California State Board of Equalization

California Buyer's Guide to Tax

Buyer's Guide to Sales and Use Tax

The Board of Equalization (BOE) administers California's sales and use tax, which funds many public services at the state and local government levels. This publication was created to answer some commonly-asked-questions and help Californians understand the taxes they pay when making certain purchases.

The law generally requires that tax be paid on all sales of "tangible personal property" (referred to as "merchandise" in this publication) in California. For example, sales tax is generally due on purchases of clothing, electronics, or toiletries. Food eaten in restaurants is also subject to tax.

The seller is responsible for paying sales tax to the BOE on their taxable transactions. A seller is generally allowed to collect the sales tax from you—the customer.

What is use tax?

Use tax is similar to sales tax, and is due on taxable purchases of merchandise that will be used in California and purchased without paying California tax to an out-of-state retailer or when a business removes its resale inventory for its own use. Untaxed purchases made online, over-the-phone, or by mail order are often subject to use tax.

What tax rate should you pay?

The tax rate charged will vary across California and depends upon where the item is bought, or will be used. The statewide sales and use tax rate in California is currently 7.5 percent, but voters in many areas increased their local tax rate to fund local or regional projects and services. Local tax rates are added to the statewide tax rate.

It is not always possible to determine the correct tax rate by zip code as multiple tax rates may exist in a zip code. To find the tax rate for a particular address, click the *Find a Tax Rate by Address* button on the BOE's website, *www.boe.ca.gov*.

What happens if you are charged too much tax?

Contact the business where you believe the incorrect rate was charged and request a refund. If you are unable to resolve the issue, call the BOE at 1-800-400-7115, and staff will work with that company to resolve the problem.

Do you owe tax on all items you buy?

No. Many purchases are exempt from tax. For example, tax is not generally due on groceries bought in a store, but meals eaten in a restaurant are taxable. Tax is due on over-the-counter medicines, but prescription medicines are tax exempt.

To help, here are answers to some common questions about sales and use tax:

Do you owe tax on purchases made through the Internet?

Generally, yes. If you buy merchandise online without paying tax, which would have been taxed if purchased in a store, you will owe use tax on that purchase. If you purchased from an out-of-state company and they did not collect tax from you, then you may owe use tax. Because the merchandise is being shipped from out-of-state, you owe tax based upon the rate for the area where you will use the product. For example, if your new computer was shipped to your home for personal use, you would owe tax based upon the rate where you live.

When are use tax payments due?

For personal purchases, use tax is generally due by April 15 the year after you make a taxable purchase. The easiest way to pay use tax is through your California income tax return. You can also pay directly to the BOE by clicking *New Registration* on the BOE's website.

If use tax is owed on the purchase of a motor vehicle, vessel, or aircraft, it is due within 30 days of the purchase.

If you made a purchase for your business that is subject to use tax, and you have a seller's permit, you must pay on your sales and use tax return.

To learn more about use tax visit the BOE's website and click on *Find Information About Use Tax*.

Why are you charged tax on the "free" phone you get with a new cell phone contract?

Typically, tax is due based upon the final sales price for a taxable item. In this case, when the retailer requires you to enter into a service contract to get the phone for the discounted price, special rules apply. The amount of tax is based upon the full retail price of the phone, as though you bought it without a service contract.

A friend used a coupon at the store, but had to pay tax on the full price of the item. Is that right?

Whether you are charged sales tax depends on the type of coupon you use. With manufacturer's coupons, the store owes tax on the full price of the item before the coupon discount is applied. You generally will be charged tax on the full price of the item. This is the case because the manufacturer will reimburse the retailer for the value of the coupon redeemed.

However, with store coupons, you only have to pay tax on the discounted amount you pay to the retailer. The retailer is not reimbursed by a manufacturer or other person and is essentially just reducing their sales price.

Are California Redemption Value (CRV) payments taxable?

Yes, if you purchase something taxable, such as soda, alcohol, or carbonated water. For example, if you buy a can of soda from a retailer, you may be charged tax on the combined price of the soda and the $0.05 CRV fee.

How much tax do you have to pay on items you buy on "deal of the day" sites like Groupon or LivingSocial?

Your purchase of a voucher through a service like Groupon or LivingSocial is not subject to tax. But, when you trade the voucher for taxable merchandise or services, you'll likely be charged tax on the amount you paid for the voucher, plus any additional amount you pay to the retailer.

Are digital downloads (for example, music and books) subject to tax?

No. Generally, only the sale of merchandise is taxable. Sales of downloaded books, videos, or music where you don't receive a DVD or another physical product, are not subject to tax.

Your purchase of a voucher through a service like Groupon or LivingSocial is **not subject to tax**.

Are food sales taxable?

Calculating taxes for food sold at a restaurant can depend upon different factors. Generally, your meal is taxable if it's served hot or eaten at the restaurant. Oftentimes, meals served cold and sold to-go are not taxed. Groceries are generally not taxable.

Are tips and gratuities subject to tax?

If the tip or gratuity is mandatory (for example, required for large parties at a restaurant), then you may be charged tax on the tip. However, a tip you give voluntarily is not taxed.

How are electronic cigarettes taxed?

Electronic cigarettes and cartridges are subject to sales and use tax, but *not* cigarette or other tobacco products taxes.

Are sales of medical marijuana taxable?

Yes. In California, medical marijuana is available to those with a physician's recommendation, as it cannot be prescribed. To be exempt from sales tax, medication must be prescribed by a doctor *and* provided by a registered pharmacist.

Do you need to collect tax or have a permit to make sales on the Internet?

Generally, if you make more than two sales of merchandise in a 12-month period, you are required to obtain a seller's permit and pay tax on those sales. It's easy to get a permit if you need one. To get started, visit the BOE website, and click *New Registration*.

To learn more about use tax visit the BOE's website at ***www.boe.ca.gov*** and click on "Find Information About Use Tax."

Do you need to collect tax or have a permit to hold a yard sale?

No, unless you have more than two yard sales in a 12-month period.

A friend bought something at a fundraiser from a nonprofit organization. Can they charge her tax?

If she purchased taxable merchandise from a nonprofit, she may be charged tax.

Generally, nonprofit organizations making sales are required to have a seller's permit and pay their sales tax collections to the BOE.

A relative traveled abroad recently and brought home a number of items. Does he owe tax?

Generally, yes. However, there are some important exceptions. For example, the first $800 worth of merchandise purchased from a retailer in a foreign country *and* personally hand-carried back home is generally exempt.

Also, you don't owe tax on items purchased for resale, demonstration, or display. For details, go to the BOE website, and click the *Find a Tax Rate by Address* button.

What tax rate applies when buying a car?

When you buy a car, tax is due based upon the location where the car will be registered (usually the owner's home), not where you bought it. To find the rate for a location in California, go to the BOE website and click the *Find a Tax Rate by Address* button.

If you buy from a dealer, sales tax will be collected at the point of sale. For a private-party sale, the buyer will pay tax to the California Department of Motor Vehicles (DMV) when registering the car.

If you were overcharged tax by the DMV when registering a vehicle or vessel, you should request your refund from the BOE. You may use form BOE-101-DMV, *Claim for Refund or Credit for Tax Paid to DMV*, which is available at *www.boe.ca.gov*. You may contact the BOE Customer Service Center for assistance.

Do you owe tax on a car purchased in another state and then brought into California?

Yes, you will generally owe use tax, unless you purchased and used your car outside of California for at least 12 months before you brought it into the state. If you owe use tax, it will be based upon the purchase price of the car, minus whatever sales tax you paid to another state. You can pay the tax to the DMV when you register the car in California.

Do you have to pay tax on car rental or lease payments?

In most cases, leases and rentals of merchandise are subject to tax. The amount of tax you pay is usually based on the amount of each rental or lease payment. Some extra charges, like annual vehicle license fees, are not taxable.

Should tax be paid on shipping and handling charges?

Handling charges are a service related to the sale and subject to tax.

Shipping or delivery charges are not taxable when all of these conditions are met:

1. Merchandise is shipped directly to the purchaser by common, or contract carrier, or the U.S. Postal Service.

2. The invoice separately states charges for delivery, shipping, or freight.

3. The charge is not higher than the actual cost for delivery.

When do you have to pay taxes on labor?

Most services offered in California (attorney fees, dry-cleaning, and yard work, for instance) are not taxable. Also, installation and repair labor are generally not taxed.

However, tax does apply to charges for producing, fabricating, or processing merchandise. In addition, services that are part of a taxable sale are generally taxable. For example, if you bought a new bicycle and were charged a fee to have it

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assembled, the seller may charge you tax on the combined price of the bicycle and assembly fee. Similarly, charges to gift-wrap an item bought at a store are also taxable.

What are some other common items exempt from sales and use tax?

- Candy, snack foods, and non-carbonated bottled water.
- Some physician-prescribed medical equipment (for example, wheelchairs and canes).
- Pet adoption and related services offered by local governments and certain nonprofit animal welfare organizations.
- Vehicles, vessels, and aircraft when sold to a parent, grandparent, child, grandchild, spouse, or registered domestic partner.

Note: This publication summarizes the law and applicable regulations. If there is a conflict between the text in the publication and the law, the law is controlling.

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