STATE OF CALIFORNIA

CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

GAVIN NEWSOM
Governor

YOLANDA RICHARDSON
Secretary, Government Operations Agency

NICOLAS MADUROS
Director

1- • FAX 1-
www.cdtfa.ca.gov

Tax Permittee

Use of "XYZ" Letter Procedure to Verify Claimed Sales for Resale

This letter summarizes the sample letter procedure explained to you by our auditor. The auditor questioned certain sales claimed on your tax returns as sales for resale because they were not supported by a valid resale certificate taken in good faith at the time of sale.

Under the California Sales and Use Tax Law, you as the seller are liable for payment of the tax unless you can present satisfactory evidence that the property was in fact purchased by your customer for resale or that your customer paid the tax directly to this state.

If the auditor has also questioned sales other than resale, such as sales in interstate and foreign commerce, sales to the United States Government, or transportation charges, documentation to support the claimed exemption must also be provided. The auditor will provide you with an information sheet describing how the law applies and the type of supporting documentation required to support the questioned claimed exempt sale.

The "XYZ" letter procedure outlined in this document is recommended by the California Department of Tax and Fee Administration (CDTFA) as a method by which you, the seller, can help to satisfy the burden of proving that a sale was not at retail even though a resale certificate was not timely obtained, or your customer paid the tax directly to the state. This procedure should only be used when you cannot locate the appropriate supporting documentation, such as resale certificates, purchase orders, sales contracts, etc., within your company records.

It is recommended that the “XYZ” response forms be returned directly to the CDTFA. However, you may choose to have the letters returned to you for forwarding to the CDTFA. In either case, the auditor will review all documentation submitted. Because the XYZ letter is not a substitute for a timely resale certificate, you or your customer may be required to submit additional documentation or information to your auditor. You should be aware that if the auditor determines the "XYZ" process is appropriate and you choose to have the forms returned directly to you instead of to the CDTFA, the likelihood of having staff contact your customer or sending an additional mailing will be greater.

The attached sample letter and statement form are provided for your convenience. If the statement form does not fit your particular circumstances, the auditor will work with you to customize the form. You may reproduce the statement form and send it to the customers in question to obtain their signed statements regarding the disposition of the purchased property. If you choose the recommended procedure to have the forms returned directly to the CDTFA, the auditor will provide return envelopes.

In order to communicate fully with your customers, you may:

- Customize the letter by placing the text on your letterhead.
- If you choose the recommended procedure to have the responses sent directly to the CDTFA, you may add a statement in the letter to your customer asking that your customer send you a copy of the response by fax or mail.
- If your agreement of sale permits it, ask your customer to forward payment of tax if the transaction is identified as taxable. You should clearly indicate that the tax should be forwarded to you and not to the CDTFA.

Please note that any changes you make to the sample letter or form must be approved by CDTFA staff before mailing.

The auditor will allow a four week period for you to send the statements and for your customers to reply. If you have chosen the recommended procedure to have the responses sent directly to the CDTFA, the auditor will timely provide you copies of the responses received. While the auditor will carefully consider the statements received within the allowed period, late responses may be reviewed and allowed if appropriate.

Please be aware that a statement will not be accepted as satisfactory proof if incomplete, if found to be untrue, or if the CDTFA has or receives information that refutes such statement. Unlike a valid resale certificate, a purchaser's statement of resale taken after the sale does not relieve the seller of liability for the tax if it is found that the property was purchased for the buyer's use and the applicable tax was not paid to the state prior to the date of your letter to your customer.

CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION
Business Tax and Fee Division