



STATE BOARD OF EQUALIZATION

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March 30, 2017

VIA INTERNET

Dear Interested Party:

The Compliance Policy and Procedures Manual (CPPM) 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 is proposing to revise CPPM section 255.070, *Certificate of Registration - Lender*, to incorporate current policies and procedures.

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 CPPM revisions, you may contact the BOE at [CPPM.RevisionSuggestions@boe.ca.gov](mailto:CPPM.RevisionSuggestions@boe.ca.gov). Your comments or suggestions must be received by BOE no later than **May 31, 2017**, in order to be considered by staff. Thank you for your consideration.

Sincerely,

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

**CERTIFICATE OF REGISTRATION – LENDER**

**255.070**

A “lender” for purposes of this section is generally defined as a person who purchased or contractually obtained an account receivable without recourse directly from a retailer who reported and paid the tax. “Without recourse” means the retailer has no obligation to reimburse the lender even if the lender cannot recover the full amount of the debt. ~~RTC 6055 provides that either the retailer or the lender, per their agreement, may qualify~~ owed by a consumer who financed the purchase of tangible personal property from the retailer. Further, for the lender to claim a deduction or refund, the lender and the retailer must make a qualifying written election designating the lender as the person entitled to claim a bad debt deduction or file a claim for refund for those losses.

Only a person registered with the BOE as a lender may claim a deduction or refund for bad debt losses on purchased accounts. The lender must generally register electronically through the BOE website and must do so without regard to whether the lender is already registered with the BOE for another purpose. For example, a lender who holds a seller’s permit must nevertheless register as a lender to claim a deduction or refund as a lender.

When registration is completed by the lender, the Taxable Activity Type (TAT) “SL” will be assigned to a lender who is not currently registered with the BOE. A lender who currently holds a seller’s permit will retain its current TAT (e.g., SR, SY). To identify the account as a lender, the registration system will create an assignment for district office staff to add an Account Characteristic Code (ACC) of “20” to the existing account. Staff should enter comments in the TAR screen in IRIS concerning the status of the lender’s application and indicate any reason for delay. Once the application is processed, the district office will forward the application and supporting documentation (if any) to the Taxpayer Records Unit (TRU).

~~When the electronic~~In the event the online registration system is unavailable and the lender is unable to wait for the system to become available, the lender must complete an application for a *California Certificate of Registration - Lender* (BOE-400-CSL). The district office will process the completed application and issue a BOE-442-L, *Certificate of Registration – Lender*. The district office will assign a TAT code SL to a lender who is not currently registered with the BOE. ~~A lender who holds a seller’s permit will retain its current TAT. To identify the account as a lender, the district office and~~ will assign an ACC of 20 ~~to the~~if the lender has an existing account. ~~If the lender has an existing account and electronically registers for the Certificate of Registration – Lender, an assignment will be created for district office staff to add the ACC 20 to the existing account.~~ If a paper application is processed, the district office will forward the application and supporting documentation (if any) to the ~~Taxpayer Records Unit~~TRU.

Although the lender may have been operating prior to registering for a Certificate of Registration – Lender, permits are not to be issued with a start date beyond the three-year statute of limitations for filing a claim for refund, unless a valid waiver of limitation has been executed and is on file for prior periods.

After registering as a lender, the lender is required to file periodic returns (generally quarterly) even if it will report no tax and claim no deductible losses. Lenders may not file their returns online. This includes all SL accounts and all other accounts designated with ACC 20. Therefore, Pperiodic paper returns, including a BOE-531-L, Schedule L, (BOE 531-L) and BOE-531-F-1, Listing of City and Unincorporated County

## CPPM Chapter 2, Registration

Codes for BOE-531-F, Schedule F and BOE-531-L, Schedule L-(BOE 531-FL1), will be mailed to the lenders. The lenders will use the Schedule L to make adjustments to the local or district tax associated with the bad debt deduction for the jurisdiction that originally received that tax from the retail sale of the financed property. [Failure to claim a deduction for bad debts on a periodic return may constitute carelessness and result in the disallowance of any applicable credit interest on a refund.](#)

Mail Services, Data Entry, and Verification Units receive and process the sales and use tax returns, along with the Schedule L, in accordance with established policy and procedures. Once processed, the returns and schedules will be forwarded to the appropriate section based on batch types, IRIS edit messages, or both.

The Cashier Unit receives the presorted returns from the Mail Services Unit. The batch type for SL accounts is "S." The batch type for sellers who are also lenders will remain the same as the current batch type according to their registered TAT information. During the sort process, those returns with a subsidiary Schedule L attached will be batched into miscellaneous batches. Cashier staff will process the returns in accordance with established policy and procedures. The processed batches will then be forwarded to the Data Entry Unit.

The Return Analysis Unit (RAU) is responsible for identifying taxpayers who have claimed the lender bad debt deduction on their returns to ensure such persons hold a Certificate of Registration – Lender, or are designated with ACC 20. When the taxpayer is not registered as a lender but claims a deduction for lender bad debt loss when filing a return or files a Schedule L with ~~a paper~~its return, RAU will contact the taxpayer to advise them the deduction is not allowable since the taxpayer is not registered as a lender entitled to the deduction. RAU will advise the taxpayer to register electronically on the BOE website and apply for a Certificate of Registration -- Lender, and file a Schedule L (if one was not received with the return). RAU will specify a reasonable amount of time in which the taxpayer must respond. If no response is received by the time specified, RAU will disallow the deduction. Lender returns which contain a bad debt deduction under Regulation 1642, but which do not result in a new credit return, will be forwarded to RAU. Lender ~~credit~~-returns resulting in a credit will be forwarded to the Audit Determination and Refunds Section (ADRS) for further analysis and processing.

The Local Revenue Branch (LRB) will receive all scheduled type return batches for processing, including those with the Schedule L, for the adjustment of local and district taxes based on bad debt deductions. A taxpayer who is not registered as a lender will be identified by an IRIS edit. On returns so identified, LRB will not key the adjustments of local tax reported on the Schedule L. Those returns will be forwarded to RAU for review and further processing.

Lender returns resulting in a credit are routed to LRB for processing of the Schedule L, and thereafter forwarded to the ADRS for analysis and processing. Upon receiving a claim for refund or net credit return, ADRS will send an acknowledgment letter to the claimant filing the claim for refund or net credit return. Lender returns which contain a bad debt deduction under Regulation 1642 but which do not result in a new credit return will be worked by the RAU.

For additional information, please see Audit Manual section 0419.17, *Bad Debts Incurred by Lenders on Purchased Accounts Receivable.*