



**STATE BOARD OF EQUALIZATION**

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February 7, 2017

VIA INTERNET

Dear Interested Party:

The Audit Manual (AM) is a guide for the Board of Equalization (BOE) staff in administering tax and fee programs. It is available to the public and can be accessed from the BOE web page at <http://www.boe.ca.gov/sutax/staxmanuals.htm>.

The Business Tax and Fee Department (BTFD) is proposing to revise AM Chapter 4, *General Audit Procedures* and AM Chapter 12, *Construction Contractors*. The revision material is provided on the following pages for the convenience of interested parties who may wish to submit comments or suggestions. Please feel free to publish this information on your website or otherwise distribute it to your association/members.

If you have any comments or suggestions related to the proposed AM revisions, you may contact the BOE at [AM.RevisionSuggestions@boe.ca.gov](mailto:AM.RevisionSuggestions@boe.ca.gov). Your comments or suggestions must be received by BOE no later than **April 7, 2017**, in order to be considered by staff. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "Trista Gonzalez".

Trista Gonzalez, Chief  
Tax Policy Division  
Business Tax and Fee Department

**AUDIT MANUAL, CHAPTER 4  
GENERAL AUDIT PROCEDURES**

**AUDIT OF THE LUMBER PRODUCTS ASSESSMENT** **0424.00**

**GENERAL** **0424.05**

The Board of Equalization (BOE) is responsible for administering a one percent (1%) assessment imposed on the purchase of lumber products and engineered wood products based on the selling price. Under the law (Public Resources Code §§ 4629 - 4629.13), retailers selling lumber products or engineered wood products are required to charge and collect the 1% assessment on sales of these products to consumers. In addition to retailers, purchasers, including construction contractors, who purchase lumber products or engineered wood products for use in California without paying the 1% assessment to a registered California retailer are required to report and pay the assessment directly to the BOE.

The law requires electronic filing of the lumber products assessment. There is no paper return available to taxpayers to use in reporting and paying. Taxpayers identified as lumber retailers (ACC 39) are prompted to complete a lumber schedule to report and pay their lumber products assessment when filing their sales and use tax return. Taxpayers that are ineligible or exempt from online filing of their sales and use tax returns are required to electronically file a “lumber only” return.

**Low-Volume Retailers**

A “low-volume retailer” is a retailer whose sales of qualified lumber products and engineered wood products are less than \$25,000 during the previous calendar year. For purposes of meeting the threshold, retailers that have more than one location must include sales of qualified lumber products and engineered wood products from all locations when determining if the threshold is met.

Effective January 1, 2015, low-volume retailers are *not* required to register and collect the assessment from their customers for the subsequent calendar year. However, they may choose to do so voluntarily. If they do not voluntarily collect the assessment, these retailers are still required to track their annual sales to determine whether or not they will be required to collect the assessment the following year. Low-volume retailers are also required to notify their customers (the purchaser) that they must pay the 1% assessment directly to the BOE and to notify the BOE to remove the lumber schedule from their accounts.

**Additional Information:**

- Penalty and interest apply to outstanding lumber products assessment liabilities as established pursuant to Revenue and Taxation Code (RTC) section 6591.5.
- The lumber products assessment law does not contain a provision to allow a retailer to claim a bad debt deduction for the lumber products assessment.

- The tax-paid purchases resold deduction does not apply as the lumber products assessment is imposed on the consumer.
- Taxpayers may file a claim for refund directly with the BOE for overpayments of the 1% assessment.

## **LUMBER PRODUCTS AND ENGINEERED WOOD PRODUCTS**

**0424.10**

The State Board of Forestry and Fire Protection (BOF) is responsible for identifying specific products subject to the assessment. In general, lumber products and engineered wood products subject to the 1% assessment are building products usually used in construction in which wood is at least 10% of total content – for example, all dimensions and grades of lumber, roofing (shakes and wooden shingles), siding, lath, plywood, particle board, fiberboard, oriented strand board, I-joists, laminated veneer lumber, veneer-based sheathing material, and inorganic-bonded and wood thermoplastic composites, including lumber and decking. Based on guidance provided by the BOF the lumber products assessment does *not* apply to products where labor has added ‘significant value’ to them, such as:

- Furniture,
- Doors,
- Windows, and
- Decorative products such as wainscoting, paneling, molding, or baseboards that have added profiling, patterns, chamfering or other craftsmanship.

However, the addition of any value to a lumber product does not automatically result in a product not being subject to the assessment. Many lumber products undergo additional processing before being used, but are still subject to the assessment, for example lumber that is graded and planed. In addition, engineered wood products, which are subject to the assessment, have been, by definition, processed or manufactured from raw materials. Thus, it is important to review the Lumber Products Assessment industry guide on the BOE website when trying to determine if a product is subject to the lumber products assessment. The *Lumber Products Assessment* industry guide provides examples of products subject to and excluded from the 1% assessment.

Staff may receive questions from taxpayers about whether a specific item is subject to the 1% assessment. If the product is not listed on the BOE’s webpage and further direction is needed, staff should forward the inquiry to the Tax Policy Division, Audit and Information Section (AIS). When forwarding product inquiries to AIS, if possible, obtain a link to the website describing the product, or other descriptive information about the product in question. When appropriate, AIS will forward product inquiries to BOF for their determination. Determinations from BOF regarding product inquiries will be added to the *Lumber Products Assessment* page as necessary.

Auditors are responsible for verifying that affected taxpayers are in compliance with the lumber products assessment program (see AM section 0424.25, *Retailers*) and that the correct lumber products assessment has been reported and paid.

### **VERIFICATION OF ACCOUNT STATUS**

Auditors must verify that the account characteristic code (Acct Char field on the TAR AI screen) is correctly coded as a lumber account with 39. Beginning January 1, 2015, retailers selling less than \$25,000 in lumber products during the previous calendar year (low volume retailers) are not required to register or collect the assessment but may do so voluntarily. (See AM section 0424.05, for information on low-volume retailers.)

If the taxpayer is a lumber product retailer or purchaser/consumer of lumber products and the account has *not* been coded with ACC 39, auditors must contact appropriate compliance staff to:

- Add ACC 39 to the account.
- Manually add the Lumber Products Assessment (LUM) FO's for the appropriate prior periods.

If the taxpayer's account is coded ACC 39 and the taxpayer is *not* a lumber product retailer or purchaser/consumer, auditors must contact appropriate compliance staff to:

- Remove ACC 39 from the account
- Clear any empty (unfilled) LUM FO's

### **AUDIT REPORTS**

#### **Report of Field Audit**

The BOE-414-A, *Report of Field Audit* for lumber retailers or purchasers (ACC 39) must show liabilities established for sales and use tax and the lumber products assessment separately. The General Comments embedded Word document has a drop-down for lumber products assessment (LPA) comments. The Audit Summary Workbook (ASW), *Tax Returns Worksheet*, provides for comments regarding the lumber fee. The BOE-414-E for accounts with the ACC 39 includes the combined reported measure for both sales and use tax and the lumber assessment.

#### **Transcript of Returns**

Auditors receive an additional file path to download the lumber transcripts of returns. Auditors should verify that all periods in which the taxpayer sold or purchased lumber have reported amounts (including zeros) for lumber transactions. Auditors should be alert to situations in which prior period LUM FO's must be created or deleted.

#### **Audit Payment Form**

The BOE-1, *Audit Payment Information Form* (printed with the Audit Report) for accounts with ACC 39 shows separate balances for the sales and use tax liability and the lumber products assessment liability. The payment form will allow taxpayers to designate payment amounts to the sales and use tax liability and the lumber products assessment liability.

## **AUDIT PROCEDURES**

Accounts that sell or purchase lumber products (coded with ACC 39) require additional verification and testing procedures for the lumber assessment that should include the following:

### **Verification of Products Subject to the 1% Assessment**

Auditors should verify that the taxpayer is correctly charging the 1% assessment on products categorized as lumber or engineered wood products. Auditors should refer to the *Lumber Products Assessment* industry guide on the BOE website and the BOF's *Lumber Products Assessment Regulation* as guidance for products subject to the assessment. Auditors should review this information for any updates and revisions prior to beginning the audit.

If necessary, auditors should advise the taxpayer to begin collecting the 1% assessment on specific products and document in the *Audit Report* that the taxpayer was advised the specific product is subject to the 1% assessment.

### **Reconciliation of Sales**

Taxpayers report their net transactions subject to the lumber products assessment on the lumber schedule of the sales and use tax return; the lumber schedule does not include lines for deductions. Auditors should reconcile recorded sales (and purchases, if applicable) to the net reported transactions subject to the 1% assessment. Unexplained differences should be assessed in the same manner as sales and use tax reconciliation errors on the lumber products assessment schedule.

### **Reimbursement Costs**

Auditors must verify that the taxpayer's total claimed reimbursement for start-up costs is correctly offset against the taxpayer's reported lumber assessment revenue. See AM section 0424.25 for an explanation of eligible retailers and allowable start-up costs. Allowable start-up reimbursement costs not claimed as an offset on the taxpayer's returns may be credited against any additional lumber products assessment established in the audit or established as a credit offset in the audit, provided the taxpayer has previously reported sufficient lumber products assessment revenue to offset the reimbursement.

### **Test of Lumber Sales**

In general, sales that are not subject to sales or use tax (such as resales and interstate or foreign commerce sales) are not subject to the 1% assessment. If a preliminary review of sales suggests that additional testing of lumber product sales is necessary, auditors should also test (either sample or census) lumber product sales to verify that the retailer correctly charged and collected the 1% assessment on sales of lumber or engineered wood products to purchasers for use in California.

Auditors should follow standard policy and procedures for testing and error projection as stated in Audit Manual Chapter 4, *General Audit Procedures*, and Chapter 13, *Statistical Sampling*.

## **Verification of Construction Contractors**

In general, sales to, or purchases by, construction contractors of lumber products that are consumed in the performance of a construction contract in California are subject to the 1% assessment. If a contractor purchases lumber products ex-tax from outside of California or under a resale certificate from California vendors that do not charge the 1% assessment, the construction contractor is responsible for the 1% assessment as well as any use tax on the lumber or engineered wood products consumed in the performance of the construction contract in California (See AM section 1208.55).

Auditors should perform a cost accountability test for lumber and engineered wood products to verify that the 1% assessment was properly paid or reported (see Audit Manual Chapter 12, section 1205.10).

## **Lumber Schedules**

Results of lumber tests should be scheduled separately in the Excel workbooks, using new spreadsheets for:

- Lumber Products Assessment (LPA), and
- Lumber Products Reimbursement Offset (LMRB)

## **General and Verification Comments**

The General Comments embedded Word document has a drop-down for lumber products assessment (LPA) to enter relevant general comments (for example, the taxpayer is a retailer and/or purchaser of lumber or engineered wood products). The Audit Summary Workbook (ASW), Tax Returns Worksheet, provides for comments regarding the lumber fee.

In the Audit Workbook, auditors will use the *Misc Title* drop-down for lumber products assessment verification comments. Auditors should enter verification comments to explain the tests conducted and findings of the lumber portion of the audit investigation.

## **PREPARING AUDITS FOR UPLOADS**

### **Start 21 Program – BOE Audit Program**

The noncompliance code template (414N Code tab) includes four noncompliance codes for lumber:

- 2901 – Errors in Compiling Return
- 2902 – Difference Between Tax Accrued/Paid
- 2903 – Exemption Netted in Error
- 2904 – Exemption Not Claimed

The Juris Grid has two jurisdictions for lumber:

- Lumber Products Assessment (LPA) and
- Lumber Products Reimbursement Offset (LMRB).

The linking worksheets will include additional columns to coincide with the additional lumber jurisdictions.

## **Audits with Separate Underpayment (Debit) and Overpayment (Credit) Established for Sales/Use Tax and Lumber**

Audits that establish an underpayment for one component (sales/use tax or lumber assessment) and an overpayment for the other component require separate notices issued to the taxpayer (i.e., a *Notice of Determination* issued for the understatement and a *Notice of Refund* issued for the overpayment). In this situation, a separate *Field Billing Order* (FBO) must be created for the lumber product assessment (either overpayment or underpayment) in order to issue the separate notice.

For combination debit/credit audits, do the following:

- Complete the Audit Report for both sales/use tax and the lumber products assessment including entire Start 21 (414A-p3), schedules, comments (Audit and FBO; see note below), files, and forms, but do not create the juris grids and linking worksheets.
- Obtain a separate case ID for the FBO for the lumber component.
- Make a copy of the entire audit case folder for FBO case ID.
- On the copy, change audit case ID to new FBO case ID.

**NOTE:** General Comments for the audit should state a separate FBO for the lumber assessment was prepared and reference the FBO case ID. General Comments for the FBO only need “*See original audit*” and the reference to the audit case ID.

In the copied FBO folder for the lumber products assessment:

- Delete the subfolders that are in the original audit (except BOE-122, BOE-101 and any folders relevant to the lumber products assessment).
- Change the case ID on all files to the FBO case ID, including the Start 21 file, the Excel workbook, BOE-122, BOE-101, etc.
- In Start 21, on *Start* tab, change the following:
  - Case ID for FBO
  - Audit period for lumber (if different)
  - Audit hours
  - Select FBO as audit type
- In Start 21, on 414-A-p3:
  - Select letter type for FBO
  - Complete *Did taxpayer concur?*
  - Complete *A copy of this report was.....*
- In the Audit Workbook for the FBO
  - Delete the sales and use tax schedules
  - Create a juris grid with linking worksheets
  - Create the upload files
  - Submit the FBO
- In the Audit Workbook for the audit
  - Create the juris grid with linking worksheets (excluding the lumber errors)
  - Create upload files
  - Submit the audit

Audit Control will upload both the audit case and the FBO case.

## **AUDIT (AUD) IRIS SCREENS**

Audit FO (AUD FO) – View Audit Return (REV RA) – Accounts coded with ACC 39 have only one audit case ID and one AUD FO. Sales/use tax and lumber liabilities established in an audit show as linked differences (DIF DA screen) under the single AUD FO. Staff may view the details of the sales/use tax and lumber differences for the AUDIT FO in the REV RA screen.

Audit Maintain/Inquire Noncompliance Category (AUD IN) – IRIS has four noncompliance codes for lumber under category code 29 as follows:

- 01 – Errors in Compiling Returns
- 02 – Differences Between Tax Accrued/Paid
- 03 – Exemption Netted in Error
- 04 – Exemption Not Claimed

Audit Maintain/Browse Offset Type (AUD OS) – An offset type for the Lumber Products Assessment reimbursement (LMRB) can be viewed under the AUD OS screen.

Audit Interest and Penalty Calculation (AUD PI) – Interest and penalty is calculated separately for sales/use tax and lumber liabilities established in an audit. The AUD PI screen allows users to toggle back and forth between SUT and LUM interest and penalty calculations with the F6 key.

Audit Adjust Calculation Result (AUD CA) – The AUD CA screen allows users to toggle back and forth between sales/use tax and lumber to calculate the interest and penalty separately for sales/use tax and lumber with the F6 key.

Browse Audits for Account (AUD X1) – Accounts with ACC 39 will be identified with an 'L' at the end of the audit case ID on the AUD X1 screen.

Audit Maintain/Inquire Summary of Differences (AUD SD) – Audit differences for the lumber products assessment can be viewed in the AUD SD screen using the jurisdiction code: LPA.

Audit Maintain/Inquire Offset Schedule (AUD OS) – Offsets allowed in the audit for reimbursement of start-up costs can be viewed in the AUD OS screen using the jurisdiction code: LMRB.

## **APPEALS AND REFUNDS**

**0424.20**

### **Protests of Products Subject to the Assessment**

The BOF is responsible for determining which products are subject to the 1% assessment. The BOE may petition the Executive Officer of BOF for a review of whether a product is subject to the 1% assessment by submitting a petition that includes the specific basis on which the lumber product may or may not meet the criteria established pursuant to Public Resources Code §4629.3.



The Executive Officer of BOF shall complete the review of the petition within 30 days of its receipt (or the receipt of any additional information that may have been requested). The Executive Officer of BOF determines whether or not the product(s) in the petition is subject to the lumber products assessment. In general, after the Executive Officer of BOF has made the determination, there is no further appeal. However, a taxpayer may directly petition the BOF to initiate rulemaking to address their issue, or to ask BOF to modify the regulation during its annual review.

### **District Responsibility**

If a taxpayer makes a protest directly to the district (including through a sales and use tax audit) that a specific product(s) is not subject to the 1% assessment, the district is responsible for reviewing the taxpayer's protest and verifying that:

- The protested products(s) are not specifically included in the BOF's *Lumber Products Assessment Regulation*.
- The protested product(s) were not reviewed by the BOF based on a previous inquiry to BOF for additional guidance and/or added to the BOE's Lumber Page (see AM section 0424.10).
- The protest includes the basis upon which the protest is made.

After verifying the above, the district will then submit the protest to AIS. AIS is responsible for forwarding petitions to BOF for their review. AIS will inform the district of BOF's determination.

### **Protest Other than Products Subject to the Assessment**

Protests of the lumber product assessment other than whether a product is subject to the assessment will be handled in the same manner as protests and appeals of other Sales and Use Tax and Special Taxes liabilities (See AM Chapter 14, *Appeals Procedures*).

- The Petitions Section will acknowledge petitions for redetermination and administrative protests for accounts with lumber in the same manner as accounts without lumber.
- The Appeals IRS screens (APL) include appeals for lumber accounts. The financial data screens show the lumber amounts separate from the sales and use tax amounts.
- The APL MH financial data screen includes additional lines for lumber adjustments to a liability.

### **Refunds**

Refunds for sales and use tax and the lumber assessment are processed separately and taxpayers receive separate refund checks for each. A refund of sales/use tax (or lumber) can be applied as an offset to the lumber liability (or sales /use tax) for the same account.

## **RETAILERS**

**0424.25**

Retailers of lumber products and engineered wood products are required to:

- Charge and collect the 1% assessment on sales of lumber products or engineered wood products for use in this state.
- Separately state the amount of the lumber products assessment on the sales receipt given to the customer.
- Report and pay the lumber products assessment to the BOE on their sales and use tax return.
- Notify the BOE if their sales and use tax return does not include the lumber schedule.

For information on “low-volume retailers” see AM section 0424.05.

### **Reimbursement of Start-Up Costs**

For 2013, retailers of lumber products or engineered wood products may retain \$250 per business location as start-up costs associated with the collection of the 1% assessment. Beginning January 1, 2014, these retailers may retain an additional \$485 per business location as start-up costs.

A “business location” is defined as a location registered under the retailer’s seller’s permit as of January 1, 2013, where sales of products subject to the assessment are made. Out-of-State retailers engaged in business in California with no California locations are considered to have one registered location (for example, SC accounts). Retailers with locations both inside and outside of California may claim an offset for their registered locations, which includes sub locations listed in IRIS, where lumber or engineered wood products subject to the assessment are sold.

Retailers that were not in the business of selling lumber products or engineered wood products prior to the imposition of the lumber products assessment on January 1, 2013, as well as retailers that acquire their seller’s permit on or after January 1, 2013, are *not* eligible to reimburse themselves for any start-up costs.

For 2013, eligible retailers may offset their reported lumber products assessment for the allowable start-up costs (\$250 per business location) beginning with their first return upon which the lumber products assessment is reported and continuing on consecutive returns until the entire reimbursement amount is retained. Beginning with returns due on or after January 1, 2014, eligible retailers may offset their reported lumber products assessment for the additional allowable start-up costs (\$485 per business location).

## **PURCHASERS**

**0424.30**

Purchasers, including construction contractors (see AM section 1208.55), who purchase lumber or engineered wood products for use in California and who do not pay the 1% assessment to a registered California retailer are required to report and pay the assessment directly to the BOE. The lumber products assessment cannot be reported and paid on the California State income tax return (Franchise Tax Board).

Purchasers may *not* claim reimbursement for start-ups costs.

## **JOINT AUDITS**

**0439.00**

### **GENERAL**

**0439.05**

A tax/feepayer may request concurrent audits (joint audits) of all their Board of Equalization (BOE) accounts in different tax and fee programs when any one of their accounts is selected for an audit. The audit engagement letters advise tax/feepayers to contact their auditor before the initial audit appointment if they are interested in joint audits of their BOE accounts.

#### **Tax/Feepayer Requests Joint Audit(s)**

When a tax/feepayer requests a joint audit in response to either the sales and use tax (SUT) or special taxes and fees (STF) audit engagement letter, the auditor who sent the engagement letter must ask the tax/feepayer to provide a list of all their tax and fee accounts. The auditor must also discuss the tax/feepayer's request with his/her supervisor.

Both SUT and STF audit staff should be prepared to cooperatively perform audits of all of the tax/feepayer's accounts when a joint audit is requested. Auditors should verify the list of accounts provided by the tax/feepayer to ensure that it is complete. Auditors should not waive any audit as the tax/feepayer may be seeking advice and education from BOE on their multiple accounts. However, audits may result in a No Opinion Warranted (NOW) report.

If the account selected for audit is a SUT account, then the SUT audit supervisor will email the Administrator of the Audit Examination Branch (AEB); if the audit selected is a STF account, then the AEB audit supervisor will email the appropriate District Principal Auditor. When preparing the email, staff should provide the following information:

- The tax/feepayer's name,
- The tax/feepayer's contact information,
- The permit/account number of the selected account,
- The audit period of the selected account,
- The list of all accounts obtained from the tax/feepayer, and
- The contact information of the auditor(s) who will be working on the audit.

#### **JOINT AUDIT GUIDELINES**

A major goal of the joint audit is to minimize the impact that two or more simultaneous audits have on the tax/feepayer. Therefore, coordinating appointments and record/data requests between the audit teams is important. This section provides guidance on how to streamline the joint audit process.

#### **Staff Preparation and Coordination**

Participating auditors from each program area will coordinate and prepare for the joint audit as follows:

- Discuss possible areas under audit,
- Discuss types of records to obtain,

- Discuss auditing techniques and procedures,
- Discuss data verification techniques,
- Request assistance from a computer audit specialist (CAS), if necessary,
- Discuss and identify data fields required,
- Discuss difficulties likely to be encountered and how to overcome them,
- Identify the lead auditor,
- Create a comprehensive check list of documents to be obtained and procedures to be performed, and
- Develop a comprehensive document request letter.

### **Conducting the Joint Audit**

Staff should follow these guidelines when conducting a joint audit:

- The lead auditor (as identified during staff preparation) is responsible for coordinating and scheduling the appointments for field work ensuring that the tax/feepayer and auditors from each program area are taken into consideration.
- Participating SUT and STF auditors attend the initial audit appointment.
- If a Computer Audit Specialist (CAS) is needed, the CAS from both program areas attends the initial audit appointment. Afterwards, a single CAS may be appointed to obtain data for all audited accounts. The goal is to eventually have a single CAS assist with audits of a tax/feepayer who has multiple accounts.
- The CAS refines, reorganizes, and provides the relevant data to each program's auditors.
- The SUT and STF auditors are responsible for the completion of their audits in accordance with their respective established policy and procedures. As such, there will be multiple audit reports.
- If the tax/feepayer agrees, a joint exit conference may be scheduled. However, auditors should not wait for the completion of the other program's audit(s) to reveal audit findings to the tax/feepayer.
- The CAS and auditors charge the time spent on their respective audits to the appropriate audit case. Staff allocates time to the appropriate case if time was spent working on multiple cases.
- Each program includes budgeted hours for each account audited as established by the auditors and their supervisors. Any hours in excess of budgeted audit hours require the approval of the program area's Principal Auditor or Administrator, and must be documented in the BOE-414-Z, *Assignment Contact History*.

## AUDIT MANUAL CHAPTER 12, CONSTRUCTION CONTRATORS

### PARTICULAR APPLICATIONS

1208.00

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### LUMBER PRODUCTS ASSESSMENT

1208.55

Beginning January 1, 2013, purchases of lumber products and engineered wood products for use in California are subject to a one-percent (1%) assessment based on the selling price of the product. For detailed information on auditing the Lumber Products Assessment, see AM Chapter 4, section 0424.00, *Audit of the Lumber Products Assessment*. Additionally, on the BOE's website, the *Lumber Products Assessment* page provides information and resources that may be helpful. Following is general information for construction contractors.

#### GENERAL

The Lumber Products Assessment affects construction contractors as they may be either consumers or retailers of lumber products or engineered wood products.

- As a consumer of lumber or engineered wood products, construction contractors must pay the assessment to their California vendors.
- As a consumer of lumber or engineered wood products purchased from outside of California for use in this state, construction contractors must pay the 1% assessment directly to the BOE.
- As a retailer of lumber or engineered wood products, construction contractors are required to charge and collect the 1% assessment from their customers and report and pay the assessment to the BOE when e-filing their sales and use tax return.
- Beginning January 1, 2015, a contractor acting as a retailer may opt out of collecting and paying the assessment if its total sales fall under \$25,000 during the previous calendar year. However, the contractor-retailer must notify its customers of the requirement to report the assessment directly to the BOE. (See AM section 0424.05, regarding low-volume retailers.)
- As a retailer of items that are manufactured, assembled, processed, or produced from lumber or engineered products (e.g., prefabricated cabinets), construction contractors are not required to pay the assessment on their subsequent sale of these items.
- For 2013 and 2014, construction contractors that held a seller's permit and sold lumber products or engineered wood products to consumers in this state may offset reported lumber products assessment amounts against start-up costs. (See AM section 0424.25, *Retailers*, for a detailed discussion of eligible retailers and allowable start-up costs.)

**Fixed Price Contracts**

The lumber products assessment law does not contain an exemption for fixed price contracts. Therefore, lumber or engineered wood products sold or purchased on or after January 1, 2013 are subject to the 1% assessment, even if they are sold as part of a fixed price contract entered into prior to January 1, 2013.