

# Auto Repair Garages and Service Stations

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PUBLICATION 25 | FEBRUARY 2017

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## PREFACE

This publication is intended as a general guide to the Sales and Use Tax Law and regulations as they apply to the operations of vehicle repair garages and service stations. Portions of this publication are also useful for taxpayers who operate mini-marts selling fuel. This publication is also available in Spanish from the BOE website at [www.boe.ca.gov](http://www.boe.ca.gov).

In addition to addressing sales and use tax issues, this publication includes information on the Diesel Fuel Tax Law, the Use Fuel Tax Law, the Motor Vehicle Fuel Tax Law, the California Tire Fee Law, the Oil Recycling Fee Law, and the Underground Storage Tank Maintenance Fee Law. These taxes and fees may also apply to your business operations.

If you cannot find the information you are looking for in this publication, please visit the BOE website or call the Customer Service Center at 1-800-400-7115 (TTY:711). Customer service representatives are available to answer your questions weekdays between 8:00 a.m. and 5:00 p.m. (Pacific time), except state holidays.

This publication supplements [publication 73](#), *Your California Seller's Permit*, which includes general information about obtaining a permit; using a resale certificate; collecting and reporting sales and use taxes; buying, selling, or discontinuing a business; and keeping records. Please also refer to the BOE website or the [For More Information](#) section for the complete list of California State Board of Equalization (BOE) regulations and publications.

The BOE welcomes your suggestions for improving this or any other publication. If you would like to comment, please provide your comments or suggestions directly to:

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*Note:* This publication summarizes the law and applicable regulations in effect when the publication was written, as noted on the cover. However, changes in the law or in regulations may have occurred since that time. If there is a conflict between the text in this publication and the law, the decision will be based on the law and not on this publication.

To contact your Board Member, see [www.boe.ca.gov/members/board.htm](http://www.boe.ca.gov/members/board.htm).

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## GENERAL APPLICATION OF TAX

This section provides general information about the application of tax to sales by auto repair businesses and service stations. It covers:

- Sales of parts, fuel, and other products—in general
- Labor and services
- Hazardous waste fees
- Oil recycling fees
- Invoicing your customer

For more detailed information about the application of tax to sales of parts, please see [Sales and Use of Parts](#). Some specific types of repairs and services are covered in [Specialty Repairs or Service](#). If you operate a service station that sells fuel, please see [Fuel Sales](#).

### Sales of parts, fuel, and other products—in general

Under the Sales and Use Tax Law, the sale (including exchange or barter) or use of merchandise, including fuel, is taxable. For an auto repair business or service station, tax generally applies to the sale or use of all of the following:

- New, used, or rebuilt automobile parts. This includes both general repair or maintenance parts such as spark plugs, belts, tires, batteries, PCV valves, and brake shoes or pads; and replacement parts such as engines, transmissions, alternators, water pumps, fenders, and bumpers.
- Parts you manufacture. The taxable selling price of the part should include the cost of the labor required to manufacture it.
- Lubricating products such as oil and grease.
- Automotive fluids such as brake or transmission fluid and window washer solution.

*Please note:* Throughout this publication, the term “parts” is used to refer to the items listed in the four bullets above.

- Fuel. (See [Fuel Sales](#) for the application of tax to sales or use of fuel.)

Generally, a sale is taxable unless it qualifies for an exemption or exclusion (see [Nontaxable sales and purchases of parts](#)). It is important to remember that the taxable selling price of an item may include not only the charge for the item itself, but also charges for mandatory warranty contracts (see [Warranty - Related Charges](#)). For fuel sales, the taxable selling price can also include charges for certain state and federal excise taxes.

As a retailer, you owe the sales tax to the state. But, you may collect from your customer an amount equal to the tax you will owe. This is usually itemized on sales invoices as “sales tax.”

### Labor and services

Generally your charges for labor and services are not taxable (see Exceptions). You must list labor and service charges separately on your customer invoices. This includes your charges for:

- Installation labor *on used vehicles* such as replacing spark plugs, replacing brake shoes or pads, removing and installing engines, or installing sound systems.
- Repair labor to bring a vehicle back to its original condition. Examples of repair labor include rebuilding carburetors or heads, replacing parts in engines or transmissions, and performing body and fender work.
- Maintenance services such as tune-ups, oil changes, or radiator flushes.
- Services such as charging a battery or towing a vehicle.

## Exceptions

While sales and use tax generally does not apply to labor charges, there are two common exceptions. Labor charges for making a part (“fabrication labor”) are usually taxable, as are labor charges for installing parts on new vehicles. For more information on fabrication labor, see [Other Tax/Fee Issues](#).

## Hazardous waste fees

If you operate a repair shop that handles waste products such as oil, transmission fluid, and oil filters, you may be required to pay hazardous waste disposal fees when you submit the waste to a disposal facility. If you handle large numbers of asbestos-lined brake shoes that must be disposed of at approved facilities, or you generate certain other types of hazardous waste, you may be required to obtain a permit and pay hazardous waste generator fees. Contact Special Taxes and Fees for information.

You may reimburse yourself for either of these fees by charging them to your customer. Separately stated charges for “hazardous waste fees” are not subject to sales tax if they are directly related to nontaxable services or repair. For example, you change the oil in a vehicle and charge a hazardous waste fee for disposing of the used oil. That charge is not taxable because it is related to nontaxable repair labor.

However, charges for hazardous waste fees are generally taxable if they are made in connection with your taxable sale of parts or other property, or in connection with taxable work you perform on a vehicle. For example, an auto dismantler selling a used engine might charge a hazardous waste fee to cover disposal of contaminated soil. That charge would be taxable because it is related to the sale of parts, not to repair or installation labor.

## Oil recycling fees

An oil recycling fee of 16 cents (\$0.16) per gallon applies when lubricating oils and transmission or differential fluids are first sold in California. If you purchase these products from a California supplier, the supplier will pay the fee. However, if you import the products from outside the state, you must pay the fee.

You are allowed to reimburse yourself by charging your customer for the recycling fee you have paid to the state or your supplier. This reimbursement charge is subject to sales tax, even if listed separately on your invoice. For more information about the oil recycling fee, please contact the California Integrated Waste Management Board at 1-916-341-6457, or visit their website at [www.calrecycle.ca.gov](http://www.calrecycle.ca.gov).

## Invoicing your customer

An invoice should list separate charges for the taxable sale of parts and any nontaxable charges for labor.

If your business is registered as an automobile repair business, the California Business and Professions Code requires you to separately list and subtotal all parts charges. To obtain a booklet on how to properly invoice your customers under the Business and Professions Code, please contact the [Bureau of Automotive Repair](#).

## Charges for supply items

Supply items are considered to be those items *used* in your repair business (for example, rags or tools), as opposed to items you *sell* to your customers, such as parts and oil. You may not purchase supply items for resale. The Business and Professions Code prohibits automotive repair shops and auto body shops from making a nonspecific or general charge to customers for “supplies.” To recover supply costs from a customer, the selling price of each supply item must be separately stated on your invoice.

These separately stated supply charges may be taxable. Overhead expenses such as supply costs are taxable when charges for the supplies are associated with the sale of parts. However, if you charge for supplies in conjunction with a transaction involving *only* nontaxable labor, the supply charges are not taxable. If the job includes both the taxable sale of parts and nontaxable charges for labor, you should divide the supply costs between the portions related to the nontaxable labor charges and the portions related to the taxable parts sale.

*Please note:* You are considered the consumer (end user) of supply items that do not remain on the item you repair (for example, cleaning solvent). Sales tax applies when you purchase those supplies, even if you itemize charges and report tax on those items on your invoices.

**Sample invoice with items properly itemized**

Model garage		
<b>Parts</b>	Rebuilt 1987 Ford engine	\$ 1400.00
	Manifold gasket	19.00
	Oil filter	6.00
	5 Qts. 10W40 oil	15.00
	Total parts	<u>\$ 1440.00</u>
<b>Labor</b>	Remove and install engine	<u>\$ 1000.00</u>
	Total labor	\$ 1000.00
	Total parts	1440.00
	Sales tax [\$1440 x 8.25%]	<u>118.80</u>
<b>Pay this amount</b>		<u><u>\$ 2558.80</u></u>

*Please note:* Even though this and other examples show tax calculated at a rate of 8.25 percent, you should use the rate in effect at your business location. For a listing of the special districts in effect throughout the state and the applicable tax rates, see [California City and County Sales and Use Tax Rates](#) on the BOE website.

**Documenting repairs—vehicles brought into the state**

When performing warranty or repair service on a vehicle brought into the state exclusively for that purpose, your invoice or work order should show the dates the vehicle was in your possession. For more information, see [Warranty-Related Charges](#).

## SALES AND USE OF PARTS

This section discusses in more detail how tax applies to your sales or use of parts. Topics covered include:

- Trade-in allowances, core charges, and discounts
- Reconditioning and rebuilding parts
- Parts used for repair or maintenance billed as a lump-sum charge
- Repairers as consumers of parts, supplies, and tools
- Nontaxable sales and purchases of parts

For information on applying tax to charges for parts furnished in a warranty repair, please see [Warranty-Related Charges](#).

### Trade-in allowances, core charges, and discounts

Many auto repair shops treat the sale of reconditioned and rebuilt parts just like the sale of new and used parts. However, when the sale involves a trade-in allowance, core charge credit, or discount, there are significant differences in how tax applies. The following sections provide guidelines that explain how to apply tax to sales involving each category of parts. How you calculate the taxable selling price of the part will depend on whether you are selling a new or used part, or a reconditioned or rebuilt part.

#### ***Core charges, core deposits, and similar trade-in allowances***

In the auto repair and parts business, a trade-in allowance is often called a “core charge” or a “core deposit.” In general, the terms refer to an amount you add to the price of a part and then refund to a customer who gives you an old part in exchange.

*Note:* The trade-in allowance or core charge credit you give for a worn part should approximate its “fair market value.” That is, try to set the allowance at the price you would pay for a similar item or on some other reasonable basis.

#### ***Sale of new or used part with core charge***

When selling a new or used part and include a core charge, the core charge is taxable. This is true even if you refund the core charge to your customer. Tax applies to the core charge because the allowance for the trade-in is considered part of your payment for the sale.

For example, when selling a battery for \$55 (\$50 battery + \$5 core charge = \$55 total selling price), you must report and pay tax on the full \$55 selling price even if you refund the \$5 core charge to your customer for bringing in a used battery. Similarly, when selling a used engine (not reconditioned or rebuilt) for \$450 and an allowance of \$25 is given for the trade-in of the buyer’s old engine, the full \$450 price is taxable.

When giving your customer a refund of the core charge for bringing in a used part, do not refund the tax you collected on the charge.

#### ***Sale of reconditioned or rebuilt part with core charge***

When you sell a *reconditioned* or *rebuilt* part and include a core charge or core deposit, that charge is taxable unless you refund it to your customer. On sales of reconditioned or rebuilt parts, tax applies to the exchange price. The exchange price is the total selling price of the part, including any core charge, less any credit you give the customer for turning in a worn part.

When you refund the core charge, you should also refund any tax you collected on that charge. Tax does not apply to the core charge because you are selling a reconditioned or rebuilt part. You should not tax the core charge credit whether you give it to the customer at the time of the sale or at some later point. If you refund a core charge to your customer after the original sale, you must also be sure to refund any tax you collected on the charge.



For example, you sell a rebuilt alternator for \$150 plus a \$25 core deposit. If a refund is not given to the customer for the core deposit, tax is due on the full \$175 selling price (\$150 part + \$25 core deposit). However, if the customer exchanges a used alternator and you refund the \$25 core deposit, tax is due only on the \$150 price of the alternator. You would refund your customer the \$25 core deposit plus any tax you collected on that charge. See Sale calculations chart.

**Sale calculations chart**

Sale of rebuilt part		If customer returns core	
Rebuilt alternator	\$ 150.00	Less core return	\$- 25.00
Core charge	<u>+ 25.00</u>	Less tax on core charge (\$25 x 8.25%)	<u>- 2.06</u>
Taxable selling price	\$ 175.00	B. Total refunded to customer	<u>\$- 27.06</u>
Tax (\$175 x 8.25%)	<u>+ 14.44</u>		
A. Total charge to customer who does not return the used core	<u>\$ 189.44</u>	Total sale amount with core return (A minus B)	<u>\$ 162.38</u>

*Please note:* Even though this and other examples show tax calculated at a rate of 8.25 percent, you should use the rate in effect at your business location. For a listing of the special districts in effect throughout the state and the applicable tax rates, see [California City and County Sales and Use Tax Rates](#), on the BOE website.

**Discounts**

A discount you give to your customer is not taxable—unless you are reimbursed for it by a manufacturer or distributor. For example, if you sell an engine (whether new or rebuilt) for \$800 less a ten percent discount of \$80, the taxable selling price is \$720 (\$800 – \$80).

However, on the sale of an engine for \$800 less an \$80 manufacturer’s rebate, the taxable selling price is \$800. Tax applies to the total gross receipts from the sale, even though you receive partial payment from the customer (\$720) and the balance from the manufacturer (\$80). In other words, tax applies to the selling price of the engine before a deduction is made for the rebate amount.

**Invoices**

To avoid possible errors in computing sales tax, your invoice should clearly identify those amounts being allowed for trade-ins, core charges, and discounts. Also, calculate tax on the selling price of a new or used part before you subtract out any trade-in allowance. Invoices and other documents related to the sale should be kept with your other business records. The examples illustrate how to complete invoices for sales that include trade-in allowances, core charges, and discounts.



Sales without discounts		Sales with discounts		
<i>New part</i>	<b>New Battery</b>	\$ 35.00	<b>New Battery</b>	\$ 35.00
			10% discount	<u>- 3.50</u>
	Taxable selling price	\$ 35.00	Taxable selling price	\$ 31.50
	Tax [\$35.00 x 8.25%]	2.89	Tax [\$31.50 x 8.25%]	2.60
	Trade-in allowance	<u>- 3.00</u>	Trade-in allowance	<u>- 3.00</u>
	Total due from customer	<u>\$ 34.89</u>	Total due from customer	<u>\$ 31.10</u>
<i>Rebuilt part</i>	<b>Rebuilt Alternator</b>	\$ 175.00	<b>Rebuilt Alternator</b>	\$175.00
	Less: refunded core charge*	<u>- 25.00</u>	Less: refunded core charge*	- 25.00
			10% discount	<u>- 17.50</u>
	Taxable selling price	\$ 150.00	Taxable selling price	\$ 132.50
	Tax [\$150.00 x 8.25%]	<u>12.38</u>	Tax [\$132.50 x 8.25%]	<u>10.93</u>
	Total due from customer	<u>\$ 162.38</u>	Total due from customer	<u>\$ 143.43</u>

\*Credit for used part traded in with sale.

Please note: Although this and other examples show tax calculated at a rate of 8.25 percent, you should use the rate in effect at your business location. For a listing of the special districts in effect throughout the state and the applicable tax rates, see [California City and County Sales and Use Tax Rates](#), on the BOE website.

## Reconditioning and rebuilding parts

The application of tax to charges for reconditioning or rebuilding a part will depend on whether you:

- Return to the customer the same part brought in for repair, or
- Substitute a different part.

If you repair and return the customer's original part, tax generally applies only to the charge for parts and materials furnished in reconditioning or repairing the part. Repair labor is not taxable. For example, you charge \$2,800 to rebuild a transmission: \$2,000 for parts and \$800 for the repair labor. Tax would apply to the \$2,000 charge for the parts.

If a different part is returned to the customer, you are considered the retailer of the rebuilt part and tax applies to the entire charge. Using the above example, sales tax is due on the entire \$2,800 charge if the transmission returned to the customer was not the same one brought in for repair. If a credit for a core charge is given, you should subtract the core charge credit from the \$2,800 before calculating sales tax (see [Sale calculations chart](#)).

## Maintenance and repair parts billed as a lump-sum charge

Occasionally you may bill a repair job as a lump-sum charge without itemizing and applying tax to the sale of parts. Examples of such jobs include lube jobs, oil changes, wheel bearing repacks, wheel balancing and alignment, and tune-ups.

To bill a repair job as a lump-sum charge, and be regarded as a consumer of parts and materials, both of these elements must apply:

- Any law regulating your business (such as the Business and Professions Code) must allow you to bill lump-sum charges.
- The fair retail selling price for the parts must be ten percent or less of the total lump-sum charge.

For example, you bill a lump-sum charge of \$15.00 for packing wheel bearings when the bearings are not replaced.

The fair retail selling price of the bearing grease used on the job is \$1.00. Since \$1.00 is less than ten percent (\$1.50) of the total \$15.00 lump-sum charge, you are not considered a retailer of the grease and the \$15.00 charge is not taxable. You are, however, considered the consumer of the grease and must report and pay use tax on its cost unless the seller collected tax from you when you purchased it.

In this example, if the fair retail selling price of the grease is more than ten percent of \$15.00 (that is, more than \$1.50) or if a charge is made separately for the grease, you are liable for tax on the fair retail selling price or the amount separately charged.

## Repairers as consumers of parts, supplies, and tools

You are considered the consumer rather than the retailer, of parts, supplies, tools, or equipment that do not become part of the item you repair. Examples include cleaning solutions, grinding or polishing compounds, flux used for brazing parts, wrenches, clamps, and diagnostic equipment. You should not purchase these and similar items for resale; the vendor should collect tax on your purchase.

In some cases, you may buy materials and tools from vendors such as automotive supply houses or new car dealerships that also sell you repair parts. You should not give these vendors a resale certificate that covers supplies, tools, or equipment. If you issue a resale certificate for such a purchase in error you must pay use tax on the purchase price. Report the cost of the items on your sales and use tax return under "Purchases Subject to Use Tax" and pay the correct amount of tax due. In addition, cancel, in writing, the incorrect resale certificate and issue your supplier a corrected certificate. Similarly, when purchasing these items without tax from an out-of-state vendor, you must pay use tax on their purchase price.

## Nontaxable sales and purchases of parts

While sales or purchases of parts are normally taxable, certain sales and uses of parts are not taxable because they qualify for a specific exemption or exclusion. The most common nontaxable sales made by automobile repair businesses and service stations include:

- Certain warranty transactions (see [Warranty-Related Charges](#))
- Sales or purchases for resale (see next section)
- Sublet repairs
- Repairs to vehicles intended for resale
- Sales to the U.S. government

### ***Sales or purchases for resale***

Your purchase of merchandise is not taxable if you will resell the merchandise in the regular course of business or incorporate it as a component part of an item to be resold. For example, tires, batteries, or auto accessories such as deodorizers, may be purchased without tax by issuing a resale certificate to your supplier when you purchase them. You may also issue a resale certificate to your supplier for repair parts that you intend to resell to a customer prior to any use other than demonstration or display while holding them for resale (see [Maintenance and repair parts billed as a lump-sum charge](#), for an explanation of parts that you use rather than sell).

The sales of merchandise for resale is not taxable provided you accept a timely, properly completed resale certificate from your customer in good faith. Keep the certificate with your records to support your claim that the sale was not taxable.

A properly completed resale certificate must include all of the following:

- The name and address of the purchaser.
- The seller's permit number of the purchaser. If the purchaser does not have a permit, the certificate must have a statement explaining why a permit is not needed.
- A description of the item being purchased.
- A statement that the item is being purchased for resale. The certificate must contain words stating that the property "will be resold" or is "for resale." The use of words such as "nontaxable" or "exempt" is not acceptable.
- The signature of the purchaser or the purchaser's agent and the date it was issued.

For more information on making sales for resale, you may wish to obtain a copy of the BOE [publication 103](#), *Sales for Resale*.

### ***Sublet repairs***

"Sublet repair" is repair work you have done by, or do for, another repair business. Common examples of sublet repairs include radiator repair, glass replacement, body work, upholstery repair, and rebuilding of parts such as carburetors, speedometers, and transmissions.

If you perform the sublet repairs, tax applies to your charges for any parts you furnish unless the purchaser provides you with a valid and timely resale certificate. If you are buying the sublet repairs and they include charges for parts or fabrication labor, you are responsible not only for issuing a resale certificate to the person who performs the work, but also for itemizing the sublet repair parts and labor on your customer invoice. The full amount charged for the sublet repair parts, including your markup, is taxable.

### ***Repairs to vehicles intended for resale***

Parts you install in a vehicle intended for resale become component parts of the vehicle. You may sell these parts without tax if your customer is a licensed vehicle dealer who issues you a timely, valid, and properly completed resale certificate. If you are a licensed dealer and install parts in a vehicle you intend to resell, you may withdraw those parts from inventory and install them without reporting tax at the time of the repair (tax applies to the subsequent sale of the vehicle, including the installed parts). If neither you nor your customer are licensed dealers, you must pay tax on the sale or use of the parts.

### ***Sales to the U.S. government***

Sales of parts to the U.S. government are not subject to tax. To verify that a sale is to the U.S. government, you must obtain a copy of a government purchase order or remittance advice document. If the purchase is paid by credit card, the credit card must belong to the government. To support your claimed exemption, you must retain copies of the sales invoice and credit card receipt. The receipt should have the imprint of the credit card, or if an imprint cannot be made, a notation of the account number and account holder.

A sale paid with a *personal* credit card does not qualify as a sale to the U.S. government, even if the person paying for the work will be reimbursed by the government. For more information, see [publication 102](#), *Sales to the United States Government*.

*Please note:* Sales to other political entities are generally taxable if delivery is taken in this state. This includes sales to the State of California, cities, counties, and special districts.

## OTHER TAX/FEE ISSUES

In addition to the tax issues discussed in the previous two sections, other factors can affect how much tax you owe. This section discusses:

- The records you need to keep to support your reported sales
- Fabrication labor
- The sale of your business or of equipment used in your business
- Bad debts
- Deal-of-the-Day Instruments
- Prepaid Mobile Telephony Services Surcharge

### Keeping records

State law requires you to maintain records that adequately support the amounts you report on your sales and use tax returns. When requested, these records must be made available for examination by one of the BOE representatives. If the representative is unable to verify your reported amounts based on your records, you may be subject to penalties.

Your records should include those generally expected from an auto repair business, mini-mart, or service station. Besides your summary records, it is important to keep all sales and purchase invoices, repair orders, and any other documents that support the returns you have filed. To ensure that your records adequately support the amounts you report, you should do all of the following:

- Make sure your invoices or repair orders are complete and easy to read. Identify all parts you have furnished and describe the type of labor performed.
- File invoices and repair orders in the same sequence as entered in your books.
- Make sure your books separately list purchases of resale inventory and purchases of supplies and other nonresale items. If you sell fuel, be sure to separately list your fuel purchases

### ***Sales Suppression Software Programs and Devices***

It is a crime for anyone to knowingly, sell, purchase, install, transfer, or possess software programs or devices that are used to hide or remove sales and to falsify records.

Using these devices gives an unfair competitive advantage over business owners who comply with the law and pay their fair share of taxes and fees. Violators could face up to three years in county jail, fines of up to \$10,000, and will be required to pay all illegally withheld taxes, plus penalties including applicable interest and fees.

### How long should I keep my business records?

You should keep required records for at least *four years* unless the BOE gives you specific, written authorization to destroy them sooner.

If you are being audited, retain all records that cover the audit period until the audit is complete, even if that means keeping them longer than four years. In addition, if you have a dispute with us about how much tax you owe, it is important to retain the related records until that dispute is resolved. For instance, if you appeal the results of an audit or another determination (billing), or you file a claim for refund, keep your records while that matter is pending.

If you have a point-of-sale system that overwrites data after a period of time less than four years, you should transfer, maintain, and have available all data that would have been overwritten or otherwise removed from the system for the required time periods previously indicated.

For more information, you may obtain a copy of [publication 116](#), *Sales and Use Tax Records*, or from [www.boe.ca.gov](http://www.boe.ca.gov) or the Customer Service Center at 1-800-400-7115 (TTY: 711).

## Fabrication labor

As noted under [Labor and services](#), charges for repair, installation, and maintenance labor generally are not taxable. However, certain labor charges are taxable. When you create, produce, or assemble a product or part and then sell it in a taxable sale, that labor is taxable “fabrication labor.” Modifying an item or system as part of a taxable sale is also considered taxable fabrication labor.

For example, you create a part for an old truck as part of a repair job. Your labor in making the part is considered taxable fabrication labor. Another example is installing parts or accessories on a new vehicle as part of its sale. That work is considered part of the production of the new vehicle and is taxable fabrication labor.

You are considered to be working on a new vehicle if both of the following apply:

- The vehicle qualifies as a new vehicle when it is registered with the Department of Motor Vehicles (DMV).
- You contract to work on the vehicle within 60 days of the registration date.

When entering a contract to convert a new vehicle within 60 days of the date the vehicle is first registered with the DMV, the new vehicle is considered to have been purchased for conversion. Tax applies to your entire charge made for the full conversion, partial conversion, or preconversion work of this new vehicle.

Examples include adding utility boxes to a new truck, putting a sound system into a new car, or converting a new van.

*Exceptions:* Fabrication labor for new vehicles is not taxable if the work qualifies as a sale for resale or a sale to the U.S. government (see [Sales or purchases for resale](#), and [Sales to the U.S. government](#)). In addition, charges for materials and labor for vehicle modifications may not be taxable if they enable the vehicle to be used or driven by a person with physical disabilities. For more information about exemptions for modifications to vehicles used by people with disabilities, see [Regulation 1591.3](#), *Vehicles for Physically Handicapped Persons*. Information on this subject is also included in the BOE [publication 34](#), *Motor Vehicle Dealers*.

## Selling your business or equipment

Sales tax applies to the sale of any equipment or tools used in your business. If you sell your entire business, tax applies to the selling price of the equipment, tools, and other assets included in the sale. For more information about the sale of assets used in your business, please see [Regulation 1595](#), *Occasional Sales—Sale of a Business—Business Reorganization*. If you are selling your entire business, please read [publication 74](#), *Closing Out Your Account*.

If you sell a vehicle used in your business and the purchaser must register it with the DMV, do not report tax on the sale unless you are an automobile dealer, manufacturer, or dismantler. Instead, the buyer of the vehicle must pay use tax to the DMV when registering the vehicle. Since there is a limit to the number of vehicles you can sell without a dealer’s license, see the DMV website at [www.dmv.ca.gov](http://www.dmv.ca.gov) to determine whether you need a dealer’s license.

## Bad debts

If you allow customers to buy on credit and a customer does not pay his or her bill, you may be able to take a bad debt deduction on your sales and use tax return. The deduction is limited to the portion of the bad debt on which you had reported and paid tax on an earlier return. To be eligible for the deduction, the debt must have been written off for income tax purposes or charged off in accordance with generally accepted accounting principles.

If you later collect payment from the customer after claiming the deduction, you must report and pay tax on the amount you collected that applies to the taxable portion of your charges.

It is not always simple to properly calculate the allowable deduction for a bad debt or to report tax on a payment received after a bad debt deduction has been claimed. For more information, see [Regulation 1642, Bad Debts](#).

## Deal-of-the-Day Instruments

Third party Internet-based companies such as Groupon or LivingSocial offer Deal-of-the-Day Instruments (DDI) for sale on their website. DDIs with certain specific terms and conditions are considered retailer coupons and you, the retailer, are considered the issuer of the DDI. The sale of a DDI to a customer is not subject to tax. However, when the DDI is redeemed for taxable merchandise/service, your gross receipts subject to tax include the consideration paid by the customer for the DDI plus any additional cash, credit, or other consideration paid to you by the customer at the time of the sale. When the type of sale is normally not subject to tax, then tax would not apply to the sale of the merchandise and/or service when a DDI is redeemed by the customer.

For additional information please refer to [publication 113, Coupons, Discounts and Rebates](#).

## Prepaid Mobile Telephony Services Surcharge

Beginning January 1, 2017, certain small sellers of prepaid mobile telephony services (MTS) will no longer be required to collect the surcharge from their customers and report and pay those amounts to the California State Board of Equalization (BOE). A small seller of prepaid MTS is a seller (*other than a telecommunications service supplier*) that sold less than \$15,000 in prepaid MTS sales during the previous calendar year. The annual sales threshold is based on the total of all retail locations operated by the seller and is subject to annual adjustment. However, because consumers are still responsible for the surcharge, as a courtesy to their customers, small sellers may voluntarily continue to charge and collect the prepaid MTS surcharge and report the amounts to the BOE.

For more information about this program, please read the BOE guide, [Prepaid Mobile Telephony Services \(MTS\) Surcharge](#).

## SPECIALTY REPAIRS OR SERVICE

This section uses the general information given in preceding sections to discuss the application of tax to specific types of services or repairs, including:

- Smog checks and certification
- Insurance work
- Auto painting and body work
- Auto glass replacement
- Auto upholstery work
- Radiator repair
- Transmission repair
- Tire sales and recapping

### Smog checks and certification

You cannot perform or accept payment for smog checks and issue smog certificates unless *all* of the following conditions are met:

- Your facility is licensed as a smog check station,
- You or one of your employees is a licensed smog inspector, and
- You have a licensed smog mechanic on your premises, unless you are a "test only" location.

Licenses are issued by the [Bureau of Automotive Repair](#), a unit of the Department of Consumer Affairs (Consumer Affairs).

The smog certificate fee is set by Consumer Affairs. State law requires the smog certificate fee to be separately stated on your customer invoice. Certification fees are not subject to sales or use tax. However, if the fee is taxed in error, you must either give your customer a refund equal to the tax amount or pay the tax to the BOE with your sales and use tax return (motor vehicle dealers—see note below).

Charges for a smog check are not regulated by Consumer Affairs and are generally not subject to sales and use tax (motor vehicle dealers—see note below).

*Note for DMV-licensed motor vehicle dealers:* When making a retail sale of a vehicle, if you charge a smog check fee that is higher than the amount set by Consumer Affairs, you must report and pay sales tax on the excess amount. In addition, smog check charges are taxable if you perform the smog check on a vehicle you plan to sell.

If you have questions about smog checks or certification, contact the [Bureau of Automotive Repair](#).

### Insurance work

The tax liability on jobs resulting from bids to insurance companies, is generally based on the parts estimate contained in the bids. To support the amount of tax you report and pay on insurance work, keep the insurance bid forms with your records.

Occasionally, the amount estimated for parts is either more or less than the selling price of the parts you actually furnish as part of the job. In those cases, your sales tax liability is based on the bid estimate unless both of the following apply:

- You inform the insurance company or customer of the change using an amended invoice or some other document.
- The estimated sales price on the bid is less than your cost for the parts (see *Note* on next page).



For example, you do insurance work with the following results:

	Bid estimate	Actual selling price
Labor	\$ 200.00	\$ 200.00
Parts	250.00	200.00
Tax [8.25%]	20.63	16.50
Total	<u>\$ 470.63</u>	<u>\$ 416.50</u>

You owe tax of \$20.63 unless you notify the customer or insurance company that the actual selling price of the parts is \$200.00 instead of the bid estimate of \$250.00.

*Note:* If the final selling price of the parts is more than the bid amount of \$250.00, you are liable for tax of \$20.63 unless your cost for the parts exceeded the bid amount. For example, if the cost of parts is \$300.00 you are liable for tax of \$24.75 (\$300 x 8.25%).

## Auto painting and body work

Businesses that perform auto painting and body work are generally considered the retailers of parts and any materials that remain on the vehicle or item being repaired. Parts include items such as doors, bumpers, and fenders. Materials remaining on the vehicle include such things as putty, primer, paint, sealer, acrylic lacquer, and fisheye eliminator. You may purchase these and similar products for resale and collect tax on their selling price.

However, in certain situations relating to painting and body work, your business is considered the consumer—not the retailer—of parts and materials, and you may invoice your customer for a lump-sum amount (see [Maintenance and repair parts billed as a lump-sum charge](#)). You are considered the consumer of parts and materials if the value of parts and materials provided in connection with repair work on a used vehicle is *ten percent or less* of the total charge and you billed a lump-sum amount. As previously discussed, as the consumer of parts or materials, do not provide a resale certificate to your supplier. The supplier should collect sales tax on your purchase.

You are also considered the consumer of tools and supply items that *do not* remain on the item being repaired. This includes sandpaper, steel wool, masking tape, paint thinner, and bodywork tools. For information on charging for supplies, see [Invoicing your customer](#).

### ***Painting, fabricating, and reconditioning parts***

Tax does not apply to labor charges for painting a new or used part in connection with the repair of a used vehicle. However, if you are required to make a part because a replacement part is not available, the charge for the labor to fabricate the part is taxable and should be shown separately on the customer invoice and in your records. Tax does not apply to the labor charges for reconditioning a damaged part.

## Auto glass replacement

If you install auto glass, the selling price for the glass is generally taxable. Charges for removing the old glass and installing the replacement glass are generally not taxable unless you are installing custom glass on a new vehicle (see [Fabrication labor](#)).

If you are required to cut and grind glass to size, the charges for measuring, cutting, and grinding the glass are taxable. Separately state these taxable charges from the nontaxable labor charges on the customer invoices and in your records.

*Note:* For your convenience, the BOE developed [BOE-230-A, Resale Certificate for the Auto Body Repair and Painting Industry](#). Although you are encouraged to use the specific certificate, general resale certificates are still acceptable.

## Auto upholstery work

In general, tax applies to your charges for new upholstery. However, charges for removing the old upholstery from a used vehicle and installing new upholstery in it are not taxable. If you make the new upholstery, tax applies to charges for the upholstery materials and to the fabrication labor for measuring, cutting, and sewing the material, as well as to any other labor occurring before installation. On a new vehicle, charges for removing the old upholstery and installing the new upholstery may be taxable (see [Fabrication labor](#)).

When billing your customer for upholstery, you have two options:

- You may itemize your charges for all materials and findings used (items such as buttons, staples, and thread), charges for fabrication labor, and charges for nontaxable removal and installation labor. Tax applies to the charges for materials, findings, and fabrication labor.
- Or if you don't want to itemize charges for findings and different types of labor, you may list one, combined charge for materials (not including findings), and a separate charge for all labor. Tax will apply to the charge for materials and 20 percent of the labor charge. The remaining 80 percent of the labor charge will be considered nontaxable.

Charges for cleaning upholstery are not taxable. You should pay tax when purchasing any cleaning compounds used.

For more information about the application of tax to reupholstering, see [Regulation 1550, Reupholsterers](#).

# Sample: Special Resale Certificate for the Auto Body Repair and Painting Industry

BOE-230-A (6-01)

## RESALE CERTIFICATE FOR THE AUTO BODY REPAIR AND PAINTING INDUSTRY

STATE OF CALIFORNIA  
BOARD OF EQUALIZATION

### I HEREBY CERTIFY:

1. I hold valid California seller's permit no. \_\_\_\_\_.
2. I am engaged in the business of selling the following type of property: \_\_\_\_\_.
3. This certificate is for the purchase from \_\_\_\_\_ of the item(s) I have **initialed** in paragraph 5 below.  
(vendor's name)
4. I will resell the following item(s) I am purchasing under this resale certificate in the form of tangible personal property in the regular course of my business operations, and I will do so prior to making any use of the item(s) other than demonstration and display while holding the item(s) for sale in the regular course of my business. I understand that if I use the item(s) purchased under this certificate in any manner other than as just described, **I will owe use tax** based on each item's purchase price or as otherwise provided by law.
5. I am purchasing for resale under this resale certificate the item(s) indicated by my **initials** below (**not** an X or similar mark):

_____ Automobile parts	_____ Fisheye eliminator	_____ Polishes/Wax	_____ Sealers
_____ Clear Coats	_____ Glues/Adhesives	_____ Primers	
_____ Electrical Tape	_____ Hardeners	_____ Putties	
_____ Fillers	_____ Paints	_____ Rust Protectors	
_____ Other (specify items)			


6. I have read and understand the following:

**Note:** Auto body repair and paint shops are generally considered consumers of the items listed below regardless of the manner in which they bill their customers for repairs and painting. Thus, this certificate generally may **not** be used to purchase these items. If a person does, in fact, resell any of the following items prior to use, the person may take a deduction on his or her sales and use tax return to offset the amount paid as tax (the deduction is taken under "Tax-paid purchases resold"). If, however, a person is purchasing one of these items exclusively for resale in the form of tangible personal property and not for consumption during repairs, painting, or the like, this certificate may be used to purchase such item by listing it under "Other" above.

Abrasives	Equipment repair parts	Masks	Reducers
Books	Goggles	Metal conditioners	Respirators
Cans	Hand cleaners	Paint remover	Rubbing compounds
Cleaning solvent	Manuals	Plastic bottles	Rubbing machines
Color charts	Masking paper	Polishing compounds	Thinners
Equipment	Masking tape	Polishing machines	Touch-up bottles

7. I have read and understand the following:

**For Your Information:** A person may be guilty of a misdemeanor under Revenue and Taxation Code section 6094.5 if the purchaser knows at the time of purchase that he or she will not resell the purchased item prior to any use (other than retention, demonstration, or display while holding it for resale) and he or she furnishes a resale certificate to avoid payment to the seller of an amount as tax. Additionally, a person misusing a resale certificate for personal gain or to evade the payment of tax is liable, for each purchase, for the tax that would have been due, plus a penalty of 10 percent of the tax or \$500, whichever is more.

NAME OF PURCHASER	TELEPHONE NUMBER
SIGNATURE OF PURCHASER, PURCHASER'S EMPLOYEE, OR AUTHORIZED REPRESENTATIVE	DATE
 PRINTED NAME OF PERSON SIGNING	TITLE
ADDRESS OF PURCHASER	

## Radiator repair

The application of tax to radiator repair depends on the type of job you perform. For example, tax does not apply to charges for rodding-out or cleaning a radiator (or similar repairs) provided *both* of the following apply:

- You bill in a lump-sum, and
- The value of parts and materials furnished in connection with the repair work is ten percent or less of your total lump-sum charge.

When both conditions apply, you are considered the consumer of the parts and materials used in the repair, and the charge to your customer is not taxable (see [Repairers as consumers of parts, supplies, and tools](#)).

However, if a repair job requires replacement parts, such as a new core, you are the retailer of the replacement parts and must report and pay tax on the sale. Charges for labor to remove the old part and replace it with a new one are not taxable.

For retail sales of rebuilt radiators, tax is calculated on the exchange price of the rebuilt radiator. For more information about the sale of rebuilt parts, see [Sales and use of parts](#).

## Transmission repair

On transmission repairs, the application of tax depends on whether you repair and return the customer's own transmission or you furnish the customer with a different rebuilt transmission. If you return the customer's transmission, tax generally applies only to the selling price of the parts furnished as part of the repair job. Labor charges for the repair are not taxable. These parts and labor charges must be listed separately on the customer invoice. For more information about customer invoicing, see [Invoicing your customer](#).

If you receive a customer's transmission in exchange for a rebuilt transmission, you are the retailer of the rebuilt transmission and tax applies to its exchange price. For more information about the sale of rebuilt parts, see [Sales and use of parts](#).

## Tire sales and recapping

### ***Tire sales***

Sales of new and used tires, including recapped or retreaded tires, are taxable. Tax is calculated on the selling price, less any discounts allowed (see [Discounts](#)). Tax applies to the price *before* you deduct any trade-in allowance for an old tire (see the battery portion of the invoice examples under [Invoices](#)).

Sellers of new tires must register with the BOE and collect the California Tire Fee on every new tire sold. The fee is \$1.75 per tire. You can keep 1.5 percent of the fees collected as a reimbursement for your related costs. The fee itself is not taxable, but if you charge an amount higher than the required fee, that excess charge is taxable. For more information, see [publication 91, California Tire Fee](#).

### ***Tire recapping***

The application of tax to tire recapping depends on whether you return the original tire or a different tire to the customer. If you return the original tire to the customer and bill a lump-sum charge for the recap, tax applies to 75 percent of the total recapping charge. For example, if you charge a customer \$20 to recap the tire, tax applies to \$15 of the charge ( $\$20 \times 0.75 = \$15$ ).

However, if you mix tires so that you return a similar tire to the customer rather than the customer's original tire, tax applies to the total charge.

For more information about how to apply tax to tire recapping services, please refer to [Regulation 1548, Retreading and Recapping Tires](#).

## WARRANTY-RELATED CHARGES

This section provides detailed information on charges associated with warranties and maintenance agreements including:

- Warranty or repair service performed on vehicles brought into California from outside the state
- Definitions of warranty terms, as used to determine the application of tax
- Applying tax to charges for warranty contracts
- Applying tax to charges for parts supplied in a warranty repair
- Applying tax to warranty repair charges ([table](#))

Please refer to [Regulation 1546](#), *Installing, Repairing, Reconditioning in General*, and [Regulation 1655](#), *Returns, Defects and Replacements*, for additional information. Vehicle manufacturers, auto dealers, and independent contract providers frequently offer warranties and maintenance agreements to auto buyers. In addition, auto repair shops may offer warranties on repair work or parts included in a repair. There are several factors that affect how tax applies to charges associated with those warranties and maintenance agreements, including the type of warranty (mandatory or optional, manufacturer's or repairer's) and whether the contract requires the customer to pay a deductible.

### Warranty or repair service performed on vehicles brought into California

Customers may bring vehicles into California for warranty or repair work. Tax applies to your charges for work on those vehicles in the same way it does to other warranty or repair work, but you may be asked to provide extra documentation to your customer.

California law provides a use tax exclusion for vehicles purchased outside California and brought into this state, for no more than 30 days, for the exclusive purpose of warranty or repair work. Your customer may need to document the 30-day period, otherwise they may owe California use tax on the *purchase price* of the vehicle. Your invoice or work order should show the dates the vehicle was in your possession. As noted above, this has no influence on how tax is applied to your warranty or repair charges.

For more information please see [publication 34](#), *Motor Vehicle Dealers*.

### Definitions of warranty terms, as used to determine the application of tax

#### **Mandatory warranties and maintenance agreements**

A "mandatory" warranty or maintenance agreement is a contract that a customer *must* purchase from the *seller* or *manufacturer* as part of the sale of a vehicle, part, assembly, or other item. Its cost is sometimes included as part of the price of the item sold or it can be billed as a separate item. Common examples include:

- A new or used car warranty included in the purchase price of the vehicle.
- A warranty or guarantee for a repair part, such as a 90-day parts and labor warranty on an engine replacement, included in the cost of the repair job.
- A battery replacement warranty that the customer must purchase with a new battery.

### ***Optional warranties and maintenance agreements***

An “optional” warranty or maintenance agreement is a contract that a customer has the option to purchase from the seller, manufacturer, or independent contract provider for an additional, separately stated charge.

For a warranty or maintenance agreement to qualify as optional, the customer cannot be required to purchase it with the vehicle, part, assembly, or other item. Common examples include:

- An extended mileage warranty the customer has the option to purchase at an additional cost when buying a new or used car.
- A repair warranty available for a rebuilt engine or transmission that the customer has the option to purchase at an additional cost when buying the engine or transmission.

### ***Customer deductible***

Some warranties require the customer to pay a portion (usually a fixed amount) of any warranty repair charges. This amount is considered a *customer deductible*.

For example, a new car warranty may cover parts and labor charges for any repairs required during the first 50,000 miles the car is driven, but require the customer to pay \$50 toward the cost of each repair job. The \$50 amount is considered a customer deductible.

### ***Manufacturer’s warranty***

A “manufacturer’s warranty” is provided by the vehicle manufacturer and sold by a vehicle dealer along with the vehicle. Generally, manufacturer’s warranty repairs are not performed by the manufacturer itself, but rather by a business that contracts with the manufacturer to perform the repairs (usually a vehicle dealer).

### ***Dealer’s or repairer’s warranty***

A “dealer’s warranty” or “repairer’s warranty” is a contract between a vehicle owner and a vehicle dealer or repair shop. Generally, repairs done under such warranties are performed only by the business that issued the warranty contract.

## **Applying tax to charges for warranty contracts**

Separate charges for mandatory warranties are taxable as part of the sale of the item sold. Separate charges for optional warranties are not taxable.

## **Applying tax to charges for parts supplied in a warranty repair**

### ***Charges for parts—mandatory warranties***

#### ***Warranty without a deductible***

Tax does not apply to charges for parts used in repairs performed under a mandatory warranty when there is no customer deductible. Although you, the repairer, will charge the manufacturer for the parts furnished in the repair, your sale of the parts is a nontaxable sale for resale (the parts are considered sold to the customer as part of the original sale of the vehicle).

#### ***Warranty with a deductible***

When the customer pays a deductible, tax applies to the portion of the deductible that is considered to apply to the charges for parts (see below for calculation method and example). Unless the warranty states otherwise, the person providing the warranty contract is liable for that tax amount. If the customer makes a specific payment for parts, as required by the warranty (for example, a prorated payment for a new tire), that payment is taxable.

To calculate the taxable portion of the deductible, use this formula:

$$\frac{\text{charges for parts}}{\text{total charges}} \times \text{deductible} = \text{taxable portion of deductible}$$

### Example A

You perform repairs on a car and the customer must pay a \$50 deductible under a mandatory manufacturer's warranty. Your bill for the repairs is \$200, not including tax: \$75 for parts and \$125 for repair labor. To determine how much tax is due, you must:

- Step 1. Divide the parts charge by the total repair charge  
( $\$75 \div \$200 = 37.50\%$ )
- Step 2. Multiply the deductible by the result of step 1  
( $\$50 \times 37.50\% = \$18.75$ )
- Step 3. Multiply the result of step 2 by the tax rate to determine the tax due  
( $\$18.75 \times 8.25\% = \$1.55$ )

The total charge for the job, with tax, would be \$201.55.

The customer is charged the \$50 deductible and the manufacturer is billed the balance due for parts, labor, and sales tax: \$151.55 (\$201.55 total charge – \$50 deductible). If you had issued the warranty yourself, you would owe tax on the taxable portion of the deductible (see step 3 above).

*Please note:* In this example, the warranty does not require the customer to pay the sales tax on the taxable portion of the deductible. If it did, you would charge the customer \$51.55 and the manufacturer \$150.00.

### Charges for parts—optional warranties

Optional warranties can be offered by the manufacturer, dealer, or repairer.

### Optional dealer or repairer warranties

When the customer is not obligated to pay a deductible, the repairer/dealer is considered the consumer of the repair parts. The repairer/dealer owes use tax on their cost. If the customer is required to pay a deductible, the dealer/repairer also owes sales tax on a portion of the receipts from the sale of the parts and use tax on their cost.

### Example B

You are a car dealer who has sold a customer an optional warranty with a \$50 deductible. The warranty does not require the customer to pay tax on the portion of the deductible related to the sale of parts. The customer brings in the car for repairs covered by the warranty. Your repair charges total \$200, not including tax: \$75 for parts and \$125 for repair labor. Parts from your resale inventory are used for the job. Their cost is \$40. Using the method shown in Example A (above), you determine that \$18.75 of the deductible is subject to sales tax ( $\$75 \text{ parts charge} \div \$200 \text{ total charge} \times \$50 \text{ deductible} = \$18.75$ ). The charge made to your customer is \$50. In addition to use tax due on the cost of the parts used in the repair, you will owe \$1.55 in sales tax on the sale of the parts ( $\$18.75 \times 8.25\% = \$1.55$ ).

### Reporting this transaction on your sales and use tax return

The \$18.75 taxable portion of the deductible is a taxable sale. Include it in "Total (gross) Sales" on your sales and use tax return. Since you are the consumer of parts installed on optional warranties, you also owe use tax on the cost of the parts furnished for this repair. Report the \$40 cost of the parts under "Purchases Subject to Use Tax" on your return.

To make sure you don't pay use tax on the cost of the parts resold in the deductible, take a "Cost of Tax-Paid Purchases Resold Prior To Use" deduction on your return. Follow these steps:

- Step 1. Calculate the amount of markup (markup factor) on your parts: divide their sales price by their cost.  
(based on figures in example:  $\$75 \div \$40 = 1.88$  markup factor).
- Step 2. Divide the taxable portion of the deductible (your parts sale) by the markup factor.  
(based on figures in example:  $\$18.75 \div 1.88 = \$9.97$ ).  
List the result as a "Cost of Tax-Paid Purchases Resold Prior To Use" deduction.



### *Optional manufacturer's warranties*

The manufacturer is considered the consumer of the repair parts for work performed under an optional manufacturer's warranty. If you are a dealer/repairer who makes a repair under an optional warranty, you are making a retail sale of the parts to the manufacturer. You must report and pay sales tax on the retail selling price of the parts (your cost plus markup).

#### *Example C*

A customer is required to pay a \$50 deductible under a manufacturer's optional warranty. Your repair shop charges \$200 for repair work, not including tax: \$75 for parts and \$125 for repair labor. Tax applies to the full parts charge ( $\$75 \times 8.25\% = \$6.19$  tax). The total charge for the job is \$206.19 (\$200 parts and labor + \$6.19 tax). Charge your customer only the \$50 deductible, and bill the manufacturer for the rest of your charges, \$156.19 (\$206.19 – \$50 deductible).

*Note:* In this example, there is no provision in the warranty contract requiring the customer to pay sales tax on the portion of the deductible related to the sale of tangible personal property. If the warranty contract does provide that the customer is liable for sales tax on the portion of the deductible related to the sale of parts, you must prorate any charges for tax between the customer and the manufacturer.

## Applying Tax to Warranty Repair Charges

Warranty type <sup>1</sup> terms	Application of tax to parts charges or cost	Responsible party: payment to dealer/repair shop
<b>Mandatory Warranties</b>		
<b>Manufacturer's warranty</b> No customer deductible Repair work to be performed by dealer	Nontaxable resale of parts to manufacturer	<i>Customer:</i> no payment <i>Manufacturer:</i> charges for parts and labor
<b>Manufacturer's warranty</b> Customer deductible Repair work to be performed by dealer	Portion of deductible taxable as retail parts sale. Remaining parts charges are a nontaxable resale to manufacturer.	<i>Customer:</i> deductible only <i>Manufacturer:</i> total charges (including tax amount due on portion of deductible—see <a href="#">Example A</a> ), minus deductible
<b>Dealer's or Repairer's warranty</b> No customer deductible	Sale or use of repair parts not taxable (repair parts considered part of original sale)	<i>Customer:</i> no payment
<b>Dealer's or Repairer's warranty</b> Customer deductible	Portion of deductible taxable as retail parts sale (see <a href="#">Example A</a> )	<i>Customer:</i> deductible only
<b>Optional Warranties</b>		
<b>Manufacturer's warranty</b> No customer deductible Repair work to be performed by dealer	Taxable retail sale of parts to manufacturer. Tax based on fair retail selling price of parts.	<i>Customer:</i> no payment <i>Manufacturer:</i> total charges (parts, labor, tax)
<b>Manufacturer's warranty</b> Customer deductible Repair work to be performed by dealer	Taxable retail sale of parts to manufacturer. Tax based on fair retail selling price of parts.	<i>Customer:</i> deductible only <i>Manufacturer:</i> total charges (including tax amount due on portion of deductible) minus customer-paid deductible (see <a href="#">Example C</a> )
<b>Dealer's or Repairer's warranty</b> No customer deductible	Repairer considered consumer of parts; parts cost subject to tax.	<i>Customer:</i> no payment
<b>Dealer's or Repairer's warranty</b> Customer deductible	Repairer considered consumer of a portion of the parts and seller of the remainder (see <a href="#">Example B</a> )	<i>Customer:</i> deductible only

<sup>1</sup>None of the warranty types described on this page include a provision requiring the customer to pay an amount for tax on the portion of the deductible related to the sale of parts. See [Warranty Related Charges](#).

## FUEL SALES

Read this section if you sell gasoline, diesel, or alternative motor vehicle fuels. This chapter discusses the application of:

- Signage requirements
- Sales tax
- Use fuel tax (applicable to alternative fuels including E85 and compressed natural gas)
- Motor vehicle fuel tax
- Diesel fuel tax (includes biodiesel)
- Underground storage tank maintenance fee
- Fuel retailers: fueling service for people with disabilities

For additional information on biodiesel see [publication 96, \*Biodiesel and California Tax\*](#). If you sell alcohol fuel blends, for example E85, compressed natural gas, or another alternative fuel subject to the use fuel tax, you must also pay the use fuel tax to the BOE. If you operate a mini-mart as part of your service station, see [publication 31, \*Grocery Stores\*](#), for additional information. Please visit the BOE website regarding the application of fuel taxes, including the use fuel tax.

### Signage requirements

As with sales of auto parts and other items, you generally owe sales tax on your sales of fuel. On sales of gasoline, the BOE will presume that your per-gallon selling price includes sales tax if you display on your pump or other dispensing equipment that the total selling price includes all fuel excise and sales taxes, as required by section 13470 of the Business and Professions Code. For other fuels such as diesel or alcohol fuel blends, for example E85, the BOE will consider that sales tax is included in the total selling price if you post a notice on your premises that reads substantially like this:

*The price per gallon of all motor vehicle fuel includes reimbursement for applicable sales taxes computed to the nearest mill.*

Service stations are also required to have a sign listing the state and federal fuel taxes that apply to their motor vehicle fuel sales.

#### ***Dyed diesel fuel notification requirements***

The Diesel Fuel Tax Law requires that sellers provide notice to purchasers of dyed diesel fuel indicating the fuel is for nontaxable use only. If you sell dyed diesel fuel, you are required to provide notice to your buyer stating:

**“DYED DIESEL FUEL, NONTAXABLE USE ONLY, PENALTY FOR TAXABLE USE”**

The notice must be posted by the seller of dyed diesel fuel on any retail pump where dyed diesel fuel is dispensed. The notice should be affixed on the face of the pump in a conspicuous place within easy sight of the person dispensing the dyed diesel fuel.

The notice must be included on all shipping papers, bills of lading, and invoices accompanying the sale or removal of dyed diesel:

- By any terminal operator to any person receiving dyed fuel at the operator’s terminal rack; or
- By any seller of dyed diesel fuel to its buyer if the diesel fuel is located outside the bulk transfer/terminal system.

### Sales tax

#### ***Cap and Trade Compliance Costs***

Transportation fuels are subject to California’s Cap-and-Trade Program (Program). Fuel suppliers covered under the Program may incur compliance costs, which will vary based on the type of fuel and the fuel supplier’s costs of compliance instruments. Fuel suppliers may include the compliance costs into the prices for the fuels they sell. When these regulatory compliance costs are passed on to the consumer as part of the sales price of fuel, they are subject to sales and use tax.

If you are a fuel wholesaler or retailer, your supplier may include compliance costs as either a separate line item or within the total fuel price you pay. Generally, sales to retailers are considered nontaxable sales for resale. However, if you sell fuel directly to consumers, compliance costs (either included in your fuel selling price or separately stated as a line item) are subject to sales and use tax.

Visit the Air Resources Board webpage at [www.arb.ca.gov/cc/capandtrade/capandtrade.htm](http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm). If you need additional information, you may contact the Cap-and-Trade Hotline at 1-916-322-2037.

### ***Tax-included selling price***

#### ***Gasoline***

The tax-included, per-gallon selling price of gasoline is generally the total of the price of the gasoline, the federal and state excise taxes, and the sales tax. (Some prices may also include the state Underground Storage Tank Fee.) The sales tax rate is 2.25 percent plus applicable district taxes.

*Federal and state excise taxes.* The federal fuel tax on gasoline is currently 18.4 cents (\$0.184) per gallon. The state motor vehicle fuel tax (MVFT) is currently 27.8 cents (\$0.278) per gallon. For more fuel tax and fee rates please see [Tax Rates-Special Taxes and Fees](#).

*California sales tax.* You should charge the sales tax rate in effect at the location where the motor vehicle fuel is sold. For current sales tax rates, please see [California City and County Sales and Use Tax Rates](#). The sales tax rate used for the example below is 2.25 percent. The applicable sales and use tax rate imposed on sales of motor vehicle fuel has been lowered from the current statewide rate of 7.25 percent to 2.25 percent, plus any applicable district taxes. If you have any questions regarding the imposition of district taxes, please see [publication 105, District Taxes and Delivered Sales](#).

Motor vehicle fuel includes gasoline and aviation gasoline; however, aviation gasoline is subject to the full sales tax rate. The term motor vehicle fuel does not include jet fuel, diesel fuel, kerosene, liquefied petroleum gas, natural gas in liquid or gaseous form, alcohol, or racing fuel.

As shown in the following example, the sales tax rate is applied to the price of the motor vehicle fuel after the federal and state excise taxes have been added.

A tax-included price for gasoline is computed as follows:

Price per gallon of gasoline before state and federal excise taxes	\$ 2.608
Federal excise tax	0.184
Motor vehicle fuel tax (MVFT)	+ 0.278
Amount subject to sales tax	3.070
Sales tax [\$3.070 x 2.25%]	+ 0.069
Tax-included selling price	<u>\$ 3.139</u>

#### ***Diesel***

The tax-included, per-gallon selling price of diesel, including biodiesel, is generally the total of the price of the diesel, the state and federal excise taxes, and the sales tax. Some prices may include the state Underground Storage Tank Fee. The sales tax rate for diesel fuel is 9.25 percent plus applicable district taxes.

*Federal and state excise taxes.* The federal excise tax on diesel is currently 24.4 cents (\$0.244) per gallon. The state diesel fuel tax (DFT) is currently 16 cents (\$0.16) per gallon. For current rates please see [Tax Rates-Special Taxes and Fees](#), on the BOE website.

*California sales tax.* You should charge the sales tax rate in effect at the location where the diesel fuel is sold. For current sales tax rates, please see [California City and County Sales and Use Tax Rates](#). The sales tax rate used for the example is 9.25 percent. Effective July 1, 2011, there is an additional tax above the statewide sales tax rate and applicable district taxes, on sales of diesel fuel. As of July 1, 2014, the additional rate is 1.75 percent.

As shown in the following example, the sales tax rate is applied to the price of the fuel *after* the federal excise tax has been added, but *before* the state diesel fuel tax is added.

A tax-included price for diesel fuel is computed as follows:

Price per gallon of diesel fuel before state and federal excise taxes	\$ 2.574
Federal excise tax	+ 0.244
Amount subject to sales tax	<u>2.818</u>
Sales tax [\$2.818 x 9.25%]	0.261
State diesel fuel excise tax	+ 0.160
Tax-included selling price	<u>\$ 3.239</u>

### ***Excise Tax Rate Adjustment for Motor Vehicle Fuel and Diesel Fuel***

The BOE is required to adjust the motor vehicle fuel and diesel fuel excise tax rates annually, effective July 1 of each year, in accordance with the revenue neutral requirements of the legislation.

### ***Reporting sales tax***

When completing your sales and use tax return, you are required to report your total gross sales. This method is discussed below.

#### ***Reporting gross sales using the tax-included price***

If the figure you use for gross sales includes sales tax or diesel fuel taxes, you must deduct those taxes elsewhere on the return. If the deduction is not taken, you will pay too much sales tax.

The diesel fuel tax deduction for diesel fuel sales can be computed by multiplying the number of gallons of diesel fuel sold during the reporting period by the state diesel fuel tax rate of \$0.16. You may report this deduction under "Other" in the deduction section of your sales and use tax return.

### ***Prepayment of sales tax***

Wholesalers and suppliers of gasoline and diesel fuels are required to precollect sales tax from their customers and pay it to the BOE.

Even though you will collect and pay tax on your fuel sales, your fuel supplier will precollect a portion of the sales tax when you purchase the fuel. This is referred to as prepayment of sales tax on fuel purchases.

When you electronically file a return you must choose the Schedule G button to take credit for your prepayments to your supplier. If the Schedule G button is not offered on the 401Return page, please contact the BOE so staff can properly register your account and provide you with the Schedule G option.

You must retain all documents that support the credits claimed for prepaid tax, such as invoices, receipts, or other purchase documents. They should separately state the amount of prepaid tax. If your supplier gives you an invoice that does not separately state the prepaid tax, you are not allowed to claim a credit.

The rate of prepaid tax may be revised annually or more often. The rate is revised if changes in the price of fuel or the rate of the statewide sales tax result in retailers prepaying tax that is consistently more than, or significantly lower than, the retailer's actual sales tax liability. If the rate is revised, the BOE shall make its determination of the rate no later than March 1 of the same year as the effective date of the new rate. Immediately upon making its determination and setting of the rate, the BOE shall each year, no later than May 1, notify every supplier, wholesaler, and retailer of motor vehicle fuel.

### ***Sales to the U.S. government***

The most common type of nontaxable fuel sale is a sale to the U.S. government. To support a nontaxable sale to the U.S. government, you must obtain a government purchase order or documents demonstrating direct payment from

the United States. For credit card purchases, the buyer must use a credit card issued to the federal government. A fuel purchase made by cash or personal credit card is taxable even if the vehicle is owned by the federal government.

Since fuel is typically sold at a tax-included price, you must deduct any included sales tax when making nontaxable sales to the U.S. government. This adjustment can be made by deducting the tax included on the sales invoice.

### ***Sales of diesel used in farming activities or food processing***

Sales and purchases of diesel fuel used in farming activities and food processing are exempt from the state general fund portion of the tax rate. You do not owe that portion of the tax on your qualifying diesel sales provided you accept a partial exemption certificate from your customer timely and in good faith. [Regulation 1533.2, Diesel Fuel Used in Farming Activities or Food Processing](#) and [publication 66, Agricultural Industry](#), provide the current partial exemption tax rate, explain which activities qualify for the partial exemption, and provide a sample exemption certificate. To obtain a copy of the regulation or publication and further information about this exemption, please check the BOE website, under [Sales and Use Tax Programs](#).

## **Use fuel tax**

If you sell certain fuels that are used to propel motor vehicles on state highways, that are not motor vehicle fuel or diesel fuel, your sales may be subject to the use fuel tax.

Use fuel tax is imposed on the use of certain fuels that propel a motor vehicle on a public highway. Fuels subject to this tax include:

- Blended alcohol fuels with less than 15 percent gasoline (for instance, E85)
- Alcohol fuels such as ethanol and methanol
- Liquefied petroleum gas (LPG), propane and butane
- Liquefied and compressed natural gas (LNG and CNG)
- Kerosene

Vendors who sell or deliver these alternative fuels into the tanks of motor vehicles are required to:

1. Register for a Vendor Use Fuel Tax permit,
2. Collect the use fuel tax,
3. File a *Vendor Use Fuel Tax Return*, and
4. Pay the taxes to the BOE.

Not all fuel retailers qualify as vendors. Persons who deliver alternative fuels exclusively into vehicles registered for the flat rate annual tax are not vendors. Likewise, persons selling alternative fuels only for nonvehicular use, such as retailers who exclusively sell fuel for home heating, cooking, or lighting are not vendors.

To obtain a Vendor Use Fuel Tax permit, visit the BOE website at [www.boe.ca.gov](http://www.boe.ca.gov) by selecting *New Registration*, and then select *Register a business activity with BOE* or go directly to <https://efile.boe.ca.gov/ereg/index.boe>. You can also register to obtain a Vendor Use Fuel Tax permit in person at any of the BOE [field offices](#).

The Use Tax Law also requires that most *users* of these fuels register with the BOE. To determine if you need to register for a User Use Fuel Tax permit, please contact the BOE Customer Service Center at 1-800-400-7115 (TTY:711) and select the option for Motor Carrier Office.

### ***For more information***

The rate of use fuel tax varies with the type of fuel sold. In addition, certain fuel sales are not taxable. For more information, see [publication 12, California Use Fuel Tax—A Guide for Vendors and Users](#). This publication explains use fuel tax in more detail and is available from the BOE website.

## Motor vehicle fuel tax and diesel fuel tax

If you blend gasoline, gasohol, biodiesel, or diesel fuel, or import gasoline, biodiesel, or diesel fuel, you may be required to obtain a permit and pay the motor vehicle fuel tax or the diesel fuel tax directly to the BOE. For registration information, please call the Customer Service Center at 1-800-400-7115 from the main menu, select the option Special Taxes and Fees.

## Underground storage tank maintenance fee

The Underground Storage Tank Maintenance Fee applies to petroleum products placed into underground storage tanks. Petroleum products subject to the fee include, but are not limited to, gasoline, diesel, waste oil fuel, and heating oil. It is presumed that the owner of the real property is the owner of the storage tank located on the property.

The *owner* of the storage tank is required to register with the BOE and pay the fee. If you operate a storage tank but do not own it, you are not liable for the fee. An operator is defined as the person who controls, or is responsible for, the daily operation of the tank. Generally, if you lease an underground storage tank, you are considered an operator, not an owner.

If you are the owner of a tank, you must register with the BOE, file returns, and pay the fee (returns are generally due on a quarterly basis). If you own more than one tank, it is possible to consolidate your filing on one return. You may wish to work out an arrangement where the tank operator files your returns for you, and you ask us to mail your returns to the operator. However, the returns will bear your name and you will remain responsible for any fees that are due, as well as interest or penalty charges. In order to accomplish this, the owner and operator must each file a document, in accordance with Underground Storage Tank Maintenance Fee [Regulation 1213](#), *Payment of Fee by Operator*, agreeing to the arrangement. You may obtain a copy of the regulation from the BOE website. Please be sure to let us know if you sell or close any of your tanks.

If you are a tank operator and are incorrectly shown as the tank owner on a fee return, please contact the Customer Service Center at 1-800-400-7115 (TTY:711). From the main menu, select the option Special Taxes and Fees, and provide the owner's name, mailing address, and telephone number. You may also contact your local permitting agency to find out how the tanks are registered with them.

To determine whether you need to register and pay the fee, please call the Customer Service Center at 1-800-400-7115 (TTY:711). From the main menu, select the option Special Taxes and Fees or write:

Program and Compliance Division, MIC:88  
California State Board of Equalization  
PO Box 942879  
Sacramento, CA 94279-0088

For more information on the fee, please see [publication 88](#), *Underground Storage Tank Fee*.

## Fuel retailers: fueling service for people with disabilities

Motor vehicle fuel retailers must provide fueling services for customers with disabilities. *However, the service is not required* at times when either of the following apply:

- Only one employee is on duty.
- Only two employees are on duty and one of them is assigned exclusively to prepare food.

You must post a notice in a highly visible location describing this service and any limitations on the hours you provide it. The required language for the notice is in [L-181](#), *Special Notice—Prepayment of Sales Tax on Fuels*. You can view or download the notice from the BOE website.

For more information on providing fueling services to people with disabilities, you may call the AT (Assistive Technology) Network at 1-800-390-2699. The service and notice are required by Business and Professions Code section 13660.



## FOR MORE INFORMATION

For additional information or assistance with how the Sales and Use Tax Law applies to your business operations, please take advantage of the resources listed below.

### CUSTOMER SERVICE CENTER

1-800-400-7115

TTY:711

Customer service representatives are available weekdays from 8:00 a.m. to 5:00 p.m. (Pacific time), except state holidays. In addition to English, assistance is available in other languages.

### FIELD OFFICES

City	Area Code	Number
Bakersfield	1-661	395-2880
Culver City	1-310	342-1000
El Centro	1-760	352-3431
Fairfield	1-707	427-4800
Fresno	1-559	440-5330
Glendale	1-818	543-4900
Irvine	1-949	440-3473
Norwalk	1-562	466-1694
Oakland	1-510	622-4100
Rancho Cucamonga	1-909	257-2900
Rancho Mirage	1-760	770-4828
Redding	1-530	224-4729
Riverside	1-951	680-6400
Sacramento	1-916	227-6700
Salinas	1-831	443-3003
San Diego	1-858	385-4700
San Francisco	1-415	356-6600
San Jose	1-408	277-1231
Santa Clarita	1-661	222-6000
Santa Rosa	1-707	576-2100
Ventura	1-805	677-2700
West Covina	1-626	480-7200

### Out-of-State Field Offices

Chicago, IL	1-312	201-5300
Houston, TX	1-713	739-3900
New York, NY	1-212	697-4680
Sacramento, CA	1-916	227-6600

### INTERNET

[www.boe.ca.gov](http://www.boe.ca.gov)

You can log onto the BOE website for additional information—such as laws, regulations, forms, publications, industry guides, and policy manuals—that will help you understand how the law applies to your business.

You can also verify seller's permit numbers on the BOE website (look for "[Verify a Permit/License](#)") or call the BOE toll-free automated verification service at 1-888-225-5263.

Multilingual versions of publications are available on the BOE [website](#) at [www.boe.ca.gov](http://www.boe.ca.gov).

Another good resource—especially for starting businesses—is the California Tax Service Center at [www.taxes.ca.gov](http://www.taxes.ca.gov).

### TAX INFORMATION BULLETIN

The quarterly Tax Information Bulletin (TIB) includes articles on the application of law to specific types of transactions, announcements about new and revised publications, and other articles of interest. You can find current and archived TIBs on the BOE website at [www.boe.ca.gov/news/tibcont.htm](http://www.boe.ca.gov/news/tibcont.htm). Sign up for BOE updates email list and receive notification when the latest issue of the TIB has been posted to the BOE website.

### FREE CLASSES AND SEMINARS

Most of the BOE statewide field offices offer free basic sales and use tax classes with some classes offered in other languages. Check the Sales and Use Tax Section on the BOE website at [www.boe.ca.gov](http://www.boe.ca.gov) for a [listing of classes and locations](#). You can also call your local field office for class information. The BOE also offers [online seminars](#) including the Basic Sales and Use Tax tutorial and how to file your tax return that you can access on the BOE website at any time. Some online seminars are also offered in other languages.

### WRITTEN TAX ADVICE

For your protection, it is best to get tax advice in writing. You may be relieved of tax, penalty, or interest charges that are due on a transaction if the BOE determines that they gave you incorrect written advice regarding the transaction and that you reasonably relied on that advice in failing to pay the proper amount of tax. For this relief to apply, a request for advice must be in writing, identify the taxpayer to whom the advice applies, and fully describe the facts and circumstances of the transaction.

Please visit the BOE website at: [www.boe.ca.gov/email/](http://www.boe.ca.gov/email/) to email your request. You may also send your request in a letter to: Audit and Information Section, MIC:44, California State Board of Equalization, P.O. Box 942879, Sacramento, CA 94279-0044.

### TAXPAYERS' RIGHTS ADVOCATE

If you would like to know more about your rights as a taxpayer or if you have not been able to resolve a problem through normal channels (for example, by speaking to a supervisor), please see [publication 70, Understanding Your Rights as a California Taxpayer](#), or contact the [Taxpayers' Rights Advocate Office](#) for help at 1-916-324-2798 (or toll-free, 1-888-324-2798). Their fax number is 1-916-323-3319.

If you prefer, you can write to: Taxpayers' Rights Advocate, MIC:70; California State Board of Equalization; P.O. Box 942879; Sacramento, CA 94279-0070.

## Regulations, forms, and publications

### ***Lists vary by publication***

Selected [regulations](#), [forms](#), and [publications](#) that may interest you are listed below. A complete listing of sales and use tax regulations, forms, and publications appears on the [BOE website](#). Multilingual versions of the BOE publications and other multilingual outreach materials are also available at [www.boe.ca.gov/languages/menu.htm](http://www.boe.ca.gov/languages/menu.htm).

### ***Regulations***

- 1533.2 *Diesel Fuel Used in Farming Activities or Food Processing*
- 1546 *Installing, Repairing, Reconditioning in General*
- 1548 *Retreading and Recapping Tires*
- 1550 *Reupholsterers*
- 1591.3 *Vehicles for Physically Handicapped Persons*
- 1595 *Occasional Sales – Sale of a Business – Business Reorganization*
- 1598 *Motor Vehicle and Aircraft Fuels*
- 1642 *Bad Debts*
- 1654 *Barter, Exchange, “Trade-ins” and Foreign Currency Transactions*
- 1655 *Returns, Defects and Replacements*

### ***Publications***

- 12 *California Use Fuel Tax—A Guide for Vendors and Users*
- 17 *Appeals Procedures Sales and Use Taxes and Special Taxes*
- 25 *Auto Repair Garages and Service Stations*
- 31 *Grocery Stores*
- 34 *Motor Vehicle Dealers*
- 44 *District Taxes (Sales and Use Taxes)*
- 51 *Board of Equalization Resource Guide to Free Tax Products and Services for Small Business*
- 61 *Sales and Use Taxes: Exemptions and Exclusions*
- 66 *Agricultural Industry*
- 70 *Understanding Your Rights as a California Taxpayer*
- 73 *Your California Seller’s Permit*
- 74 *Closing Out Your Account*
- 75 *Interest, Penalties, and Fees*
- 76 *Audits*
- 82 *Prepaid Sales Tax and Sales of Fuel*
- 88 *Underground Storage Tank Fee*
- 91 *California Tire Fee*
- 96 *Biodiesel and California Tax*
- 102 *Sales to the United States Government*
- 103 *Sales for Resale*
- 108 *Labor Charges*
- 116 *Sales and Use Tax Records*

### ***Forms***

BOE-230A *Resale Certificate for the Auto Body Repair and Painting Industry*

