This Week in State Tax (TWIST)

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California: State Supreme Court rules local governments may not impose procedures for tax refunds that go beyond state law

In a recent opinion, the California Supreme Court held that state law requires the Government Claims Act (GCA) to serve as the exclusive statewide framework for presenting claims for money or damages against local public entities, including refund claims for local business license taxes.

The case involved a taxpayer that operated a refinery in the California charter city of Carson. The refinery was subject to the oil industry business license tax, a gross receipts-based levy. After an audit, the City issued an assessment which the taxpayer paid under protest and then submitted a written refund claim directly to the City in the manner and within the time prescribed by the GCA. The City rejected the claim as untimely and procedurally defective on the basis that the taxpayer had not followed additional local administrative procedures requiring a written request for review to the finance director and a further appeal to the city manager before any refund claim could proceed.

The taxpayer then filed a refund action in superior court, asserting that California law preempted the city ordinance that attempted to impose administrative prerequisites on claims for money or damages that went beyond the requirements of the GCA. A trial court agreed with the City and dismissed the taxpayer's claim, reasoning that the taxpayer first had to complete the City's two-step internal review process before it could rely on the GCA. The taxpayer appealed, and the Court of Appeal likewise sided with the City, treating the local procedures as a valid administrative "exhaustion" requirement that could sit on top of the state claims framework.

Upon review, the California Supreme Court held that the state, through enactment of the GCA, had fully occupied the field governing the manner in which claims for money or damages, including local tax refund claims, must be presented to public entities and that cities cannot change the filing deadlines, required content, or validity of those claims by insisting that taxpayers complete additional local procedures first. This determination, it stated, is consistent with the legislative history of the GCA as well as other precedents of the Court. Cities may offer internal review processes, but those processes must be optional and cannot be a gatekeeping tool to decide whether a local tax refund claim is properly or timely filed under the GCA. The Court did not address whether the city correctly calculated the taxpayer's business license tax or properly sourced the taxpayer's gross receipts under California law. It focused solely on the procedural issue, and the case was sent back to the trial court to address the substantive issues in the claim.

Please contact Jim Kuhl and Brian Phillips with questions about *Tesoro Refining & Marketing Company v. City of Carson*.
