Add Sections 6460 and 6471.1 to the Revenue and Taxation Code to allow retailers selling to the state to report on a cash basis.

Source: Taxpayers' Rights Hearing

Generally, there are two different accounting methods for reporting sales; accrual basis accounting and cash basis accounting. Accrual basis accounting consists of the seller reporting the sale at the time the transaction takes place, regardless of when payment is received. Cash basis accounting consists of reporting the sale when payment is received, regardless of when the transaction took place.

Current sales and use tax law requires all taxpayers to report their sales using the accrual method of accounting. For example, if a taxpayer sells tangible personal property in January, but does not receive payment until April, the taxpayer is still required to report the sale as having occurred in January. Generally, returns and payments are not due until the month following the month of sale, allowing the taxpayer at least 30 days to receive payment before the taxes must actually be paid to the state. If the taxpayer ultimately does not receive payment, the taxpayer is allowed to claim a bad debt deduction to recoup the taxes previously paid to the state.

Government Code Section 927, the California Prompt Payment Act, requires that state agencies pay all properly submitted, undisputed invoices within 45 days. On large transactions, such as contracts for sale of new printers for an entire state agency, the accrual method of accounting could create significant cash flow problems for some taxpayers, depending on the date of sale. For example, if a vendor makes a sale on March 20, the vendor should receive payment from the state by May 4. The sales tax due on that sale must be paid by the vendor to the state by April 30, five days *before* they will receive payment from the state. However, if the vendor makes a sale on March 8, the vendor should receive payment from the state by April 23. The sales tax due on that sale must be paid by the vendor to the state by April 30, seven days *after* they receive payment from the state. In situations where the State of California is the purchaser, it is unfair to require the taxpayer to pay the tax to the state before the state has paid the tax reimbursement to the taxpayer.

This proposal would allow a taxpayer to report and pay their sales or use taxes based on when payment is received from the purchaser, provided the purchaser is the State of California. This would ease the cash flow burden on sellers who contract with the State of California. Additionally, this change could entice more vendors to bid on jobs with the state, possibly reducing procurement costs for the state.

Section 6460 of the Revenue and Taxation Code is added to read:

6460. (a) For purposes of remitting tax within the date specified under Section 6451, a retailer may elect to report the tax on a cash-reporting basis.

(b) For purposes of this section, "cash-reporting basis" means a method of accounting by which the sale is deemed to have occurred as of the date any payments are received, in whole or in part, with respect to sales of tangible personal property.

(c) This section shall only apply to contracts for the sale of tangible personal property to the State of California, its agencies or instrumentalities.

Section 6471.1 of the Revenue and Taxation Code is added to read:

6471.1. (a) For purposes of determining the tax liability for prepayments required in Section 6471, a retailer may elect to use a cash-reporting basis, as defined in Section 6460.

(b) In determining the tax liability for the purpose of making prepayments, as required in Section 6471, the cash-reporting basis shall only apply to contracts for the sale of tangible personal property to the State of California, its agencies or instrumentalities.