

State Board of Equalization

OPERATIONS MEMO

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SUBJECT: LUMBER PRODUCTS ASSESSMENT

I. OVERVIEW

The Sales and Use Tax Department 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, the law affects purchasers, including construction contractors, who use these products in California.

Retailers may retain \$250 per business location as reimbursement for start-up costs per Sales and Use Tax Regulation 2000, *Retailer Reimbursement Retention*. In addition, beginning January 1, 2014, retailers may retain an additional \$485 per business location in start-up costs per [Regulation 2001](#), *Additional Allowed Retailer Reimbursement Retention* (see Section VIII (B)).

Beginning January 1, 2015, retailers selling less than \$25,000 of qualifying lumber products during the previous calendar year are not required to register and collect the assessment from their customers (Public Resources Code section 4629.5). 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 during the following year. They are also required to notify purchasers that they must pay the assessment directly to the Board of Equalization (BOE).

The lumber products assessment funds various agencies to support California's forest resources, including the Department of Forestry and Fire Protection (CAL FIRE). The BOE is responsible for administering the new program pursuant to the Fee Collection Procedure Law (FCPL).

II. LUMBER PRODUCTS AND ENGINEERED WOOD PRODUCTS

The State Board of Forestry and Fire Protection (BOF) is responsible for identifying specific products subject to the assessment. As required under the new law, BOF adopted [Emergency Regulation, Lumber Products Assessment](#), which identifies products subject to the assessment. BOF is responsible for annually updating the regulation.

A. Lumber products and engineered wood 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 sheeting 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 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 consult the BOF's Emergency Regulation when trying to determine if a product is subject to the lumber products assessment.

See the [Lumber Products Assessment](#) page, in the [Business Center](#) Section under Resources on the BOE website for examples of products subject to and excluded from the 1% assessment.

B. Products Not Listed or Defined

Staff may receive questions from taxpayers about whether a specific item is subject to the 1% assessment. If the product is not listed in the Lumber Products Assessment Regulation or under the Definitions Tab of the [Lumber Page](#) and further direction is needed, staff should forward the inquiry to the Audit and Information Section by clicking the link for AIS on the [Tax Policy Division](#) page on eBOE, and under Current Projects, click the link under [Lumber Fee](#).

When forwarding product inquiries to AIS, staff should, if possible, obtain a link to a website, 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 Page as necessary.

III. OTHER INFORMATION

A. Penalty and Interest

FCPL §§[55042](#) and [55042.5](#) provide for the imposition of penalty and interest on outstanding lumber products assessment liabilities as established pursuant to Revenue and Taxation Code §[6591.5](#).

B. Bad Debts

The lumber products assessment law does not contain a provision to allow a retailer to claim a bad debt deduction for the lumber product assessment.

C. Tax-paid Purchases Resold

The lumber products assessment is imposed on the consumer; therefore, the tax-paid purchase resold deduction does not apply.

D. Claim for Refund

Taxpayers may file a claim for refund directly with the BOE for overpayments of the 1% assessment pursuant to FCPL §§ [55221-55281](#).

E. 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.

F. Collection Cost Recovery Fee

Current law provides for the imposition of a collection cost recovery fee (CRF) on unpaid liabilities. Only one CRF is assessed per liability. Liabilities encompassing multiple reporting periods (e.g., audits, multiple period compliance assessments) are subject to one CRF, whereas, if multiple liabilities exist for specific reporting periods, a separate CRF will be assessed for each. (See Operations Memo 1182, subsection III (B)).

For purposes of determining the CRF amount on unpaid liabilities for linked sales and use tax and lumber products assessment liabilities, the CRF will be based on the sum of the linked liabilities.

G. Prepayments of Lumber Assessment Not Required

The law does not require prepayments of the lumber products assessment. Prepayments made that total more than the sales and use tax liability due on the return will be credited to the lumber products assessment due. If prepayment amounts are in excess of the total liability due on the return (sales and use tax and lumber), the return will be a credit amount and taxpayer should be advised to file a claim for refund.

IV. **SYSTEM CHANGES**

A. Online Registration - Taxpayers Registering a Business Activity (New Accounts)

The online registration system includes vetting questions to determine if taxpayers sell or purchase lumber products or engineered wood products as part of their business activities. Taxpayers who sell or purchase lumber or engineered wood products will automatically be identified by Account Characteristic Code (ACC) 39 in IRIS. Beginning January 1, 2015, the ACC 39 designation is limited to accounts that indicate yearly sales of \$25,000 or more in lumber or engineered wood products. Once an account is identified by ACC 39, the following occurs:

- A lumber schedule is added to the taxpayer's electronic sales and use tax return.
- A separate lumber financial obligation (LUM FO) is created for the lumber products assessment revenue.
- The taxpayer is placed on a quarterly (or quarterly prepay) reporting basis *(with the exception of temporary accounts)*.

1. Reporting Basis

The lumber products assessment is payable on a quarterly basis. However, under FCPL [§55041.1](#), the BOE may determine the reporting period. New accounts registered beginning December 17, 2012, and identified as sellers or purchasers of lumber or engineered wood products (ACC 39) are automatically placed on a quarterly or quarterly prepay reporting basis.

Accounts registered prior to December 17, 2012, i.e., retailers who file returns on other than an annual basis, had their accounts updated with ACC 39; and any monthly reporting basis taxpayers were changed to quarterly. Taxpayers that were changed to a quarterly reporting basis and that subsequently request to have the lumber schedule removed should not have their reporting basis automatically changed back to monthly.

Accounts registered prior to December 17, 2012, i.e., retailers who file annual returns, that request the lumber schedule be added to their account (add ACC 39) may remain on an annual reporting basis (FCPL [§55041.1](#) provides that the BOE may administratively allow reporting basis other than that required under the new lumber products assessment law).

2. Adding a Sub Location

Taxpayers using online registration to add a location to an existing account are asked if sales or purchases of lumber or engineered wood products will occur at the new location. Beginning January 1, 2015, only taxpayers with combined qualified lumber sales of \$25,000 or more per year from all business locations will be considered. If the answer is yes ACC 39 will be added to accounts that are not already tagged ACC 39.

The registration system will create an assignment in Assignment Control (ASC) for district staff to manually create a prior period financial obligation for lumber (FOLUM in IRIS) when a new sub location selling lumber has a start date earlier than the current period is added to an existing account.

B. Online Filing (Electronic Filing)

1. Electronic Filing of Lumber Products Assessment Required

The law requires electronic filing of the lumber products assessment. **There is no paper return available to taxpayers to use in reporting and paying the lumber products assessment.** If staff receives a paper return from a taxpayer attempting to report their lumber products assessment, staff must contact and inform the taxpayer that they must electronically file their lumber products assessment return. Staff should direct taxpayers to their local BOE office, library, or other nearest Internet access and instruct the taxpayer on how to electronically file the lumber products assessment online.

2. Report 1% Assessment using Online Filing

Taxpayers that have been identified as lumber retailers (ACC 39) will be prompted to complete a lumber schedule to report and pay their lumber products assessment when filing their sales and use tax returns online. The lumber schedule will consist of the following lines:

1. Lumber Products Transactions
2. Assessment Amount
3. Reimbursement Cost
4. Assessment Due (net of Reimbursement Cost)
5. Penalty
6. Interest

Taxpayers must enter an amount (including zero if applicable) as *Lumber Products Transaction*. The *Assessment Amount* will be automatically computed (as 1% of *Transactions*) and entered. *Reimbursement Cost* not to exceed the computed *Assessment Amount* may be entered as described in [Regulation 2000](#) and [Regulation 2001](#). The *Assessment Due* will be automatically computed and entered.

When filing a sales and use tax return online that includes the lumber schedule, the *Review Filing* page will allow the taxpayer to review (and correct, if necessary) the amounts reported for both sales and use tax (SUT) and the lumber products assessment (LUM). Taxpayers will again see the separate amounts reported for SUT and LUM on the *Confirm Filing* page.

3. Online Filing Lumber Only

The majority of taxpayers will report the lumber products assessment when online filing their sales and use tax return and are prompted to complete the additional lumber schedule. However, taxpayers that are ineligible or exempt from online filing their sales and use tax returns will still be required to electronically file a “lumber only” return to report and pay their lumber products assessment. A “lumber only” return is available under online filing for these taxpayers.

4. Purchasers Paying an Assessment on One-Time Purchase

Purchasers buying lumber or engineered wood products for use in this state without paying the 1% assessment to a registered California retailer must report and pay the assessment directly to the BOE. The online registration system allows purchasers to report and pay the 1% assessment (while also paying any applicable use tax) on a one-time purchase of lumber or engineered wood products. Purchasers cannot report and pay the lumber products assessment on their state income tax return (Franchise Tax Board).

5. Amended Returns

Taxpayers that need to amend their lumber products assessment will do so in the same manner as other returns filed online; i.e., write the correct amounts on the *Confirm Filing* page of the return, write “Amended Return” across the top, and include any additional amounts owed and mail to BOE.

If the amended return results in an overpayment, taxpayers must file a claim for refund.

C. Online Payment

1. Online Payment (Electronic Payment)

Taxpayers are able to electronically pay both combined SUT and LUM liabilities owed on a return or an accounts receivable (for example, audits or compliance assessments) using online payment.

Taxpayers are able to enter the amount they wish to pay toward each liability and to review and confirm the entered payment amounts on the *Review Payment* page.

2. EFT (Electronic Funds Transfer) Payments

Taxpayers currently may make their EFT payment directly with the BOE when

online filing their return through online payment, or using the third-party payment processor option. The BOE's third-party payment processor is unable to distinguish payments that include LUM remittances. Therefore, staff should encourage taxpayers to make their EFT payments that include the lumber products assessment when they electronically file their return or using online payment, and *not* through the third-party payment processor. Staff should further advise taxpayers that if they use the third-party payment processor to pay their lumber assessment with their sales and use tax liability they may need to contact the BOE to properly allocate their payment.

3. Credit Card Payments

Taxpayers who have both a SUT and LUM liability will be able to pay by credit card either through online filing, or directly to the BOE's credit card vendor, Official Payments Corporation (OPC). Taxpayers using OPC will make a single payment for both SUT and LUM liabilities; the payment will be split into the two liabilities in IRIS.

4. Single Payment Voucher for SUT and LUM Liabilities

Taxpayers filing their return online and choosing to pay by paper check will receive a single payment voucher showing separate amounts due for SUT and LUM liabilities. In addition, taxpayers that do not pay either their SUT or LUM liability in full (i.e., partial remittances) will receive a single payment voucher showing the remaining amounts due for SUT and LUM.

D. Integrated Revenue Information System (IRIS)

1. Differences and Notice of Determination

The difference screens (DIF) in IRIS show separate differences for sales and use tax (PER) and lumber products assessment (LUM) that are linked together under the same period and/or liability. Notices, Statements, and Demands issued that include both PER and LUM differences are referred to as *Multiple Item Differences*.

The DIF BE screen, *Browse Notice Type*, includes the *Multiple Item Differences* beginning with MDT (Multiple Item Determination).

2. Additional IRIS Revisions

IRIS revisions for the lumber products assessment for audit (AUD), and appeals and refunds (APL and REF) are explained in sections VI and VII below.

3. Separate Financial Obligations

In IRIS, a financial obligation (FO) is used as a placeholder (obligation) for the revenue to be collected (such as a return, an audit, or compliance assessment) for a specific time period. Currently, the most revenue collected under the sales and use tax law goes to an FO type, designated as PER (periodic). Since revenue collected for the lumber products assessment must be deposited separately from

sales and use tax revenue, a separate FO type has been created for the lumber products assessment, designated as LUM.

4. Automated Compliance Management System (ACMS)
ACMS allows the LUM FO differences to be imported for delinquencies. Staff can view the LUM FO for delinquent periods in the ACMS financial screens.

V. ROLES AND RESPONSIBILITIES

A. Sales and Use Tax Department (SUTD) Responsibilities

1. Account Maintenance

Upon a taxpayer’s request to update their account to either include or remove the lumber schedule, authorized staff must:

- Add/remove ACC 39 using TAR AM and enter appropriate comments, for example, 1) taxpayer does not sell lumber/engineered wood products; ACC 39 removed, 2) sales of lumber/engineered wood products under \$25,000 in previous calendar year, ACC 39 removed per taxpayer request, or 3) taxpayer requested lumber schedule to report sales/purchases; ACC 39 added.
- Determine if a lumber financial obligation (LUM FO) for prior periods must be manually created or deleted (see subsection 2 below).

2. Lumber Financial Obligations (LUM FO)

Updating accounts with ACC 39 results in the automatic creation of the LUM FO (in an overnight batch process) and the addition of the lumber schedule to the taxpayer’s electronic sales and use tax returns. However, staff must be alert to situations in which LUM FO’s for prior periods need to be manually created or deleted. See the following examples:

Taxpayer Request	Staff Action Required
<p>Remove lumber schedule from return.</p> <p>Scenario 1: Taxpayer makes request before filing period open.</p>	<ul style="list-style-type: none"> • Advise taxpayer that lumber schedule will be removed for current period; taxpayer should be able to file return without lumber schedule during regular filing period. • Advise taxpayer future returns will also not include a lumber schedule. • Remove ACC 39 and enter comment.

Taxpayer Request	Staff Action Required
<p>Remove lumber schedule from return.</p> <p>Scenario 2: Taxpayer makes request after filing period has begun and is attempting to file return.</p>	<ul style="list-style-type: none"> • If taxpayer wishes to complete return immediately, advise taxpayer to file zero on lumber schedule, <i>or</i> • Advise taxpayer that you will request lumber schedule be removed and recommend taxpayer try to file in a day or so. Taxpayer will not be able to save their current working version. • Send request to manually delete LUM FO for subject period to: SUTD.RAUElectronicMaintenanceRequests@boe.ca.gov. • Advise taxpayer that future returns will also not include a lumber schedule. • Remove ACC 39 and enter comment.
<p>Add lumber schedule to return.</p> <p>Scenario 3: Taxpayer makes request before filing period open.</p>	<ul style="list-style-type: none"> • Advise taxpayer that lumber schedule will be added for current period; taxpayer should be able to file return with lumber schedule during regular filing period. • Add ACC 39 and enter comment.
<p>Add lumber schedule to return.</p> <p>Scenario 4: Taxpayer makes request after filing period has begun and is attempting to file return.</p>	<ul style="list-style-type: none"> • Advise taxpayer that you will request lumber schedule be added and recommend taxpayer try to file in a day or so. Taxpayer will not be able to save working version. • Send request to manually create LUM FO for subject period to: SUTD.RAUElectronicMaintenanceRequests@boe.ca.gov • Advise taxpayer future returns will also include a lumber schedule. • Add ACC 39 and enter comment.

Requests to manually create or delete the LUM FO should be emailed to: SUTD.RAUElectronicMaintenanceRequests@boe.ca.gov. Staff must add or remove the ACC 39 to the account as RAU cannot make TAR adjustments to ACC.

3. Collections

A single collector will be responsible for collecting on accounts that include outstanding liabilities for sales and use tax and the lumber products assessment.

Delinquent lumber schedules should be processed the same as sales and use tax delinquencies with the exception that a taxpayer's seller's permit will not be revoked if they are only delinquent in filing their lumber schedule.

Collectors may receive delinquency assignments for lumber only. This may occur when a taxpayer filed a paper sales and use tax return and did not electronically file their lumber return (for example, taxpayers that are permanently exempt from electronically filing). Remember, there is no paper return available for the lumber assessment, see Section IV, subsection B, 1.

If the collector is able to confirm that the taxpayer is not a lumber retailer, the account should be updated by removing ACC 39 and the collector should send a request to RAU to remove the empty LUM FO's to clear the delinquency. See Section V, subsection A, 2 above for procedures relating to removing prior period (empty) LUM FO's.

4. Use Tax Administration Section (UTAS)

UTAS creates 'SD' accounts for new, one-time use tax liabilities established through their investigations (for example, the U.S. Customs Program).

SD accounts *cannot* be updated with ACC 39; therefore, no LUM FO can be created for SD accounts. UTAS investigations that disclose ex-tax purchases of lumber or engineered wood products subject to use tax should instruct taxpayers to pay the use tax and the lumber products assessment by electronically registering to [pay use tax and/or lumber products assessment on one-time purchase](#).

5. Tax Return and/or Account Adjustment Notice (BOE-523)

Requests to transfer returns filed that include lumber transactions (including 'zero' filed) to a new account should be handled in the same manner as transfers without lumber.

Staff should be alert to accounts coded ACC 39 that do not sell or purchase lumber products but reported 'zero' on their lumber schedule in order to complete their electronic Sales and Use Tax returns. In these situations, where staff must transfer returns filed with lumber transactions (even 'zero') to a new account that does not sell or purchase lumber products and is not coded ACC 39, staff must do the following:

- Add ACC 39 to the new account
- Transfer returns filed as requested that may include lumber transactions, then
- Remove ACC 39 from the new account that does not sell or purchase lumber.

VI. AUDITS

Audit staff is responsible for verifying that affected taxpayers are in compliance with the lumber products assessment program (see **Section VIII**, subsection A, **Retailer's Responsibilities**) and that the correct lumber products assessment has been reported and paid.

A. Verification of Account Status

Audit staff 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 are not required to register or collect the assessment but may do so voluntarily. However, these retailers are required to track their annual sales to determine whether or not they will be required to collect the assessment during the following year. They are also required to notify purchasers that they must pay the assessment directly to the BOE.

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

- Add ACC 39 to the account.
- Manually add the LUM FO's for the appropriate prior periods.

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

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

B. Audit Reports

1. Report of Field Audit

The *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.

A new drop-down for lumber products assessment (LPA) general comments has been added to Start 21.

The 414-E for accounts with lumber states the combined reported measure for both sales and use tax and the lumber assessment.

2. Transcript of Returns

Audit staff will receive an additional file path to download to lumber transcripts of returns.

Audit staff should verify that all periods in which taxpayer sold or purchased lumber have reported amounts (including zero) for lumber transactions. Audit staff should be alert to situations in which prior period LUM FO's must be created or deleted (see Section V (A)(2) above).

3. Audit Payment Form

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

C. Audit Procedures

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

1. Verification of Products Subject to the 1% Assessment

Audit staff should verify that the taxpayer is correctly charging the 1% assessment on products that are categorized as lumber or engineered wood products. Audit staff should refer to the [Lumber Products Assessment](#) page in the [Business Center](#) Section, under Resources on the BOE website, and the Board of Forestry's [Lumber Products Assessment Regulation](#) as guidance for products subject to the assessment.

If necessary, audit staff 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.

AIS will be responsible for updating the [Lumber Products Assessment](#) page as necessary. Audit staff should review the page for any updates and revisions prior to beginning the audit.

2. 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.

Audit staff 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.

3. Reimbursement Costs

Audit staff must verify that the taxpayer's total claimed reimbursement for start-up costs offset against the taxpayer's reported lumber assessment revenue is correct. See Section VIII (B) for explanation of eligible retailers and allowable start-up costs. Allowable start-up reimbursement costs not claimed as an offset on 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.

4. Test of Lumber Sales

In general, sales that are not subject to sales or use tax (such as resales and interstate 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, the audit staff 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.

Audit staff 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*.

5. 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 extax 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.

Audit staff 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).

6. Lumber Schedules

Result of lumber tests should be scheduled separately in the Excel workbooks, using new spreadsheets for 1) Lumber Products Assessment (LPA) and 2) Lumber Products Reimbursement Offset (LMRB).

7. General Comments

In the Start 21 Program, audit staff will select the new drop-down for lumber products assessment to enter relevant general comments (for example, taxpayer is a retailer and/or purchaser of lumber or engineered wood products).

8. Verification Comments

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

D. Preparing Audits for Uploads

1. Start 21 Program – BOE Audit Program

- a) The noncompliance code template (414N Code tab) includes four new noncompliance codes for lumber:
 - 2901 – Errors in Compiling Return
 - 2902 – Difference Between Tax Accrued/Paid
 - 2903 – Exemption Netted in Error
 - 2904 – Exemption Not Claimed
- b) The Juris Grid was updated with two new jurisdictions for lumber: 1) Lumber Products Assessment (LPA) and 2) Lumber Products Reimbursement Offset (LMRB). The linking worksheets will include additional columns to coincide with the new lumber jurisdictions.

2. 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 will 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, audit staff will do the following:

- Complete 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 also state a separate FBO for the lumber assessment was prepared and reference the 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 lumber products assessment:

- Delete subfolders that are in original audit (except BOE-122, BOE-101 and any folders relevant to the lumber products assessment).
- Change case ID on all files to retain in new FBO, 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 414A-p3
 - Select letter type for FBO
 - Complete *Did taxpayer concur?*
 - Complete *A copy of this report was...*
- In Audit Workbook for FBO
 - Delete the sales and use tax schedules
 - Create juris grid with linking worksheets
 - Create the upload files
 - Submit the FBO
- In Audit Workbook of Audit
 - Create the juris grid with linking worksheets (excluding lumber errors)
 - Create upload files
 - Submit the audit

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

E. Audit IRIS Revisions

Most audit (AUD) screens in IRIS have been revised for audits of lumber accounts (ACC 39). For example, the AUD RC and AUD MC screens automatically populate with information relevant for the lumber assessment when account is coded ACC 39. Additional examples of IRIS AUD screen revisions include the following:

1. 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 will 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.

2. Audit Maintain/Inquire Noncompliance Category (AUD IN)

Four new noncompliance codes for lumber have been added to IRIS under category code 29 and can be viewed in the AUD IN screen as follows:

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

3. Audit Maintain/Browse Offset Type (AUD OS)

An offset type for the Lumber Products Assessment Reimbursement (LMRB) has been added to IRIS and can be viewed under the AUD OS screen.

4. Audit Interest and Penalty Calculation (AUD PI)

Interest and penalty will be 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.

5. 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.

6. 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.

7. 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.

8. 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.

VII. APPEALS AND REFUNDS

A. Protests of Products Subject to the Assessment

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 PRC [§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 shall determine 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 their 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.

1. 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 will be responsible for reviewing the taxpayer's protest and verifying that:

- The protested products(s) are not specifically included in the Board of Forestry'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 **Section II, Lumber Products and Engineered Wood Products**).
- The protest includes the basis upon which the protest is made.

After verifying the above, the district should submit the protest to [AIS](#).

2. Headquarters Responsibility
Until further notice, AIS will be responsible for forwarding petitions to BOF for their review. AIS will inform the district of BOF's determination.
- B. 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).
1. Acknowledgement of Petition for Redetermination or Administration Protest
The Petitions Section will acknowledge petitions for redetermination and administrative protests for accounts with lumber in the same manner as accounts without lumber.
 2. Appeals IRIS Revisions (APL)
The APL screens have been revised for appeals that include accounts with lumber. The financial data screens will show the lumber amounts separate from the sales and use tax amounts.

The APL MH financial data screen will be revised to include additional lines for lumber adjustments to a liability.
- C. Refunds
1. Separate Refunds for Sales/Use Tax and Lumber Assessment
Refunds for sales and use tax and the lumber assessment will be processed separately and taxpayers will receive separate refund checks of each.
 2. Offsets Allowed Between Sales and Use Tax and Lumber Assessment
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.

VIII. RETAILERS

- A. Retailer's Responsibilities
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.

Beginning January 1, 2015, retailers selling less than \$25,000 in lumber products during the previous calendar year are not required to register or collect the assessment but may do so voluntarily. If they do not voluntarily collect the assessment these retailers must:

- Notify purchasers of their responsibility to report the 1% assessment directly to the BOE.
- Notify the BOE to remove the lumber schedule from their accounts, and track their sales of qualifying wood products and engineered wood products to determine if they should collect the assessment during the following year.

B. Reimbursement 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).

IX. PURCHASERS

Purchasers, including construction contractors, who purchase lumber or engineered wood products for use in California 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; the start-up cost reimbursement is for retailers of lumber or engineered wood products that were in the business of selling these products prior to the imposition of the lumber products assessment on January 1, 2013.

Construction Contractors

The new law may affect contractors who act as either retailers or consumers of lumber or engineered wood products. Construction contractors that act:

- As a consumer of lumber or engineered wood products 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 must pay the 1% assessment directly to the BOE.
- As a retailer of lumber or engineered wood products 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.
- As a retailer of items that they manufacture, assemble, process, or produce from lumber or engineered products (for example, prefabricated cabinets), are not required to pay the assessment on their subsequent sale of items.

X. TIME REPORTING FOR LUMBER

Staff must accurately track all time spent working on lumber and charge that time to the appropriate lumber code on their monthly time reports, in order for the SUTD to properly report the cost of administering the lumber products assessment. This includes time spent on lumber functions for audits, collections, supervision, training, return processing, review, account maintenance, etc.

The current forms BOE-666, *Employee's Summary Time Report For Month Of*, and BOE-666 HQ, *Headquarters Employee's Time Report* on [eBOE](#) include the lumber codes. On the BOE-666 for field offices, the lumber codes are available under the

“Write-In Codes” drop down list at the bottom of the form. Below is a list of the time codes and descriptions for lumber functions.

Code	Audit/Compliance	Code Function
9101	Audit	Supervision
9102	Audit	Review
9103	Audit	Direct Field
9104	Audit	Selection
9105	Audit	Worksheet
9106	Audit	Petitions & Refunds
9107	Audit	Training
9108	Audit	Direct Support
9118	Audit	Indirect Support
9119	Audit	Investigation
9201	Compliance	Supervision
9202	Compliance	Registration
9203	Compliance	Account Maintenance
9204	Compliance	Collections
9205	Compliance	Return Processing
9206	Compliance	Compliance Support
9207	Compliance	Training
9208	Compliance	Advisory
9209	Compliance	Enforcement
9219	Compliance	Investigation
9225	Compliance	Security Deposits
9226	Compliance	Registration Investigations
9227	Compliance	Cashiering
9228	Compliance	Desk Review
9229	Compliance	Relief Activities

Adjustments to prior time reporting periods for time not properly charged to lumber functions should be incorporated into staff’s current time report, provided the adjustment is within the same fiscal year. Instructions for amendments/adjustments to time reports can be found in the [Time Reporting Manual](#), under Section (I)(G), *Processing of Forms BOE-666 and BOE-666 HQ*.

XI. OBSOLESCENCE

This operations memorandum will become obsolete when the information contained herein is incorporated into Chapters 4 and 12 of the Audit Manual and Chapters 2, 5, 6, and 7 of the Compliance Policy & Procedure Manual.

A handwritten signature in cursive script that reads "Susanne Buehler".

Susanne Buehler, Chief
Tax Policy Division
Sales and Use Tax Department