



# “USE TAX DIRECT PAYMENT PERMITS”

A Guide for California Businesses

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## **REGULATION 1699.6**

### **SELF ASSESSMENT OF USE TAX OBLIGATIONS**

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The California State Board of Equalization permits California business to self assess their use tax obligations. This does not increase use tax due, but does allow businesses to apply for and obtain a direct payment permit from the Board of Equalization. To qualify for a permit, a business must have had purchases and/or leases of at least \$500,000 subject to use tax in the prior calendar year and have a seller's permit or consumer use tax permit.

Once obtained, a direct payment permit allows the holder to avoid paying use tax to its out of state vendors. Instead, the business issues to vendors a use tax exemption certificate. The certificate declares that the buyer or lease will pay the tax directly to the Board of Equalization on its quarterly tax return.


### **Benefits of Self Assessment**

The self assessment rules were sponsored by the California Manufacturers Association to achieve three key benefits:

1. **To provide companies with better control over its use tax liability.** Under California law, the liability for the use tax is with any person consuming property in the state. Some out of state vendors may collect the tax, but that does not necessarily relieve the consumer of their liability. By issuing exemption certificates to all out of state vendors, use tax responsibility is in the hands of the consumer. This allows the consumer to determine when tax applies to their purchases instead of relying on the decisions of an out of state seller. It also simplifies the method used to self assess the use tax as no tax is paid directly to out of state vendors.
2. **To provide improved management of cash flow.** With self assessment, a business pays its use tax quarterly rather than each time a taxable purchase is made. The delay between the time the tax is accrued and the time it is paid allows cash to be put to better uses. Furthermore, in those instances where the property is received and temporarily stored in California then subsequently shipped out of state for use, there would be no need to seek a refund.
3. **To improve the quality of local support services.** Use taxes paid by self assessment accrue to the local jurisdiction where the item or material acquired is first placed into functional use. This means that the city or county where you do business can receive a direct benefit from your use taxes. Without self assessment, the use tax is "pooled" and then shared between jurisdictions in the county on formula basis. Self assessment allows more of your tax dollars to support local police, fire, and other services that benefit your company and employees.

## SELF ASSESSMENT TAKES JUST TWO SIMPLE STEPS

1. Apply for a Direct Payment Permit by mailing an application for a Direct Payment Permit to the State Board of Equalization, Compliance Policy Unit, P.O. Box 942879, Sacramento, CA 94279-0040. The application must be accompanied by a "Statement of Cash Flows" showing total purchases of property and equipment for own use during the preceding calendar year, and a declaration certifying that \$500,000 or more of such purchase was subject to use tax. Just follow the instructions on the back of the application. The Board will send the Permit (below) and an Exemption Certificate (below) that can be copied as many times as needed.

<b>CALIFORNIA STATE BOARD OF EQUALIZATION USE TAX DIRECT PAYMENT PERMIT</b>	
<i>THIS PERMIT IS NOT A SELLER'S PERMIT TO ENGAGE IN SALES OF TANGIBLE PERSONAL PROPERTY</i>	
<i>ACCOUNT NUMBER</i>	
<input type="text"/>	<i>THIS PERMIT DOES NOT AUTHORIZE THE HOLDER TO ENGAGE IN ANY BUSINESS CONTRARY TO LAWS REGULATING THAT BUSINESS OR TO POSSESS OR OPERATE ANY LEGAL DEVICE</i>
IS HEREBY AUTHORIZED PURSUANT TO SALES AND USE TAX LAW SECTION 7051.3 TO SELF-ASSESS AND PAY USE TAX DIRECTLY TO THE STATE OF CALIFORNIA	
THIS PERMIT IS VALID UNTIL REVOKED OR CANCELLED BUT IS NOT TRANSFERABLE. IF YOU SELL YOUR BUSINESS, OR DROP OUT OF A PARTNERSHIP, NOTIFY US OR YOU COULD BE RESPONSIBLE FOR SALES AND USE TAXES OWNED BY THE NEW OPERATOR OF THE BUSINESS	

USE TAX DIRECT PAYMENT EXEMPTION CERTIFICATE

STATE OF CALIFORNIA  
BOARD OF EQUALIZATION

### CERTIFICATION

*I hereby certify that I hold sue tax direct payment permit No. \_\_\_\_\_ issued pursuant to California Sales and Use Tax Law section 7051.3 and that I am authorized to report and pay directly to the state the application use tax with respect to the property described which I shall purchase from:*

In the event that I fail to timely report and pay the applicable tax to the state, I understand and agree that in addition to the tax liability, I will be liable for applicable interest and the amount due may be subject to penalties.

- Self assess and pay your tax. When your business buys equipment or material subject to use tax, do not pay the tax to the out-of-state vendor. Instead, give the vendor a completed Exemption Certificate. When your quarterly Consumer Use Tax Return is filed, include the total use tax amount (for purchases made since the last time a return was filed) on Line 1. (below). However, if your business files a sales and use tax return, you report the use tax on Line 2 of that form.

BOE-401-E (S1F)  
REV. 71 (7-99)

STATE OF CALIFORNIA  
BOARD OF EQUALIZATION

**STATE, LOCAL and DISTRICT CONSUMER USE TAX RETURN**

<b>DUE ON OR BEFORE</b>		
YOUR ACCOUNT NO.		

BOARD OF EQUALIZATION  
PO BOX  
SACRAMENTO, CA

BOARD USE ONLY		
RA-TT	LOC	REG
RA-BTR	ACC	REF
EFF		

**READ INSTRUCTIONS  
BEFORE PREPARING**

PLEASE ROUND CENTS TO THE NEAREST WHOLE DOLLAR

1. Enter purchase price of tangible personal property which is subject to CALIFORNIA STATE USE TAX which has not been paid to the retailer . . . . .	<b>1.</b>	\$	.00
2. (e) Sections 6377 & 6378 – 5% State Tax Exemptions 60 (a) Amount subject to Manufacturer’s Exemption 60(b) Amount subject to Teleproduction Exemption 60(c) Enter total of boxes 60(a) & 60(b) Multiply box 60(c) by .8333 (Enter result on line 2) . . . . .	<b>2.</b>	\$	.00
3. Total amount subject to state use tax (subtract the adjusted amount on line 2 from line 1) . . . . .	<b>3.</b>		.00

(Amounts entered in 60(a) and 60(b) must be included in line 1.)

## FREQUENTLY ASKED QUESTIONS

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### ***Is Self Assessment Required?***

No. Acquiring and using a direct payment permit is strictly voluntary and was devised to allow companies to take advantage of the benefits of self assessment.

### ***Will My Company's Tax Liability Increase?***

No. Self assessment changes the way use tax is collected but does not change the amount owed.

### ***Will This Increase Accounting Costs?***

No. Self assessment simplifies the use tax accrual process for taxpayers because a single class of "non-taxed" purchases is created for purchases from out of state vendors.

### ***If I Self Assess, What Happens to the Use Tax the Vendor Collects?***

For transactions where you elect to self assess, you pay no use tax to the out of state vendor. Instead, you issue an exemption certificate to the vendor. Once a certificate is issued for a transaction, an out-of-state vendor has no further obligation to the state to collect state use tax from that sale.

### ***Won't This Mean a Lot of Red Tape?***

No. The process is easy and accounting effort could be reduced.

### ***If I Elect to Self Assess, Must I Always Self Assess?***

No. You may decide to discontinue self assessment at any time. After a period of inactivity, the Board of Equalization may revoke your direct payment permit, but there is no penalty for this.

## **Forms and Assistance**

1. For a copy of the Direct Payment Permit go to: <http://www.boe.ca.gov/pdf/boe.400dp.pdf>
2. For a copy of Regulation 1699.6: [http://www.boe.ca.gov/pdf/reg\\_699-6\(1\).pdf](http://www.boe.ca.gov/pdf/reg_699-6(1).pdf)
3. For assistance or questions relating to your specific business, call (916) 445-5167