



What's New/What's Coming?

The California Department of Tax and Fee Administration's New Online System is What's Coming!

When does this take place?

Beginning in the afternoon of May 7, 2018, we will release our new online system, referred to as the Centralized Revenue Opportunity System (CROS). Our current system will shut down in the early hours of May 1, so if you have a tax or fee return due on April 30, 2018, be sure to file and pay it timely.

How will this impact me?

If you file late, you will have to wait until our new online system is live on May 7, 2018, to file your return, and to request relief of late payment penalties and/or interest. With CROS, your current User ID and Password will not work.

What will I need to do?

As such, once CROS is live, you will need to re-register and a security code will be mailed to you to the physical address we have on file. Because this security code will be mailed, you'll want to perform this new registration function as soon as possible. Until your new registration is complete, you will be able to utilize your Express Login Code (referred to as a Limited Access Code) to perform basic services.

What CDTFA tax and fee programs will be affected?

CROS will be available for the following tax and fee programs: Sales and Use Taxes, Prepaid Mobile Telephony Services Surcharge (other than telecommunication service suppliers), Lumber Products Assessment, Cigarette and Tobacco Products Licensing, Covered Electronic Waste (eWaste) Recycling Fee, California Tire Fee, and Cigarette and Tobacco Products Internet Purchases.

What are some of the new features with the new online system?

The accounts for these programs will be moved to our new system with access to an online services portal, which includes features that are only available by logging in with a User ID and password. The benefits of logging in include:

- Real-time access to account information
- Filing and payment history
- Secure messaging
- Account maintenance
- Amend a return (for filing periods beginning May 2018)
- File a claim for refund or petition for redetermination
- Add a contact
- Request a Power of Attorney

Important information about the new services, system interruptions, and how to access your account will be available on our website. The remaining tax and fee programs will go live in spring 2019 and spring 2020. During the transition, our website will direct you to the correct login page based on your account type. For more information please visit us at www.cdtfa.ca.gov/services/cros.htm.

Important Information for Cannabis Distributors

As a cannabis distributor, you must electronically file your cannabis tax returns and pay the cultivation tax and cannabis excise tax due to the California Department of Tax and Fee Administration (CDTFA). The cannabis tax return filing and payment of the cannabis taxes for the first quarter reporting period (January 1, 2018, through March 31, 2018) are due April 30, 2018. As we mentioned on the previous page, with our current system going down shortly after the April 30, 2018 due date, you'll want to make sure you file and pay timely! Please note that the cannabis tax return is separate from any other tax return you may be required to file, such as the sales and use tax return if you have a seller's permit.

You may request to file your returns and pay the cannabis taxes on a monthly basis instead of quarterly beginning April 1, 2018. To request a monthly reporting period, call our Customer Service Center at 1-800-400-7115 (TTY:711) and follow the prompts for the cannabis excise and cultivation taxes. Please remember that the return and payment of the cannabis taxes are due on the last day of the month following each reporting period.

Reporting the cultivation tax

As a distributor, you must collect the cultivation tax from cultivators and manufacturers from whom you receive cannabis and/or cannabis products. The cultivation tax must be reported for the reporting period in which the cannabis or cannabis products enter the commercial market. You are required to report the ounces, including partial ounces rounded to the nearest hundredth ounce of cannabis; based on the category of dried flowers, dried leaves, or fresh cannabis plant as listed on the invoice from the original cultivator, less any cannabis that was used for testing. Additionally, adult-use ounces must be entered separately from medicinal ounces for each category on your cannabis tax return. You will need to obtain additional information from manufacturers on the category and ounces of cannabis used to manufacture cannabis products to report the cultivation tax properly.

Reporting the cannabis excise tax

The cannabis excise tax must be reported and remitted in the reporting period in which you sell or transfer the cannabis or cannabis products to the cannabis retailer based on the average market price. Any excise tax collected from retailers for any inventory they purchased *prior* to January 1, 2018, and sold at retail on or after January 1, 2018, must be reported as "excess excise tax collected" on your electronic cannabis tax return. For these types of transactions, the retailer will collect the cannabis excise tax from their customers and pay the amount collected to you, a cannabis distributor.

For more information

To learn more about how the cannabis taxes and sales and use tax apply to your business activities, and for other important information including invoice requirements and requests for relief of penalty, please see our *Tax Guide for Cannabis Businesses* at www.cdtfa.ca.gov/industry/cannabis.htm.

To ensure you receive the latest news on cannabis tax compliance and related issues like CDTFA-issued special notices and news releases, sign up for the CDTFA [Cannabis Outreach](mailto:cdtfa@cdtfa.ca.gov) email on our website at www.cdtfa.ca.gov/subscribe/.

Do You Need a California Battery Fee Account?

If your business sells [replacement lead-acid batteries](#) you must register for a California battery fee account to comply with the new law. As of April 1, 2017, Assembly Bill 2153 requires all dealers (retailers) who sell replacement lead-acid batteries in California are required to register, collect, and remit the California battery fee to the CDTFA. Retailers may retain 1.5 percent of the fee collected as reimbursement for any costs associated with the collection of the fee. Manufacturers who make retail sales of lead-acid batteries in California directly to consumers must also register for the California battery fee. Helping your business succeed is important to the CDTFA so please register for your California battery fee account at www.cdtfa.ca.gov if you are not already registered. Visit our [Lead-Acid Battery Fees Guide](#) for more information about the fee and how to register.

If you have any questions, contact our Customer Service Center at 1-800-400-7115 (TTY:711) and follow the prompts to other Special Taxes and Fees under the special taxes menu. Customer service representatives are available weekdays from 8:00 a.m. to 5:00 p.m. (Pacific time), except state holidays.



Revised and New Cigarette and Tobacco Products Tax Regulations Expected in 2018

The voters of California enacted Proposition 56 in 2016. Effective April 1, 2017, Proposition 56 expanded the definition of “tobacco product” (for taxation purposes) to include any type of tobacco, nicotine for human consumption, little cigars, electronic cigarettes sold in combination with nicotine, and vape liquids containing nicotine. Since the passage of Proposition 56, CDTFA staff have been working with the tobacco products industry to clarify the taxation, licensing and registration requirements of regrading products containing nicotine for human consumption.

Amendments to Regulation 4076, *Wholesale Cost of Tobacco Products*, will clarify how to determine the wholesale cost of tobacco products, particularly electronic cigarettes and vape products that contain nicotine when sold with or without accessories. The revised regulation provides examples regarding determining the wholesale cost and whether excise tax is applicable to certain transactions relating to the tobacco products industry. Additionally, the proposed new of Regulation 4077, *Tobacco Product Manufacturer*, will clarify which activities involving tobacco products manufacturing require a California entity to obtain a manufacturer-importer license and account for licensing and taxation purposes. We expect these regulatory changes to become effective by July 1, 2018.

For additional information, see the proposed regulation information on our website at www.cdtfa.ca.gov/taxes-and-fees/business-taxes-committee.htm.

Cellular Phones Sold in a Bundled or Unbundled Transaction

To determine the application of sales tax on the sale of a cellular phone, you must determine whether the sale is part of a bundled transaction or an unbundled transaction. A *bundled transaction* is a sale which, in addition to the actual sale of the cell phone, the customer *is required* to activate the cell phone or be under a service plan for greater than one month or contract with a particular service provider for a period of greater than one month (typically one or two years). On the other hand, an *unbundled transaction* is a sale which, in addition to the actual sale of the cell phone, the customer *is not required* to activate the cell phone or be under a service plan for any length of time. Tax applies to the actual gross receipts you receive from your customer for the retail sale of the cellular phone.

For further information concerning cellular phones, please review [publication 120, Cell Phones and Other Wireless Telecommunication Devices](#), and our [Prepaid Mobile Telephony Services \(MTS\) Surcharge Industry Guide](#).

Alterations to New Clothing are Taxable

If you are a tailor (that is, not a clothes cleaning or dyeing establishment) that performs alterations on clothing, your charges for altering new clothing are considered part of the creation of the new item and are generally subject to tax. However, if you alter *used* clothing, those charges are not subject to tax.

Clothing is considered new if:

- The labels or tags are still attached;
- The hems, cuffs, or other parts are unfinished; or
- It has not been previously worn by the customer (except for trying on or fitting).

Examples of alterations to new clothing include, but are not limited to:

- Shortening or lengthening sleeves or pants
- Modifying waist sizes
- Hemming
- Restyling the item
- Changing design
- Adding/removing material from the item



As a tailor, the charges you make for altering new clothing are taxable regardless of whether the charges are separately stated or included in the selling price of the clothing.

As a tailor, the charges you make to alter used clothing are generally not subject to tax. Clothing is considered used if:

- It has been previously worn by the customer; or
- It is in a state of disrepair (for example, worn out, or torn).

The charges for altering used clothing are generally not subject to tax when such alterations are performed to refit or repair the item to its intended use for which it was created or produced.

Examples of alterations to used clothing may include, but are not limited to:

- Replacing a zipper or button(s);
- Mending or patching a hole; or
- Taking in (or letting out) seams for a better fit.

Charges for alterations, such as lengthening a pair of pants or taking in a skirt's waist, are also not subject to tax as long as the clothing is considered used.

If you do not already hold a seller's permit and you perform alterations to new clothing, you are required to register with the CDTFA to report and pay tax on your alteration charges. Please visit our website at www.cdtfa.ca.gov and click the *Register* button.

EFT Penalty

Generally, if your monthly estimated sales and use tax liability averages ten thousand dollars (\$10,000) or more per month for sales tax or \$20,000 or more for special taxes, you are required to pay by mandatory Electronic Funds Transfer (EFT). If you are designated as a mandatory EFT account, all payments made to the CDTFA require payment by EFT to avoid the ten percent (10%) penalty under Revenue and Taxation Code section 6479.3. This includes payments for:

- Returns
- Accounts Receivable balances for self-assessed amounts due
- Prepayments (penalty is limited to 6 percent if not paid by EFT)

For additional information on EFT, please see our Electronic Funds Transfer (EFT) webpage at www.cdtfa.ca.gov/services/eft.htm.

Claim Amount on Claim for Refund/Credit Requests

If you have overpaid taxes, fees, surcharges, interest, or penalties to the CDTFA, it is important that you file a timely* claim for refund. You must submit the request in writing and may use [CDTFA-101, Claim for Refund or Credit](#), or [CDTFA-101-DMV, Claim for Refund or Credit for Tax Paid to DMV](#) (if the claim pertains to a vehicle or vessel). You must provide us with the actual amount of your claim, along with the specific reason for the claim. Entering the actual amount of the claim will not affect any potential refunds in excess of the claimed amount for the same type of transactions. We will contact you if we need additional information or documentation.

*For additional information on how and when to file a claim for refund, please visit www.cdtfa.ca.gov/taxes-and-fees/refund-general.htm or view our publication 117, *Filing a Claim for Refund*, at www.cdtfa.ca.gov/formspubs/pub117.pdf.

For More Information

All telephone numbers are toll-free.

Internet

www.cdtfa.ca.gov
www.taxes.ca.gov

Customer Service Center

1-800-400-7115
(TTY:711)

Seller's Permit Verification

1-888-225-5263
www.cdtfa.ca.gov

Taxpayers' Rights Advocate

1-888-324-2798
www.cdtfa.ca.gov/tra

Tax Evasion Hotline

1-888-334-3300

State Legislation

<https://leginfo.legislature.ca.gov/>

More Articles Available Online

There are occasions when we have more articles than we have space for in this print version of the *Tax Information Bulletin*. The additional articles are available online at www.cdtfa.ca.gov/taxes-and-fees/tax-bulletins.htm.