



Tax Information Bulletin

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California State Board of Equalization
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New tax rates to take effect on April 1, 2007

Voters in cities and counties throughout California have approved new transactions (sales) and use taxes that go into effect on April 1, 2007. Some taxes apply to an entire county and some apply only within city limits. The new approved tax districts and their April 1 tax rates are at the end of this article.

We've mailed you a special notice describing the new voter-approved taxing districts. The notice provides information on how district tax applies to your sales and purchases. You can find the notice online at www.boe.ca.gov/news/specialnotices.htm or call our Information Center to have a copy faxed or mailed to you.

For more information on district taxes, see our publication 44, *Tax Tips for District Taxes*. And if you ship into or out of a special tax district, you may also want to obtain a copy of publication 105, *District Taxes and Delivered Sales*. You can download or order the publications from our website or call our Information Center for a copy.

New April 1 tax rates

Applies within city limits only

City of Arroyo Grande	7.75%
City of Del Rey Oaks	8.25%
City of Dinuba	8.50%
City of Farmersville	8.25%
City of Grover Beach	7.75%
City of Inglewood	8.75%
City of Manteca	8.25%
City of Morro Bay	7.75%
City of Nevada City	7.875%
City of Pinole	8.75%
City of Porterville	8.25%
City of San Bernardino	8.00%
City of San Luis Obispo	7.75%
City of Santa Cruz	8.50%
City of Tulare	8.25%
City of Visalia	8.00%
City of Vista	8.25%
City of Watsonville	8.25%
City of Williams	7.75%

Applies in all areas of county except cities listed above

Tulare County	7.75%
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Applies to all locations in county

Madera County	7.75%
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Attention auto dealers and repair shops: Your customers may need specific dates on their invoices

If you conduct warranty or repair service on vehicles, you may need to know about a recent change in state law. The change does not affect how tax applies to your charges, but it may affect the way you complete your work orders.

Use tax generally applies when vehicles are purchased out-of-state and brought into California within one year of purchase. But under the new law, a vehicle may be exempt from the tax if it is brought into the state only for warranty or repair service. To qualify, the vehicle must be used or stored in California for 30 days or less, including all travel time in the state.

When you perform warranty or repair service on a vehicle brought into California, your invoice or work order should show the dates the vehicle was in your shop. That will help your customer show, if necessary, that the vehicle qualifies

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for the use tax exclusion. As noted above, this has no influence on how you apply tax to your repair charges. For more information, please call our Information Center.

Businesses that make drop shipments for out-of-state sellers owe the sales tax

Please note: This article does not apply to deliveries of vehicles, vessels, and aircraft. For information on those deliveries, see our publication 34, *Tax Tips for Motor Vehicles, Regulation 1610, Vehicles, Vessels, and Aircraft*, and Regulation 1620, *Interstate and Foreign Commerce*.

It's not uncommon for out-of-state retailers to ask California suppliers to ship products to the retailers' California customers. This article discusses how sales tax applies to those kinds of "drop shipment" transactions.

Basic information, drop shipments and tax liability

The illustration at the bottom of the page gives a visual example of how a typical drop shipment works. In general, drop shipment transactions involve one consumer, two sales, and two businesses:

- The *consumer* in California who buys and receives the product.
- The "*true retailer*," a business located outside the state and not registered to collect California tax, *which sells the product to the California consumer*.
- The "*drop shipper*" who *sells the product to the true retailer*, but ships the product directly to the California consumer on behalf of the retailer.

When you drop ship products directly to California consumers on

behalf of true retailers, you are liable for sales tax on the transaction.

Example

A Modesto resident orders a dog house from Yankee Pets, a company in Maine, and pays the company for the order. Yankee Pets is not registered to collect and pay California use tax. Its dog house supplier, California MegaPets, is located in California. Yankee Pets buys the dog house from California MegaPets, who ships it directly to the Modesto resident. California MegaPets owes sales tax on the transaction. There are two options for calculating the taxable amount of the sale, as explained below.

Options for calculating sales tax due

As a drop shipper, you generally owe tax on the retail selling price the consumer paid the true retailer. However, if you don't know that amount, you may calculate the tax based on your selling price to the true retailer plus a markup of 10 percent.

Using the example above, if California MegaPets, the drop shipper, knows that the consumer paid the retail price of \$300 for the dog house, tax would be due on a \$300 sale. But if California MegaPets charged the true retailer \$200 and doesn't know how much the

consumer paid, they could report and pay tax on a \$220 sale (\$200 + 10% markup of \$20 = \$220).

If you have any questions, please contact our Information Center or refer to Regulation 1706, *Drop Shipments*, available from our website at www.boe.ca.gov.

Fuel surcharges

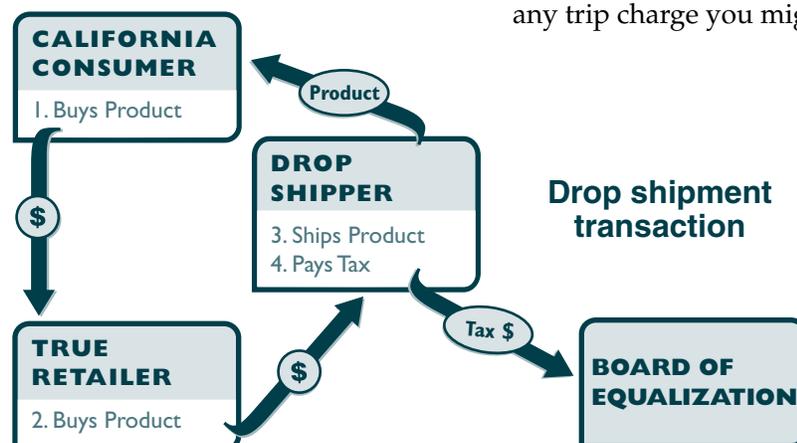
As fuel prices increase, you may have joined other businesses in recovering your added costs by adding a fuel surcharge (also referred to as a trip or service charge) to your other charges instead of raising prices. Depending on the transaction, a fuel surcharge or service charge may be nontaxable, partially taxable, or fully taxable.

When is a trip or service charge not taxable?

When none of your charges for a job are taxable, tax does not apply to your trip or service charges. Tax does not apply when the job

- Involves only nontaxable labor or services, and
- You do not transfer any materials or merchandise to your customer.

For example, you might have a service call to open a lock. Since opening a lock is a nontaxable repair service, tax would not apply to any of your charges, including any trip charge you might include.



When is a trip or service charge fully or partially taxable?

If all or part of your charges for a job are taxable, tax will also apply to all or part of your trip or service charge. If you provide services and also transfer materials or merchandise to a customer, some or all of your charges will be taxable.

Charge fully taxable. If all of your other charges for a job are taxable, the full amount of your trip charge is also taxable. For example, you might sell a freestanding safe to a customer and deliver it with your company truck. In most circumstances, that sale and your delivery charge would be taxable. If you also add a trip charge, tax would apply to the surcharge, too.

Charge partially taxable. When your job includes both taxable and nontaxable charges, part of your trip charge is taxable. You might, for example, do work that includes both nontaxable repair labor and taxable fabrication, or you could furnish parts with a repair job. To determine how much of the fuel surcharge is taxable, follow these steps:

1. Total your charges for services and material, not including the trip charge.
2. Total the taxable portion of your charges.
3. Divide the result of step 2 by the result of step 1.
4. Multiply the trip charge by the result of step 3. The result is the taxable portion of the trip charge.

Example: You make a house call and your charges include a

- \$50 charge for nontaxable repair to fix a lock
- \$25 charge for taxable fabrication labor to cut a new key for the customer
- \$30 trip charge

To figure out how much of your trip charge is taxable, you

1. Determine that your subtotal without the trip charge is \$75.
2. Determine that the taxable portion of the charges—for cutting and providing the key—is \$25.
3. Divide taxable subtotal of \$25 by combined subtotal, \$75:
 $\$25 \div \$75 = 33.33\%$.
4. Multiply the trip charge by the result: $\$30 \times 33.33\% = \10 .

Tax would apply to \$10 of your trip charge.

Your taxable total for the job would be \$35 (\$25 key charge + \$10 taxable part of trip charge).

For more information

For more information on how tax applies to repair, installation, and repair labor, you may wish to obtain a copy of our publication 108, *When Is Labor Taxable?* If you're not sure whether tax should apply to your trip charges, please call our Information Center.

Most businesses over a certain size must pay the environmental fee

Because of a change in tax law, your business may be required to pay the state's annual environmental fee starting in 2008.

The environmental fee has been in effect since 1989, but until this year it applied only to corporations. Assembly Bill 1803 (Stats. 2006, ch. 77), enacted last fall, expands the fee to also include general partnerships, limited partnerships, limited liability partnerships, limited liability companies, and sole proprietorships.

The change goes into effect for 2007, with the fee for the newly covered businesses due in February 2008.

Which businesses owe the fee?

In general, your business owes the environmental fee if you

- Use, generate, or store hazardous materials or conduct activities related to those materials, and
- Have 50 or more employees employed in this state more than 500 hours in a calendar year.

The Department of Toxic Substances Control (DTSC) has determined that nearly all types of businesses use, generate, store, or conduct activities related to hazardous materials.

What does the fee do?

The fee provides funds for hazardous waste cleanup and pollution prevention programs administered by the DTSC. We are responsible for collecting the fee.

For more information

More information about this program can be found in publication 90, *Environmental Fee*. To learn about other environmental programs we administer, or to obtain an application or publication, please visit our webpage: www.boe.ca.gov/sptaxprog/spenvirofees.htm.

Did you make Internet or other out-of-state purchases? You may owe use tax

If you are a California resident or business and you purchase merchandise from a vendor located in another state or country, you may owe California use tax on your purchase.

What is use tax and why would I owe it on an out-of-state purchase?

California's use tax is a companion to the sales tax. It applies

Continued on next page

when you use, store, give away, or otherwise consume merchandise in this state unless you have already paid an amount for California sales tax on your purchase. Normally, you would owe use tax on an out-of-state purchase if sales tax would apply to your purchase of the same item in California. The tax is due whether you make the out-of-state purchase on the Internet, by telephone or mail, or in person.

The use tax is often misunderstood or overlooked even though it has been on the books since 1935.

Use tax protects California retailers who otherwise would be at a competitive disadvantage when out-of-state retailers make sales to California customers without charging tax.

Special rules apply to purchases of vehicles, boats, and aircraft from private parties and to items you carry into California after traveling in other countries.

How do I pay use tax?

As a registered seller, you should report the amount of your untaxed purchases on line 2 of your sales and use tax return, "Purchases subject to use tax." Simply follow the instructions included with your sales and use tax return. The use tax rate is the same as the sales tax rate in your location.

Use tax also applies to purchases by consumers and by businesses who are not required to have a seller's permit. Those taxpayers can report and pay use tax with their California income tax returns or file a simple coupon-style return found in our publication 79-B, *California Use Tax*.

What if I already paid use tax to the out-of-state retailer?

Some out-of-state retailers collect and pay California tax on their

sales to California customers. You do not need to report the purchase if you already paid the correct amount of California tax to the retailer.

How do I find out more?

If you have any questions or need further clarification on use tax, please visit our website or contact our Information Center. You may also want to review publications 110, *California Use Tax Basics*, and 112, *Purchases from Out-of-State Vendors*.

Electronic products sold in California must meet new standards

Do you sell electronic products covered by California's electronic waste recycling fee (e-waste fee), such as televisions and computer monitors? If so, you need to know about new standards that apply to those products. The new regulation limits the hazardous substances in electronic products sold in California, as explained below. But it *does not change* how you collect or pay the e-waste fee.

Products subject to the e-waste fee are called "covered electronic devices," or "CEDs." All CEDs manufactured for sale in California must meet new standards for hazardous material content starting January 1, 2007. These are known as "RoHS" standards, for "Restriction on the use of certain hazardous

substances." In general, you may sell CEDs in California only if they comply with the new RoHS standards. However, you may sell any CEDs in your inventory that were manufactured before January 1.

For more information, see the special notice we mailed in early February, the Department of Toxic Substances Control website www.dtsc.ca.gov/HazardousWaste/EWaste/index.cfm, or call our Environmental Fees Division staff at 916-341-6906.

Small business fairs

Need help figuring out your tax reporting requirements? If you do, you are encouraged to attend a small business fair near you.

To find out about upcoming fairs, visit www.boe.ca.gov/sutax/tpsched.htm.

New or revised reference material

Revised Publications:

- 151 Contribution Disclosure Statements, July 2006
- 152 Cigarette and Tobacco Product Sales Compliance Inspections, December 2006
- 153 Business License Inspection Program, December 2006

New Translated Publications:

- 33-CN Making Sales in California, January 2003 (Croatian)

For More Information

All telephone numbers are toll-free

Internet	www.boe.ca.gov ■ www.taxes.ca.gov
Information Center	800-400-7115 ■ TDD/TTY: 800-735-2929
Requests for Fax Copies	800-400-7115 (Choose automated services)
Seller's Permit Verification	888-225-5263 ■ www.boe.ca.gov
Taxpayers' Rights Advocate	888-324-2798 ■ www.boe.ca.gov
Tax Evasion Hotline	888-334-3300
State Legislation	www.leginfo.ca.gov/bilinfo.html