



NEWS FOR TAX PRACTITIONERS

WHAT YOU NEED TO KNOW TO HELP YOUR CLIENTS SUCCESSFULLY OPERATE THEIR BUSINESSES

MISSION: We make life better for Californians by fairly and efficiently collecting the revenue that supports our essential public services.

This semiannual newsletter informs you of the recent changes to tax and fee programs administered by the California Department of Tax and Fee Administration (CDTFA) and other California state agencies that may affect your clients' businesses. This newsletter also provides efficient, accurate, professional tax information and guidance in preparing your clients' returns.

California Cigarette Tax Stamps Purchased Before March 17, 2020, Are Expiring – Claims for Refund Are Now Being Accepted

There are two versions of red-orange California cigarette tax stamps in circulation. Stamps sold before March 17, 2020, will expire in early 2023. Cigarette distributors who purchased these stamps on a cash basis have until March 16, 2023, to file a claim for refund. Distributors who purchased these stamps on a deferred payment basis have until April 25, 2023, to file a claim for refund. **We will not accept refund claims for the expiring stamps after these dates.**

To submit a claim for refund, you or your client must log in with a username and password at onlineservices.cdtfa.ca.gov. For claims for refund involving cigarettes from multiple manufacturers, a separate claim must be filed for each manufacturer.

The current and expiring stamps look very similar. The easiest way to identify the expiring stamps is to look at the color on the left side of the stamps.

Expiring Stamps

- The color on the left side of the expiring stamps is darker than on the current stamp.
- The star on the left side of the expiring stamp has a thinner white border, and two of the star points are cut off.
- There is a larger gap between the star and the letters "CA" on the expiring stamps.

Current Stamps

- The color of the left side on the current stamp is lighter.
- The star on the left side of the current stamp has a thicker white border, and only one star point is cut off.
- The star is set close to the letters "CA."

Expiring Stamp:



Current Stamp:



Cannabis Taxes

Beginning January 1, 2023, cannabis retailers, including microbusinesses that sell cannabis or cannabis products at retail, are responsible for collecting the 15 percent cannabis excise tax from purchasers based on gross receipts from the retail sale of cannabis or cannabis products. In December 2022, we automatically registered cannabis retailers with a cannabis retailer excise tax account. If a cannabis retailer was not automatically registered with us, the retailer must register for a cannabis retailer excise tax account through our [online services](https://onlineservices.cdtfa.ca.gov). Additionally, cannabis retailers must report and pay the cannabis excise tax to us for their retail sales of cannabis and cannabis products that are made on and after January 1, 2023.

For more information, please visit our online *Tax Guide for Cannabis Businesses*, at www.cdtfa.ca.gov/industry/cannabis.htm, and our special notices:

- *New Responsibilities for Cannabis Retailers Beginning January 1, 2023*, at www.cdtfa.ca.gov/formspubs/L874.pdf
- *Cannabis Excise Tax Changes Beginning January 1, 2023, and New Enforcement Provisions*, at www.cdtfa.ca.gov/formspubs/L866.pdf
- *Certain Cannabis Retailers May Apply to Retain Vendor Compensation*, at www.cdtfa.ca.gov/formspubs/L884.pdf

Additional Used Motor Vehicle Dealers Are Required to Pay Tax to the Department of Motor Vehicles Beginning January 1, 2023

Beginning January 1, 2023, used motor vehicle dealers not currently paying sales tax to the Department of Motor Vehicles (DMV) that made 300 or fewer retail vehicle sales in calendar year 2021, will be required to pay sales tax, including district taxes, on their retail sales of used motor vehicles directly to DMV when they submit a vehicle registration application. All other used motor vehicle dealers will have their payment method change postponed until January 1, 2026, unless otherwise notified by DMV.

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Online Webinars and Video Tutorial

If you or your clients are interested in attending a seminar for used motor vehicle dealers, please visit our *Tax Education Events* webpage, at www.cdtfa.ca.gov/seminar/. From the webpage, click *Used Car Dealers Tax Return Preparation Webinar*, and select *Register Online* to sign up.

A video tutorial is also available to help you and your clients complete the sales and use tax return and schedule, CDTFA-531-MV. You will find it on our *Online Services* webpage, at www.cdtfa.ca.gov/services/#Tutorials. From the webpage select the *Returns* heading, select the *Sales and Use Tax* subheading, and then select *How to file Schedule MV*. For additional assistance, please call our Customer Service Center at 1-800-400-7115 (CRS:711). Customer service representatives are available Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays.

For more information, please see [Senate Bill \(SB\) 1496](#) (Stats. 2022, ch. 474), and for important tips to make filing returns and payments, and reconciling with DMV records easier, please see our special notice, *Certain Used Motor Vehicle Dealers Required to Pay Tax to the Department of Motor Vehicles Beginning January 1, 2023*, at www.cdtfa.ca.gov/formspubs/L870.pdf.

New 988 Surcharge Effective January 1, 2023

Starting January 1, 2023, telecommunication service suppliers and sellers of prepaid mobile telephony services (MTS) are required to report a new 988 surcharge when filing the *Emergency Telephone User Surcharge Return or Prepaid MTS Return*.

The new legislation:

- Establishes a new 988 State Suicide and Behavioral Health Crisis Services Fund.
- Imposes the 988 surcharge on each access line for each month or partial month for which a service user subscribes with a service supplier and each retail purchase of prepaid MTS in California.
- Sets the 988 surcharge at \$0.08 per access line or purchase of prepaid MTS for calendar years 2023 and 2024.
 - o This surcharge will be reported on the same return as the 911 surcharge.
- On October 1, 2024, the California Governor's Office of Emergency Services (CalOES) will determine the surcharge rate for 2025, and each October 1 thereafter, CalOES will determine the surcharge rate for the following calendar year.

For more information, please see [Assembly Bill \(AB\) 988](#) (Stats. 2022, ch. 747).

Tax Holidays – Impacts for IFTA

To aid with the increasing price of fuel throughout 2022, various states have enacted legislation to suspend the application and collection of various motor vehicle fuel taxes through “tax holidays.” Tax holidays may impact the tax reporting for specified periods of time for motor carriers who participate in IFTA.

You may contact our Motor Carrier Office at 1-916-309-0900 with questions concerning the filing of a quarterly IFTA returns during tax holidays. You may also obtain a complete list of states participating in the tax holidays by visiting www.iftach.org.

Requesting a Power of Attorney

You must register as a power of attorney (POA) with us to discuss any of your client's accounts. You can register as a POA online or by mail.



To submit a POA request online, you must first create a profile on our online services page by selecting *Sign Up Now*. Then, under the *Registration Options* heading select *Create My Log On*. Once you have created a profile, click on *More* under the *I Want to* heading, then click on *Request a Power of Attorney*, and complete the requested information. The system will create an online notice and a system-generated letter that will be mailed to your client indicating that you have requested to be their POA. Your client can approve it online, or by calling our Customer Service Center at 1-800-400-7115 (CRS:711).

If you would like to register as a POA by mail, [CDTFA-392, Power of Attorney](#), can be downloaded from our website. The completed form can be mailed to a CDTFA [local field office](#).

Taxpayers may also provide any document identified as a “power of attorney” that includes the following information:

- Taxpayer's name, telephone number, identification number(s), account or permit number(s), and mailing address;
- The name, address (including email, if any), telephone and fax number of the appointed representative(s);
- The tax or fee matters the representative is authorized to represent the taxpayer; the scope of the representative's authority; and the filing period(s) for which the authorization is granted;
- A statement that the power of attorney revokes all prior powers of attorney, with any exceptions to the revocation noted;
- The time period during which the POA shall be in effect; and
- The signature(s) and title of all affected taxpayers and the date of signature.

New Billing Process for Delinquent Returns

In July 2022, we implemented a new automated billing process for taxpayers that do not file timely returns. Taxpayers receive a reminder to [file](#) before and after the due date of their return. The reminders may be in the form of an email, a notice, a text message, or a telephone call. If taxpayers do not file the return, they will first receive a Notice of Delinquency, and then an estimated billing notice, called a Notice of Proposed Assessment Liability, outlining the proposed amount to be billed. Thirty days after the Notice of Proposed Assessment Liability is sent, the proposed amount will be billed and enter our collection process. This billing can easily be avoided by timely filing your clients' returns or promptly closing their seller's permit when their business operations end.

Returns can be filed online at any time. If taxpayers cannot pay the amount due, they can request a [payment plan](#) using our [online services](#) after they log in with their username and password.

Sales and Use Tax for Nonprofit Organizations

Although many nonprofit organizations are exempt from federal and state income tax, there is no similar exemption from California sales and use tax. Generally, a nonprofit's sales and purchases are taxable. In other words, nonprofit organizations, in general, are treated just like other California sellers and buyers for sales and use tax purposes.

However, there are exemptions available for certain nonprofit organizations. Examples of nonprofit organizations that have specific sales and use tax exemptions can be found in publication 18. How tax applies to sales by a certain nonprofit organization is fact-specific and depends on the type of organization and the organization's practices and activities. For example, some nonprofit organizations may qualify for special exemptions from sales or use tax on meals and food products that are delivered to the elderly and people with disabilities while others are afforded an exemption on items sold, such as military welfare society thrift stores.

For more information on nonprofit organizations and available exemptions, please see publication 18, *Nonprofit Organizations*, at www.cdtfa.ca.gov/formspubs/pub18.pdf, publication 262, *Tax Help for Nonprofit and Faith-Based Organizations*, at www.cdtfa.ca.gov/formspubs/pub262g.pdf, and our *Tax Guide for Nonprofit Organizations*, at www.cdtfa.ca.gov/industry/nonprofit-organizations.htm#Overview, available on our website.

Military Thrift Stores

The exemption from tax on sales made by military welfare society thrift stores was scheduled to expire on December 31, 2023, but has now been made permanent. As a result of this exemption, tax does not apply to sales by a thrift store located on a military installation and operated by an entity that partners with the United States Department of Defense to provide financial, educational, and other assistance to members of the Armed Forces of the United States, eligible family members, and survivors that are in need (see [SB 1041](#) [Stats. 2022, ch. 225]).

New Law Prohibits Retail Sales of Menthol Cigarettes and Most Flavored Tobacco Products

Beginning December 21, 2022, cigarette and tobacco products retailers may no longer sell, offer, or possess with the intent to sell, menthol cigarettes and most flavored tobacco products. The law does not apply to flavored premium cigars with a wholesale price (retailer's purchase price) of \$12 or more and flavored loose-leaf pipe tobacco. Flavored shisha or hookah tobacco may be sold in licensed retail stores that only admit persons 21 years or older and operate following all state and/or local laws. Please visit the California Department of Public Health's website for frequently asked questions, a fact sheet, and other useful resources.

For more information, please read [SB 793](#) (Stats. 2020, ch. 34), which was upheld by the passage of Proposition 31 and added the flavored tobacco sale prohibition [section 104559.5 to the Health and Safety Code](#), and our special notice, *New Law Prohibits Retail Sales of Menthol Cigarettes and Most Flavored Tobacco Products*, at www.cdtfa.ca.gov/formspubs/L885.pdf.



Disclosure of Information Contained in a Winegrower Return and Supplemental Report

Beginning January 1, 2023, any information, except the name and address of a natural person (such as a sole proprietor or partnership), contained in winegrower returns and supplemental schedules filed on or after January 1, 2023, must be made public upon request (see [SB 518](#) [Stats. 2022, ch. 702]). However, taxpayers may elect to prohibit the disclosure of their return and accompanying schedule information. We will update the January 2023 winegrower online return with more information about this change and provide an option to allow your client to opt-out of disclosing their return information.

Additional information can be found in our special notice available in the *Resource* section of our *Tax Guide for Alcoholic Beverage*, at www.cdtfa.ca.gov/taxes-and-fees/alcoholic-beverage-tax.htm. This guide will be updated as more information becomes available – please check back periodically for updates.

Partial Tax Exemption for Zero-Emission Technology Transit Buses Extended Through December 31, 2025

The partial sales and use tax exemption for eligible purchases and leases of hybrid and zero-emission technology buses by qualifying purchasers was scheduled to expire December 31, 2023. It is now available through December 31, 2025 (see [AB 2622](#) [Stats. 2022, ch. 353]).

Qualifying purchasers generally include cities, counties, transportation or transit districts, and other public agencies that provide transit service to the public. To qualify for the partial exemption, the zero-emission technology transit bus must be eligible for the California Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP).

For more information about this partial exemption, please see the subheading, *Sales of Zero-Emission Transit Buses to Qualifying Purchasers*, under the *Industry Topics* tab in our *Tax Guide for Motor Vehicle Dealers*, at www.cdtfa.ca.gov/industry/used-vehicle-dealers.htm#Zero-Emission-Transit-Bus-Sales.

Online Filing Requirement for Alcoholic Beverage Taxpayers

Beginning January 1, 2023, alcoholic beverage returns and supplemental reports must be filed electronically (see [SB 518](#) [Stats. 2022, ch. 702]). If you or your client already file online, no action is needed. If you or your clients are *not* already filing online and have *not* created a username and password in our online services system, a unique security code is required to complete this process. Please view our [video tutorials](#) online for assistance with creating a username and password, including requesting a security code, and filing online, or contact us at 1-800-400-7115 (CRS:711), then select the *Special Taxes and Fees* option. Customer service representatives are available Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays.

Limited Access Codes Phasing Out: Sign Up Now for a Username and Password

We are phasing out the Limited Access Code (LAC) feature. If you or your clients are using an LAC to file or make payments on our online services system and have not created an online profile with a username and password, we encourage you to [Sign Up Now](#).

By creating a username and password, you will have access to all the enhanced features of our system.

The online services portal is also a great tool for keeping up to date on your client's accounts. You will be able to see the status of relief requests as well as view and print previously mailed letters, payments, and filed returns and reports for your client's accounts.

It is important that your client's account information is up to date, especially if your client is due a refund that includes credit interest. The CDTFA requires taxpayers to provide a Social Security Number (SSN) or Federal Employee Identification (EIN). Please make sure this information is furnished when submitting a claim for refund.

Video tutorials on how to log in and request access to client's accounts are available on our website at www.cdtfa.ca.gov/services/#loggingToggle.

New Program for Lithium Producers Beginning January 1, 2023

Beginning January 1, 2023, any person (producer) extracting lithium from a naturally occurring substance such as geothermal fluid, spodumene ore, rock, minerals, or clay, must pay a lithium extraction excise tax. The new tax is based upon the lifetime cumulative amount of metric tons of lithium carbonate equivalent extracted in California and each producer must register for a lithium excise tax (LET) permit with us.

If your client plans to extract lithium in California in 2023, we will help them register for their LET permit. Please contact us at 1-800-400-7115 (CRS:711), then select the *Special Taxes and Fees* option. Customer service representatives are available Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays.

For more information, please visit our *Lithium Extraction Excise Tax Guide*, at www.cdtfa.ca.gov/taxes-and-fees/lithium-extraction-excise-tax.htm. We will update this guide as more information becomes available – please check back periodically for updates.

Marketplace Facilitator Act Update: Passenger Vehicle Rental Brokers

A marketplace facilitator is generally considered the retailer and responsible for collecting, reporting, and paying the tax on retail sales made through their marketplace for delivery to California customers. Beginning January 1, 2023, vehicle rental brokers are not considered to be marketplace facilitators when they facilitate, for a commission or fee, the rental of a passenger vehicle on their marketplace on behalf of another rental company that is not a related person. Therefore, vehicle rental brokers are not responsible for the tax on such rentals of passenger vehicles made through their marketplace by another rental company.

For more information, please see [SB 1312](#) (Stats. 2022, ch. 228) and our *Tax Guide for Marketplace Facilitator Act*, at www.cdtfa.ca.gov/industry/MPFAct.htm.

Upcoming International Fuel Tax Agreement Record Review

Our Motor Carrier Office will be contacting new licensees to conduct records reviews at their place of business according to the International Fuel Tax Agreement (IFTA) Audit Manual section A510, *Records Review Implementation*, which are intended to help licensees comply with IFTA recordkeeping requirements.

The purpose of these record reviews is to assist licensees in preparing and documenting their fleets' operations as required by IFTA Procedures Manual section P530, *Adequacy of Records*. This review focuses only on the adequacy of internal controls and compliance of distance and fuel accounting systems and does not constitute an audit of any previously filed quarterly return. The records review does not result in findings or tax adjustments, nor are the periods included in the review excluded from a future audit.

Articles from Other State Agencies Employment Development Department

Staying In Compliance

Misclassifying workers can be costly to a business, so it pays to stay in compliance. If worker misclassification is discovered during an audit, the business is responsible for unpaid Unemployment Insurance (UI) and Employment Training Tax, worker contributions not properly withheld, and the interest from when those contributions were legally due, until paid. The business may also be subject to penalties on the amount due. Misclassification also affects workers, as it impacts their ability to access vital resources to which they are entitled, such as UI, Disability Insurance (DI), and Paid Family Leave (PFL) benefits. The [Employment Development Department](#) (EDD) provides vital resources for businesses to stay informed on the current law.

Education and Outreach

The EDD offers no-cost seminars throughout the year to help employers comply with state payroll tax reporting requirements. For more information or to register, please visit the EDD's *Payroll Tax Seminars* webpage, at seminars.edd.ca.gov/payroll_tax_seminars.

ABC Test

Beginning January 1, 2020, section 2775 was added to the Labor Code and amended section 621(b) of the California Unemployment Insurance Code (CUIC) by removing the "common law rules" and applying the ABC test. Under the ABC test, an individual providing labor or services for remuneration is presumed to be an employee rather than an independent contractor unless the hiring entity demonstrates certain conditions apply. While the ABC test is the applicable test for most workers, sections 2776 through 2784 of the Labor Code establish exceptions to the ABC test for some workers, occupations, and contracting relationships. For more information about the ABC test and a full list of the ABC test exceptions, please see [AB 5](#) (Stats. 2019, ch. 296) and visit the California Labor & Workforce Development Agency's Employment Status Portal, at www.labor.ca.gov/employmentstatus.

Thank you for connecting with us.

