesting information,
- Dealer's license number, if available,
- The specific information they are requesting, and
- The business reason for the request

Staff should allow 7 to 10 business days for processing of the requested information, which will be mailed to the requestor via US Postal Service.

CDTFA

A vehicle dealer's seller's permit should not be closed out until staff has verified that the DMV dealer's license is no longer active. Vehicle dealer's license information can be verified on the [Occupational License Status Information System](#) on DMV's website. If additional information is required, staff may send an email to [BTFD-Data Analysis Section](#).

A seller's permit closeout for a used car dealer must be provided to a Compliance Supervisor or his/her designee for review. Review of the closeout is to identify situations that may require further research by staff (e.g., audit in process, multiple prior owners for the business). Research should include a thorough review of account information including the screens that identify accounts where an audit is in process. If a questionable situation exists, the taxpayer and/or the new business owners should be contacted via telephone or field call.

Staff's review of the type of dealer's license(s) held by the taxpayer and its status may lead staff to request information from DMV's Occupational Licensing Department. For example, if a taxpayer reported few or no sales to the CDTFA during the time he/she held a used car dealer's license, it may be worthwhile to contact DMV and request information on the number and type of ROS books and/or an Administrative Fee Report, which captures the ROS number and date of sale when a vehicle is registered late.

A summary of the review performed, including information obtained from DMV, must be documented in CDTFA records. In addition, DMV should be notified when there are changes to the CDTFA registration or when registration information differs from that identified on the taxpayer's vehicle dealer's license once CDTFA's information has been confirmed to be correct. To facilitate this process, staff will send to the DMV a CDTFA-215, DMV Referral, Dealer's License Issue letter.

CLOSEOUT PROCEDURES OF VEHICLE DEALERS IN CALIFORNIA

(CONT.) 645.120

The completed letter will be reviewed and signed by the Administrator, Compliance Principal, or their designee. Approved letters will be forwarded to the DMV's Occupational Licensing Inspection Program Manager at the address identified on the letter. Printouts of any pertinent registration screens should accompany the letter to allow DMV staff to confirm the registration information contained in CDTFA's database.

ANNUAL REVIEW OF ACCOUNTS REPORTING NO SALES

645.130

Annually, the CDTFA-1293, *Review of Accounts Reporting No Activities or Transactions*, is sent to certain accounts that show no sales or purchases in the system for a period of time (12 months for annual and quarterly filers, and 6 months for monthly filers). The following tax/fee programs are subject to this review:

- Sales and Use Tax
- Prepaid Mobile Telephony Services Surcharge
- California Tire Fee
- Electronic Waste Recycling Fee

The tax/feepayers must respond to the CDTFA-1293 via the CDTFA website within 14 days from the date of the letter explaining why the account should not be closed. Tax/feepayers who call the CDTFA should be directed to the website to respond to the letter. Those who do not respond within the 14 days will be automatically closed out.

Once the tax/feepayer replies online, a task is created and assigned to the appropriate area in the system. If the tax/feepayer has requested the account to remain open, and staff agrees, the case must be manually staged in the system. The three options for staging the account are as follows:

- Close Account (Re-Evaluate criteria): This will automatically close the case, and will either close the account or keep it open based on programmed inactivity criteria. An example of when we would keep the account open is if the tax/feepayer submitted an amended return that indicated business activity.
- Close Account: This will close the case and automatically close the account regardless if it meets our inactivity criteria.
- Do Not Close Account: This will close the case but keep the account open, regardless if it meets our inactivity criteria. If there is still inactivity the following year, the account will go through the process again.

TAX CLEARANCES**650.000****EFFECT OF CERTIFICATE OF TAX CLEARANCE****650.010**

Certificates of tax clearance are issued under the provisions of the following Revenue and Taxation Code (RTC) sections:

- | | |
|--|-------|
| • Sales and Use Tax | 6812 |
| • Motor Vehicle Fuel Tax | 7959 |
| • Use Fuel Tax | 9022 |
| • Diesel Fuel Tax | 60472 |
| • Oil Spill Response, Prevention and Administration Fees | 46452 |

Requests received online are routed to the office of control for the account to issue the tax clearance when appropriate. When a request is received in person, or by mail or fax, the receiving office will generally be responsible for the clearance assignment.

The only effect of issuing the tax clearance is to protect the purchaser of a business from being held liable as a successor for amounts due which the seller fails to pay, limited to the extent of the purchase price. It has no effect in relieving the seller of any liability.

A tax clearance should not be issued until all taxes and fees noted above, collection cost recovery fees, and associated penalties and interest of the seller have been determined and paid, including any potential audit liability, or an amount determined by this department has been posted as outlined in CPPM section 650.023 (K). For taxes and fees that do not have a successor liability statute, see CPPM section 650.023 (C).

WHEN TO ISSUE A TAX CLEARANCE**650.020**

When the purchaser of a business or the purchaser's agent makes a written or online request for a certificate of tax clearance, the CDTFA must either issue the tax clearance, or provide the purchaser a notice that identifies the amount that must be paid as a condition of issuing the tax clearance.

When a person registers for a permit, license or account online, and they answer "Yes" to the question, "*Would you like to request a tax clearance on previous business?*", it is considered a written request for a tax clearance for the purposes of the RTC sections listed in CPPM section 650.010. This generates a work item in the system and should be pulled by the appropriate escrow technician. However, their supervisors must check for unassigned work items regularly for their office and branch office and assign them accordingly.

The purchaser is released from any obligation as a successor if the CDTFA fails to take one of the following actions within the period of time stated in the statute:

- Issue a CDTFA-471, *Certificate of Payment*, when it has been determined that no tax, interest, or penalty is due from the seller for the period of operation (see CPPM section 650.025).
- Issue a CDTFA-1274, *Notice of Amounts Due and Conditional Release*, when it has been determined that there is or will be tax, penalty or interest due from the seller for the period of operation (see CPPM section 650.030).
- Issue a CDTFA-370, *Request for Certificate of Payment Existing Balance*, or CDTFA-48, *Notice to Purchaser on Request for a Certificate of Payment*, when the buyer and seller are not using an escrow company or other agent for the transaction, and there is or will be tax, penalty or interest due from the seller for the period of operation (See Section 650.030).

WHEN TO ISSUE A TAX CLEARANCE

(CONT) 650.020

The letters referenced above are for sales and use tax or use fuel tax accounts. If a request for a certificate of tax clearance for a motor vehicle fuel tax, a diesel fuel tax, or an oil spill response, prevention and intervention fee account is received, a custom letter containing similar language should be issued.

Although the RTC sections listed in CPPM section 650.010 allow the CDTFA 60 days to issue a CDTFA-471, CDTFA-1274, or CDTFA-370, the appropriate form should be sent as soon as all required information is received and verified. Forms should be mailed to the buyer, seller, and any escrow company or other agent, if applicable.

INTEROFFICE COOPERATION

650.021

In general, if a request for a tax clearance is received in person, or by mail or fax, it should be processed by the receiving office regardless of the office of control for the account. The escrow technician must first search the system for an existing case. If there is no existing case, a case must be created in the system, assigned to the escrow technician immediately and escrow documents should be sent to the Taxpayer Records Unit via Documentum (instructions are available on the CDTFA intranet site).

In the event the case needs to be transferred to another office, original documents should be mailed, and an email and bookmark should be sent to the escrow technician in the receiving office. Additionally, the transferring office will send a letter to the escrow agent notifying them that their request has been forwarded to “name, address, and phone number” of the office that is responsible for issuing the tax clearance.

ESCROW PROCEDURES

650.023

The following procedures must be followed when a request for a tax clearance is received:

- A. If the request is received by paper, verify all required documents were submitted, search the system for an existing case, and if there is no existing case, manually create a case in the system ensuring all the fields are complete. Documents should be sent to the Taxpayer Records Unit via Documentum. Documents should include the bill of sale, escrow instructions, purchase agreement, allocations, etc. In addition, all incoming and outgoing correspondence to the buyer, seller, escrow agent, and other units within CDTFA should be included.

If the request is received online, review the submitted information and obtain any missing information. Working escrows in the system includes: adding escrow notes, tracking escrows, maintaining escrow follow-ups, and completing escrow letters and tax clearances. The system contains help files to assist in its use, and additional guidance is located on CDTFA’s intranet site.

- B. Sometimes the names of the parties involved in the escrow provided by the escrow company do not match the name(s) of the owner appearing in the CDTFA’s records. Therefore, the name(s) of the seller on the escrow documents must be checked carefully against the name(s) of the owner on the account. If the ownership is not correct on the account, the escrow technician should investigate to determine the correct ownership, issue a new permit, license or account reflecting the correct ownership, and transfer records to the new account number prior to issuing a tax clearance or conditional release.

CLOSEOUTS AND CLEARANCES

ESCROW PROCEDURES

(CONT.1) 650.023

- C. If an escrow technician receives a tax clearance request and the seller's account is an active collection case, the escrow technician must immediately email notification of the escrow request to the collector with a copy to the collector's and the escrow technician's supervisor. The escrow technician will continue to process the escrow request. The collector should review the system for the escrow status. For taxes and fees that do not have a successor liability statute, the collector may issue a levy to the escrow company for amounts due on those special taxes and fees accounts.
- D. The CDTFA-406 with escrow documents may be presented to the designated Audit Principal or designee for an audit recommendation. If an audit is in process, email the auditor and audit supervisor advising a tax clearance request was received. Follow up with the auditor to ensure the prompt processing and return of the CDTFA-406.
- To protect confidential taxpayer information, all team members are prohibited from disclosing to either the escrow company or purchaser that the seller's business has been selected for audit or is currently under audit, unless the seller has executed a power of attorney or signed a waiver of confidentiality with the escrow company. RTC section 6812(b)(1) and equivalent special taxes and fees statutes provide the only information that may be disclosed to the purchaser is the amount that must be paid as a condition of issuing the certificate of clearance.
- F. If the tax clearance request is not made by an escrow company or escrow agent, send forms CDTFA-467, *Notice of Requirements in the Sale of a Business*, and CDTFA-65, *Notice of Closeout*, to the seller and buyer to obtain any documents needed to issue the tax clearance (e.g. the bill of sale, copies of returns filed by the taxpayer, copies of canceled check(s), etc.). The CDTFA-65 should be completed with an exact closeout date, if possible. Since all sales up to the last day of business need to be reported on the taxpayer's final return, using an estimated closeout date may result in delays in processing the clearance.
- G. Search CDTFA records by owner name, fictitious business name (DBA), business address, social security number, or taxpayer identification number (TIN) to locate the account number and any related account numbers, to ensure we have the correct legal entity name and account number. If the entity involved is a partnership, corporation or LLC, verify the person signing the escrow documents is a valid partner, officer, or member. Add notes of any liabilities that are due on any accounts held by the seller, and if any liabilities are discovered or generated through investigation, follow the steps outlined in CPPM section 650.023 (C). When reviewing an account that is requesting an escrow clearance, the collector should consider the possibility of issuing a dual determination for "predecessor's liability" as described in CPPM section 734.000.
- H. The escrow technicians should review the account for the following information:
1. Review the escrow instructions or clearance request to see if the transaction is for single or multiple locations.
 2. Check and record any balances due and notify the responsible collector.
 3. Check if the account is currently being audited or has been selected for audit.
 4. If there is a liquor license issued to the account, check whether a "hold" has been placed against the transfer of the license. If not, notify the responsible collector. If the business is a type that may have a liquor license but there is no license information on the registration tab, a search should be done on the Alcoholic Beverage Control (ABC) website to determine if there is a liquor license. Refer to CPPM sections 765.100- 765.120 for additional information.

ESCROW PROCEDURES

(CONT.2) 650.023

5. If there is an active security deposit, other than a surety bond, forward a request to the security desk to apply or refund the available security. The CDTFA is required to issue a demand for payment to the financial institution for non-cash security deposits (e.g. time certificate of deposit) when a person selling a business requests the security deposit be applied towards an outstanding liability. These funds should be received before being credited on the CDTFA-1274. If the 60-day deadline is approaching, the CDTFA-1274 should include the total balance due without showing credit for the security deposit. An explanation of this action should be provided to the buyer or the buyer's agent.
 6. Check for delinquent tax returns.
 7. Record the amount(s) and effective date(s) of any recent payments received.
 8. Check and record any prepayments or returns received on the case springboard in the system.
 9. Review the filing basis for the due date of returns.
- I. The following escrow procedures should be done in the system:
1. Closeout information – All regular procedures to close an account should be completed. This includes closing out the seller's permit, license or account, ensuring the buyer has all the required permits, licenses, and accounts issued by the CDTFA, and completing all the transfer information in the system. If the purchaser does not have a permit, a CDTFA-449, Letter Re: Permits Required, should be sent to the purchaser, and a copy retained in the escrow case file. The purchaser should be contacted within two weeks of mailing the CDTFA-449 to confirm receipt of the letter, and to establish a date the purchaser will complete the registration process.
 2. Contact information – Update forwarding addresses and phone numbers in the system. When escrow has concluded and the seller's permit, license, or account is closed, it is necessary to have the correct contact information in the system.
- J. Enter the following escrow information in the notes tab on the case springboard:
1. The allocation that shows the purchase price, the value of fixtures and equipment (F&E), leasehold improvements (if seller has the right of removal), inventory, goodwill, and other terms of the sale agreement. If an escrow company or legal agent is involved, the allocation will be included in the escrow instructions or the purchase agreement. If a tax clearance request is received from a buyer/agent, the bill of sale may or may not include the breakdown of the purchase price. This breakdown must be provided before a tax clearance can be issued. If this information is not included in the escrow instructions or the sales agreement, the escrow technician must request that it be provided.
 2. Any relevant information about the escrow that is provided by the taxpayer, including return information. Most returns are filed electronically. Paper returns received in a field office must be checked for computational errors but should not be written on. Enter a comment that the final return was reviewed for accuracy.
 3. Verification of the following: closeout date, escrow instructions are complete, the selling price and the value of F&E are adequate for the type of business being sold. In addition, assumption of debt or transfer of liabilities should be addressed when applicable.

CLOSEOUTS AND CLEARANCES

ESCROW PROCEDURES

(CONT.3) 650.023

4. Proof of payment for any payments made within 30 days of closing the business. For escrow purposes, payments received in response to the CDTFA-65 must be made in certified funds, cashier's check or money order. Taxpayers who are required to file and pay by Electronic Funds Transfer (EFT) must continue to make EFT payments. If payment is made by any other means, EFT penalties will apply to those payments. Copies of evidence of payment should be scanned into the system.
 5. If the final return or information regarding the seller's final tax or fee liability is not received within 30 days after receiving the tax clearance request or closeout date, whichever is later, and no reply has been received in response to our mailing the CDTFA-65, the seller will be sent the CDTFA-360, *Final Return Due – Closed-Out Account*. A follow up will be set for 15 days (day 45 from date of the clearance request or closeout date). If the taxpayer does not respond to the CDTFA-360, action should be taken to establish a liability. However, a notice of determination should not be issued until five days prior to the 60th day. When the closeout date falls in the middle of a reporting period, the return is not due until the actual due date of the return. For example, if the seller reports on a quarterly basis and the closeout date is May 15, XXXX, then the return is not due until July 31, XXXX. In this example, the return is not due until after the 60-day period to issue an escrow clearance has expired, provided we received an escrow tax clearance request prior to June 2, XXXX. When this occurs, the escrow company, the buyer and the seller should all be notified that a tax clearance will not be issued unless all the required documents, including final returns, are received, all delinquencies are cleared, and all amounts owed are paid in full with certified funds (e.g. cashier's check, money order) within the 60-day period.
- K. If the account is selected for audit, an amount determined by the Audit Principal or designee sufficient to cover any liability, up to the full purchase price, will be required in order to expedite issuing the tax clearance.
- Discretion and good judgment should be used at all times when determining the amount required for a conditional clearance if the amount is based upon an estimated audit liability. The clearance form should **not** state the manner in which the liability was calculated when providing a copy to the escrow company and/or buyer unless a power of attorney or other authorization is on file (see RTC 7056, Divulging of information forbidden, and equivalent special taxes and fees statutes).
- For the CDTFA to disclose the amount required to issue a clearance to an escrow company on behalf of the buyer, the escrow company must be an "authorized escrow company." The CDTFA may regard an escrow company to be an authorized representative of the purchaser if written authorization is given by the purchaser, or if the CDTFA is in possession of agency forms, documents, or correspondence that shows with reasonable certainty the escrow company is a representative of the purchaser.
- When the audit is complete, a copy of the final audit summary report should be forwarded to the CDTFA escrow technician for any amount(s) determined to be due.
- L. Detailed notes should be periodically entered into the system under the tax clearance case regarding returns received, payment received for tax on the value of F&E sold, an updated closeout date, audit progress, etc. Missing requirements should be noted at every follow-up stage.

ESCROW PROCEDURES

(CONT.4) 650.023

- M. When issuing a conditional clearance, the escrow technician may **not** pro-rate the selling price when there are any other debtors involved, including IRS, FTB, etc. In addition, the full selling price, including the real property where the business is located if it is included in the sale, should be used. If assets are being sold through two or more escrows, these related sales should be disclosed when making the written tax clearance request in order to determine the full purchase price. The purchaser of a business or stock of goods is required to withhold an amount to cover liabilities owed to the CDTFA, up to the amount of the purchase price, or the debt of the seller becomes assessable to the purchaser under RTC sections stated in CPPM section 650.010.
- N. If the taxpayer did not report the sale of F&E on their final sales and use tax return, request the taxpayer to file an amended return to include the F&E. If the seller is unwilling or unable to amend their return, field staff should not make the adjustment in the system but should email Return Analysis Unit (RAU) at the shared mailbox [BTFD-RAU Electronic Maintenance Requests](#) to adjust the return. Until the adjustments are processed, the escrow technician must manually calculate the amount of tax or fee, interest and penalty due, and include the total amount on the CDTFA-1274. Remember that a tax clearance only releases the buyer from further obligations. The seller will still owe any amount due that was not included on the CDTFA-1274. Payments that are designated as tax on the sale of F&E, and that are remitted separately from the final return, will require RAU to adjust the final return to include F&E. Enter a note in the system stating payment on the sale of F&E has been made.

If funds are not received from an escrow company to satisfy the tax due on the sale of F&E, and it has not been reported on the final return, the escrow technician must ensure that an estimated return is requested and the taxpayer is billed for the amount due. However, to avoid sending the seller an unintended billing, an estimated return should **not** be created for F&E if payment is expected from the escrow company.

TAX CLEARANCE FORMS

650.024

During the escrow tax clearance process, the forms listed below should be distributed to the indicated parties and notes should be entered in the system regarding their distribution.

- CDTFA-48, *Notice to Purchaser on Request for a Certificate of Payment*, is mailed to the buyer and seller (in the event that no escrow company is being used) to notify them of the requirements to issue the tax clearance.
- CDTFA-65, *Notice of Closeout*, is used by the escrow company or seller to notify the CDTFA that a business has closed due to a sale of the business.
- CDTFA-162, *Personal Liability for Corporate and Limited Liability Company Sales and Use Taxes*, is mailed to buyers who are corporate officers and LLC members to inform them that they may potentially be held liable for the liability of their corporation or LLC.
- CDTFA-164, *Successor's Liability Notice*, is mailed to the buyer to inform them of the statutes related to successor liability.
- CDTFA-360, *Final Return Due – Closed Out Account*, is mailed to the seller when they still need to file their final return.
- CDTFA-370, *Request for Certificate of Payment – Existing Balance*, is mailed to the buyer (in the event that no escrow company or other agent is being used) to notify the buyer of amounts due in order to receive a CDTFA-471 after the payment is received by the CDTFA.
- CDTFA-372, *Request for Certificate of Payment – Sale of a Business*, is mailed to the escrow company or buyer if the CDTFA is not able to issue a CDTFA-471 because the business is not being transferred and it is not known if the business will be transferred.

CLOSEOUTS AND CLEARANCES

TAX CLEARANCE FORMS

(CONT.) 650.024

- CDTFA-406, *Close-Out Worksheet*, is used as a control document when reviewing closeout information related to the tax clearance request.
- CDTFA-467 and CDTFA-467-C, *Notice of Requirements in the Sale of a Business and Cover Letter*, informs all parties involved of the legal requirements involved with the sale of a business.
- CDTFA-471, Certificate of Payment, is used after it has been determined that no tax, interest or penalty is due from the seller for the period of operation.
- CDTFA-550, *Escrow Follow Up for Information*, is mailed to the escrow company when no response is received to a prior letter requesting additional information.
- CDTFA-574, *Escrow Confirmation Cancellation*, is mailed to the escrow company or the purchaser when the CDTFA receives verbal notification that the tax clearance request is being cancelled.
- CDTFA-872-A, *Release of Hold on Liquor License Transfer*, is used to inform the escrow company of requirement that need to be met prior to the transfer of the liquor license. If a liquor license is involved, notify the supervisor or collector assigned to the account.
- CDTFA-875, *Escrow Business not Transferred Letter*, is sent to the escrow company when the seller did not transfer the business.
- CDTFA-879, *Escrow Intradistrict Responsibility Letter*, is sent to the escrow company to notify them the tax clearance is being transferred to another office for processing.
- CDTFA-1046-A, *Request for Sales and Use Tax Clearance*, is mailed to the requestor (escrow company, buyer, buyer's representative) if additional information is required to process the request.
- CDTFA-1274, *Notice of Amounts Due and Conditional Release*, is sent to the escrow company with copies to the buyer and seller when it has been determined that there is or will be tax, penalty, or interest due from the seller. This is used when the seller has a collection balance, delinquent return(s), or a pending audit. A copy of the CDTFA-1274 is retained in the office of control for three years or until the statute of limitations for successor billing has expired.
- Publication 74, *Closing Out Your Account*, is mailed to the seller.

CERTIFICATE OF PAYMENT

650.025

Once all supporting documents and payments have been received, prepare the CDTFA-471, *Certificate of Payment*, for supervisor (or designee) review and approval. This form is used when all tax liability of the seller has been paid to the CDTFA. The original signed form plus copies for the buyer and seller will be mailed to the escrow company for distribution. If there is no escrow company, the signed form and copies can be mailed to the buyer and seller directly. A copy will also be sent to the Collections Support Bureau (MIC: 55).

CONDITIONAL TAX CLEARANCES**650.030**

The CDTFA-1274, *Notice of Amounts Due and Conditional Release*, may be used as a withhold for actual or estimated amounts due or the selling price if there is money due from the seller. When all supporting documents have been received and payment is due, prepare the CDTFA-1274 for supervisory (or designee) review and approval. If approved, mail the original to the escrow company, and mail copies directly to the buyer and seller. Retain a third copy in the office of control for three years, or until the statute for successor billing has expired. Send a fourth copy to the Taxpayer Records Unit via Documentum. Once the demand is satisfied, send a fifth copy to the Collections Support Bureau (MIC:55) if they need to take action. If no payment is received after 30 days, call the escrow company to determine the status. Document the call in the system by adding notes. If only tax on the sale of F&E is due, send an email to the shared mailbox [BTFD-RAU Electronic Maintenance Requests](#) to request RAU to key in the F&E so a penalty does not get assessed.

Although the RTC sections listed in CPPM section 650.010 allow the CDTFA 60 days to issue a CDTFA-471 or a CDTFA-1274, if all the information is received and verified prior to the expiration of the 60-day period, the CDTFA-471 or CDTFA-1274 should be sent without further delay. Note, the CDTFA-1274 serves as the tax clearance once the amount due on the notice has been paid. There is no reason to send a CDTFA-471 after the CDTFA-1274 has been sent and the amount listed on the form has been paid.

The clearance documents and the CDTFA-406 (if one is used) will be sent to the Taxpayer Records Unit via Documentum for inclusion in the taxpayer's file. It is important that taxpayers are provided with all of the documents that inform them of their rights and obligations, and the tax clearance process is completely documented in case there are questions or concerns later.

If the request is made by the buyer and/or seller, and there is no escrow company handling the transaction, a CDTFA-370, *Request for Certificate of Payment-Existing Balance*, or a CDTFA-48, *Notice to Purchaser on Request for a Certificate of Payment*, will be used to notify the buyer of amounts due in order to receive a CDTFA-471. The CDTFA-370 and CDTFA-48 are intended for use only when an escrow company or other agent is not handling the transaction for the buyer and seller, and are not to be used by staff in lieu of a CDTFA-1274 to put an escrow company or other agent on notice of an amount due.

The CDTFA-370 or CDTFA-48 must be mailed to all involved parties at their address of record as shown in the CDTFA's files. When using these forms, a CDTFA-471 will be issued after the payment is received.

The letters referenced above are for sales and use tax or use fuel tax accounts. If a request for a certificate of tax clearance for a motor vehicle fuel tax, a diesel fuel tax, or an oil spill response, prevention and intervention fee account is received, a custom letter containing similar language should be issued.

CANCELLATION LETTER

650.032

If the escrow technician receives any information regarding the cancellation of an escrow or sale, a CDTFA-574, *Escrow Confirmation Cancellation*, may be sent to the buyer, the seller, and the escrow company or agent to request written confirmation of the cancellation. In cases where the seller is not forthcoming with documents necessary to timely issue a tax clearance, a CDTFA-550, *Escrow Follow Up for Information*, may be used to identify the information required to complete the tax clearance process, the deadline for submission of the required documentation, and to make clear that the tax clearance process will be cancelled if the required information is not made available. If no response is received within 30 days from the date of the cancellation letter, the request for the tax clearance can be cancelled without the issuance of a certificate of payment. If the seller's account has an active collection case, the escrow technician should notify the responsible collector that the escrow has been cancelled.

TAX CLEARANCE FOR NON-TAXABLE OPERATIONS

650.040

Any request for a tax clearance for the sale of a business not requiring a permit, license, or account, may be completed after it has been verified that no permit, license or account was required. The sale of the equipment, along with a business of a type not required to hold a seller's permit, is regarded as an occasional sale and is not taxable unless it is one of a series of sales that would cause the owner to be a retailer of fixtures and equipment. The regular clearance form may be used in these situations, however a thorough investigation should be completed to ensure a permit, license, or account was not required and that tax on the F&E is not due.