


**STATE BOARD OF EQUALIZATION**

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 Executive Director

February 26, 1997

RE: Account No. REDACTED TEXT

Dear REDACTED TEXT,

This is in response to your letter dated December 30, 1996 asking how tax applies on your company's charges for its operations entitled "REDACTED TEXT."

You state:

"REDACTED TEXT charges' refer to the service provided to doctors to automate their receipt posting. The patient sends his payment and invoice to a lock box located in REDACTED TEXT, Ohio where it is opened and processed by the bank. Via electronic scanning, the remittance information is transmitted through our EDI network based in REDACTED TEXT, TX to an electronic mail box at the doctor's office. When the doctor's practice accesses the electronic mail, they have the option of printing out a copy of the patient payment file. The next business day, payments are transferred electronically to their bank account by the processing bank. They then receive all the necessary reports to ensure that the automatic deposits equal the funds posted to patient accounts."

Discussion

California imposes a sales tax on a retailer's gross receipts from the retail sale of tangible personal property in this state unless the sale is specifically exempt from taxation by statute. (Rev. & Tax. Code § 6051.)<sup>1</sup> Where sales tax does not apply, use tax is imposed on the sales price of property purchased from a retailer for the storage, use, or other consumption of property inside this state. (Rev. & Tax. Code §§ 6201, 6401.)<sup>2</sup> Taxable gross receipts or sales price include all amounts received with respect to the sale, with no deduction for the cost of materials, service, or expense of the retailer passed on to the purchaser, unless there is a specific statutory exclusion. (Rev. & Tax. Code §§ 6011, 6012.) Taxable gross receipts or sales price do not include amounts received from the sale of a service provided the service is not part of the sale of tangible personal property. (See Reg. 1501.) A person engaged in the business of rendering a service is the consumer of property it transfers incidentally to its customer in the performance of that service and owes tax or tax reimbursement on that property. (*Id.*)

<sup>1</sup> This tax is imposed on the retailer who may collect reimbursement from the customer if the contract of sale so provides. (Civ. Code § 1656.1; Reg. 1700.)

<sup>2</sup> This tax is imposed on the person actually storing, using, or otherwise consuming the property. (Rev. & Tax. Code § 6202.) A retailer engaged in business inside this state is required to collect this tax from its customers and remit it to this Board. (Rev. & Tax. Code § 6202, 6203.)

We understand from your letter that REDACTED TEXT provides automated payment processing to its customers. That is, REDACTED TEXT collects payments on behalf of its customers for bank processing, transmits the amounts collected to the customer through electronic or telephonic transmission, and provides its customers with a periodic report reconciling the total deposits with amounts credited to specific patient accounts. Under these facts, we regard the true object of REDACTED TEXT's agreement with its customers to be one for the providing of account collection and reconciliation services. This means that tax does not apply to REDACTED TEXT "REDACTED TEXT" charges to its customers. REDACTED TEXT is, however, the consumer of the materials it uses in preparing its periodic reports and tax applies to the purchase price of these materials where REDACTED TEXT purchases or consumes these materials inside this state.

We hope this answers your questions. If you have any further questions, please write again.

Sincerely,

Warren L. Astleford  
Tax Counsel

WLA:rz

cc: REDACTED TEXT District Administrator REDACTED TEXT