



## CDTFA-65 (2024): Notice of Close Out Checklist

### What a California Tax Account Closure Notice Usually Means

A closure or notice of closeout related to sales tax or use tax often reflects an administrative update under the Sales and Use Tax Law. The California tax system may update account status after reported inactivity, final returns, or a reported bulk sale. The notice does not automatically confirm compliance with the Revenue and Taxation Code or any related sections.

### What the Notice Does and Does Not Do Under California Law

An account closure update may relate to reporting obligations for tangible personal property, resale transactions, or tax exemption claims. It does not automatically resolve liabilities tied to sales tax, use tax, or business property taxes under the California Constitution and the Business and Professions Code.

- **Administrative account update:** The notice usually reflects a status change within the sales and use tax system based on filed returns or correspondence. The taxpayer should confirm that all required returns and payments were properly applied.
- **Not automatic tax clearance:** A closure entry does not replace formal Tax Clearance Certificates required in certain transactions. The taxpayer should review obligations under the Bulk Sale Code and Successor Liability rules.
- **Not exemption validation:** The notice does not validate previously claimed exemption certificates or a resale permit. The business should confirm that any tax exemption was supported by proper documentation and good-faith acceptance.

### Risks When Business Operations Continue After Closure

Continuing sales, storage, and distribution, or out-of-state delivery activity, while the account shows as closed, can create compliance gaps. Transactions involving furniture, fixtures, and equipment (FF&E), raw materials, or machinery and equipment may still trigger reporting duties under revenue and taxation policy.

- **Successor Liability exposure:** A purchaser in a bulk sale can inherit unpaid sales tax or use tax under successor liability provisions. The buyer should confirm compliance through proper notifications and, when required, tax clearance certificates.



- **Unreported taxable transactions:** Ongoing sales of tangible personal property, such as commercial trucks, farm equipment, and machinery, or diesel fuel, may remain taxable. The business should ensure that all sales and use tax returns reflect current activity.
- **Misapplied exemption claims:** Transactions involving medicinal cannabis, hot prepared food products, or candy or confectionery may not qualify for exemption. The retailer should confirm that exemption certificates were accepted in good faith.

## Step-by-Step Actions After Receiving the Notice

### Step 1: Confirm the exact notice and account details

Review the Notice of Closeout and verify the account number, reporting periods, and entity name. Confirm whether the notice references bulk sale, successor liability, or specific revenue and taxation code sections.

### Step 2: Determine whether all taxable sales ceased

Assess whether sales of tangible personal property or fuel and petroleum products truly stopped. Confirm that activities such as vending machine sales, out-of-state delivery, or interstate commerce transactions ended.

### Step 3: Review exemption and resale documentation

Gather all exemption certificates and resale permit records supporting tax exemption claims. Ensure that documentation for charitable organizations, qualified person transactions, or Section 23701d entities is complete.

### Step 4: Verify final return accuracy

Confirm that the final sales tax and use tax return reported all taxable transactions and adjustments. Check that items such as monetized bullion, numismatic coins, or foreign coins were correctly classified.

### Step 5: Evaluate Bulk Sale and asset transfers

If assets such as machinery and equipment, special-purpose buildings, or graphic art were transferred, review the bulk sale requirements. Ensure compliance with the Bulk Sale Code and related notification duties.

### Step 6: Confirm payment of any balance due

Obtain a balance statement and reconcile payments for electric power, aviation gasoline, or other taxable categories. Address any remaining liability promptly to avoid the county tax collector or collection action.



## Step 7: Monitor for follow-up correspondence

Retain copies of all communications and watch for additional notices referencing Section 1250, Section 9795, or other provisions. Respond within stated deadlines to maintain compliance.

## Special Industry Considerations

Certain industries face additional complexity under the Sales and Use Tax Law and related statutes. Transactions involving public transportation equipment, over-the-road bus fleets, rail freight cars, or passenger vehicles may involve unique classification issues.

Manufacturing, power generation, and research and development equipment may qualify for partial exemptions under certain statutory conditions. The business should review whether research and development equipment or special test equipment meets applicable standards.

Sales involving electric power, geothermal steam, carbon dioxide, or transmission lines may raise classification questions. Businesses engaged in recycling activities, timber-harvesting equipment sales, or aviation gasoline distribution should confirm that proper reporting is in place.

Food-related transactions also require review, especially where food products, glazed fruits, or meals served to low-income elderly individuals are involved. Retailers should distinguish between exempt food stamp coupons and taxable hot prepared food products.

## Documentation to Gather Before Contacting the Tax Agency

Thorough documentation supports clear communication and reduces disputes regarding revenue and taxation policy compliance. Records should reflect transactions involving real property, tangible personal property, and specialized equipment.

- **Asset transfer records:** Maintain bills of sale and agreements covering machinery and equipment, master tapes, or works of art. Include documentation for commercial trucks, racehorse breeding stock, or low-emission motor vehicles.
- **Exemption support:** Keep copies of exemption certificates related to medical oxygen delivery systems, breast pumps, or breast pump collection and storage supplies. Retain documentation supporting claims under the Health and Safety Code or Internal Revenue Code.
- **Industry registrations:** Preserve records for the Unified Carrier Registration System and any United States Department of Transportation number. Include documentation for out-of-state license status and federal government contracts.



- **Utility and energy transactions:** Retain invoices for gas, electricity, and water, as well as geothermal steam or carbon dioxide purchases. Confirm whether any exemption or partial exemption applies.

## Frequently Asked Questions

### **Does a sales tax closure notice eliminate use tax liabilities?**

A closure notice does not automatically remove use tax obligations from prior periods. The taxpayer should confirm that all taxable purchases of tangible personal property were reported and paid.

### **Can a buyer become responsible for the seller's unpaid sales tax?**

Under Successor Liability and Bulk Sale provisions, a purchaser can inherit unpaid liabilities. The buyer should comply with statutory notice requirements and request the appropriate tax clearance certificates.

### **Are all food sales exempt from sales tax?**

Not all food products qualify for exemption. Items such as candy or confectionery and hot prepared food products are generally taxable, while certain meals served to low-income elderly individuals may qualify.

### **Do research and development purchases always qualify for exemption?**

Research and development equipment may qualify for a partial exemption under certain statutory conditions. The business should confirm eligibility under applicable Revenue and Taxation Code Sections before claiming benefits.

### **Does a tax sharing agreement or AB 2854 affect the closure of a sales tax account?**

A Tax Sharing Agreement, including arrangements authorized under AB 2854, can affect how sales tax revenue was allocated before closure. A business should review any agreement involving the City of Alameda and confirm reporting consistency with State Board of Equalization guidance and provisions enacting this act.

### **Do industry classification or contract terms affect reporting before closure?**

Industry classification under NAICS and the structure of fixed-price contracts can influence how a distributor reports processing, refining, or fabricating activities. A business should confirm whether lease arrangements, reimbursement collected from the user, or sales of feed, fertilizer, medical identification tags, or public art were correctly treated before final filing.



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