

PREPAID SALES TAX AND SALES OF FUEL

If you sell certain fuels in California, you may be required to collect or pay prepaid sales tax

If you are a wholesaler or supplier of certain fuels, you are required to collect a prepayment of a portion of the sales tax when you remove fuel at the terminal rack, enter the fuel into California, or sell the fuels at any point after removal from the terminal rack. If you are a retailer or other seller of fuel who has prepaid the sales tax to your suppliers, you can claim a credit for the prepaid tax you paid to your supplier when you file your sales and use tax returns.

Prepaid sales tax is imposed on each gallon of fuel removed, entered, or sold. The rate varies depending on the type of fuel involved and may be adjusted annually or more frequently if necessary. The Board will give you prior notification of any rate change. The prepayment rate does not affect the current sales and use tax rate on retail sales.

FUELS SUBJECT TO THE PRECOLLECTION PROVISIONS

Fuels subject to the requirement to precollect sales tax include:

- Gasoline and gasohol (motor vehicle fuel)
- Diesel, including dyed diesel
- Aircraft jet fuel

The following fuels are specifically excluded from the requirement to collect prepayments: aviation gasoline used to propel an aircraft, liquefied petroleum gas, compressed or liquid natural gas, and methanol and ethanol containing not more than 15 percent gasoline or diesel fuel. Effective January 1, 2002, sales tax prepayments no longer apply to kerosene.

SUPPLIERS AND WHOLESALERS MAKING ONLY SALES FOR RESALE

You must obtain a permit with an “SG” prefix if you qualify as a wholesaler or supplier and

- Remove fuel from the terminal rack, or
- Sell fuel to wholesalers, suppliers, or retailers, or
- Sell fuel as a member in a cardlock network

You must have an “SG” permit in addition to your regular sales tax permit. Contact your local Board office to obtain an “SG” permit.

After you have registered for an “SG” permit, the Board will send you a special “SG” return, which has a *Schedule A* for reporting your taxable removals, entries, or sales of fuel and a *Schedule B* to report any prepaid sales taxes you have paid to other wholesalers or suppliers. The “SG” return is due on or before the last day of the month following the period for which it relates. Instructions on how to prepare the “SG” return and accompanying schedules are included with each return.

SELLERS MAKING SALES THROUGH CARDLOCK NETWORKS

If you make sales through a cardlock network, you are required to have an “SG” permit. Your sales to other participants in the network are considered sales for resale and should be reported on your “SG” return. Sales to retail customers should be reported on your regular sales and use tax return.

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SUPPLIERS AND WHOLESALERS ALSO MAKING RETAIL SALES OF FUEL

If you qualify for an “SG” permit and you also make retail sales of fuel to consumers, you are required to file two separate returns: an “SG” return to report your removals, entries, and wholesale sales of fuel, and a regular sales and use tax return to report your retail fuel sales. On *Schedule A* of your “SG” return, you must list your seller’s permit number and report prepaid tax on any fuel that you have taken from your inventory to sell at retail. (You must also list removals, entries, and sales to other sellers or retailers.) When you report the retail sales of this fuel on your regular sales and use tax return, you should claim a credit for the prepaid tax by including the transaction on *Schedule G* and listing your “SG” permit as the source of supply.

SELLERS MAKING ONLY RETAIL SALES

Service station operators or other persons who purchase fuel to resell to users or consumers are considered retailers. If you make only retail sales, you are not required to obtain an “SG” sales tax permit. Instead, you should charge the full applicable sales tax rate on fuel sold to your customer and claim credit for the precollected sales tax you paid to your suppliers on *Schedule G* of your sales and use tax return. Instructions on how to prepare the sales and use tax returns and the appropriate schedules are included with each return.

RECORDS

The law requires that you maintain complete and adequate records of all business transactions in support of any tax returns you have filed. These records may be examined by a representative of the Board to verify the accuracy of your returns. Failure to keep adequate and complete records may result in the assessment of penalties.

The records that you maintain should include all those generally expected of the typical supplier, wholesaler, or service station. In addition to summary records, you should retain all sales invoices, purchase invoices, and any documents used to record your operations which support the returns you have filed. At the time you registered for a permit, you should have been given a copy of Regulation 1698, *Records*, which details the type of records you should keep.

RECONCILIATION OF REPORTED AMOUNTS

To ensure that tax credits have been properly claimed, the Board routinely compares the amounts claimed by retailers on *Schedule G* to the sales reported on the “SG” returns filed by their suppliers and wholesalers. Any discrepancies or differences between the records of suppliers and retailers will be examined in detail and may result in an audit.

Note: Retailers can prevent many discrepancies by properly claiming the tax credit in the period in which the purchase was made — generally, the period in which the purchase invoice date is included.

FOR MORE INFORMATION

Additional information on the prepayment of sales tax on fuel is included in the instructions for each tax return and in publication 25, *Tax Tips for Auto Repair Garages and Service Stations*. You can also request copies of Sales and Use Tax Law sections 6480.1 through 6480.23, the law sections which govern the prepayment of sales tax on fuels. If you would like to obtain a publication, you can go online to www.boe.ca.gov (click on “Forms and Publications”), or you may call our Information Center at 800-400-7115. You can also call the Information Center to speak to a customer service representative if you have any questions.