

**FOX BUSINESS**

# Neutered California tax board forces quick transition

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Off and on for nearly a century, California lawmakers pondered breaking up an obscure elected board that now collects a third of the state's revenue — more than \$60 billion a year in sales, alcohol, tobacco and other taxes.

They pulled the trigger last month, with Gov. Jerry Brown and legislators backing a plan to strip nearly all power from the Board of Equalization. The move took effect Saturday, less than three weeks after legislation was introduced, forcing Brown's administration to scramble to create a new agency to oversee tax collections and audits in a matter of weeks.

In six months, an even bigger change takes effect when another new department, the Office of Tax Appeals, will assume the authority to resolve most disputed tax bills. Panels of administrative law judges stationed around the state will hear and decide appeals in place of the elected Board of Equalization members.

The rapid transition creates a period of uncertainty for the taxpayers that deal with the Board of Equalization, which will retain about 200 of its 4,700 staff positions. The board mostly handled taxes paid by businesses but also adjudicated income tax appeals.

"It's going to be interesting times for the next year at least as we all try to figure out the day-to-

day ramifications of this rather short but potentially very impactful bill that was just passed," said Dennis Brager, a tax litigation attorney with the Brager Law Group in Los Angeles.

Brager praised a move he said will put lawyers with expertise in tax law in charge of tax appeals, rather than politicians unfamiliar with California's intricate tax code. But big questions remain about how the administrative law judges will work, he said, and state officials face a difficult task to resolve them in short order.

The judges will be selected through the state's traditional civil service hiring process and report to a director appointed by Brown, said H.D. Palmer, a spokesman for Brown's Department of Finance.

They'll decide questions like whether a business paid all the sales tax it owes or if a particular good or service is taxable.

The changes were prompted by a scathing Finance Department evaluation earlier this year that portrayed a rogue agency in which some board members inappropriately used state employees to work on promotional activities and failed to report accurate financial information to the Legislature and the administration.

The evaluation alleged board member Jerome Horton reassigned public employees to work for him, opened a call center in his district without other members' consent and held outreach events unrelated to the board's mission. The review also found that 113 board employees helped with parking and registration at an Escondido event sponsored by board member Diane Harkey.

Horton and Harkey have denied wrongdoing.

The Board of Equalization will retain authority to collect and handle appeals for state-assessed property taxes, alcohol taxes and insurance taxes.

The new California Department of Tax and Fee Administration will take over more than 30 other types of taxes and fees. They include sales, tobacco and gas taxes, along with more obscure fees for lead acid batteries, marine invasive species, hazardous waste disposal and underground storage tank maintenance.

Outsiders will notice little from the change, which amounts to installing a new boss, Palmer said.

"We're not tearing down an existing agency and starting from scratch," Palmer said. "We are basically taking the bulk of BOE's workforce that currently exists and moving it under a new management structure."

Brown last week appointed David Botelho as the new department's acting director. Botelho had a long career in state government, most recently at the Finance Department, where he was chief auditor for five years and a budget manager for three.

The governor will later appoint a permanent director, deputy director and chief lawyer. The Government Operations Agency will oversee the new department.

George Runner, a Republican Board of Equalization member who opposed the change, said the new law will leave small-business owners and taxpayers to navigate an oppressive bureaucracy on their own.

"When the Legislature does these kinds of things without thinking through consequence, there's unintended issues," Runner said.

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