

Gift-Wrapping Charges

Many business owners believe that gift wrapping is a nontaxable service. However, unless you are wrapping food products that you have sold in a nontaxable transaction, sales tax generally applies to your gift-wrapping charges. If you gift wrap items that you did not sell, *all* of your gift-wrapping charges — including charges for wrapping food products — are taxable.

The quick reference table printed on the reverse can help you determine whether tax applies to your gift-wrapping charges. Be sure to read the notes and example (the “fine print”) and to remember that the table is intended as a general guide. Before you turn the page, please consider this basic information . . .

Sales and Use TAX FACTS

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For additional information you may wish to order Regulation 1589, *Containers and Labels* or talk to a Board of Equalization representative. For assistance, please call our Information Center at 800-400-7115 TDD/TTY 800-735-2929. Internet: www.boe.ca.gov

You must include any charges for labor in your taxable total

If your gift-wrapping charge is taxable (see reverse), tax will apply to any amount you charge for labor as well as to your charge for materials.

You may purchase certain gift-wrapping supplies for resale

You may issue a resale certificate to your supplier when you buy products that become a physical part of the packages you wrap. Examples include wrapping paper, tape, gift boxes, tissue, labels, gift tags, and ribbon.

However, you may *not* issue a resale certificate in purchasing items that do not become part of the wrapped parcels, such as scissors, tape dispensers, and paper holders. If you buy such an item from an out-of-state supplier who does not apply California sales or use tax to the transaction, you must pay use tax directly to the Board. Be sure to include the item’s purchase price on the line for “Purchases subject to use tax” when you file your sales and use tax return.

Be sure to keep adequate records

It’s important to keep complete, detailed records for all of your transactions, especially if you claim that a sale isn’t taxable. If you have made a nontaxable charge for gift wrapping food (see table on reverse), be sure that your receipt or other transaction record clearly indicates that the wrapping charge was directly related to your nontaxable sale of food products and that the value of the wrapping did not exceed the value of those products.

You must report gift-wrapping charges on your tax return

Be sure to include all of your gift-wrapping charges in the total (gross) sales you report on your sales and use tax return. You should then list any *nontaxable* gift-wrapping charges on the line provided for “Other” deductions. Subtract those amounts from your total sales before you calculate the tax due. If you don’t take this deduction, you’ll pay more tax than you owe.

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Applying Sales Tax to Gift-Wrapping Charges

Item wrapped	Gift-wrapping charge taxable	Gift-wrapping charge not taxable	Notes
Product other than food	1) If the sale is taxable; or 2) If your business did not make the sale	If the sale is not taxable (<i>example</i> : sale for resale)	If the sale is taxable, entire gift wrapping charge is also taxable
Food product	1) If the wrapping charge is greater than the value of the food product; or 2) If you did not sell the food product yourself	If the gift-wrapping charge does not exceed the value of the food product	<i>Food</i> refers to food products that are sold in tax-exempt transactions, such as fruit, candy, cheese, and noncarbonated, nonalcoholic beverages.
Combination package that includes both food products and nonfood items	1) If you did not sell the package yourself; or 2) If your sale does not meet all of the conditions in the next column. <i>See note</i>	If your sale is considered a nontaxable sale of food <i>and</i> the gift-wrapping charge does not exceed the package price. A combination package is considered food if <ul style="list-style-type: none"> • The retail value of the food contents is <i>at least 90 percent</i> of the retail value of the total package contents; and • The retail value of the package container is <i>50 percent or less</i> of the retail value of the entire package. <i>See example below</i>	When you sell a combination package that does not qualify as food, sales tax would apply to the selling price of the package less the value of the food products, and to the gift-wrapping charge. Your records must separately state the value of the food and nonfood items. The values should also be separated on your invoice or receipt.

Example, applying tax when a combination package is considered food: You sell a gift basket for \$60 and charge \$5 to wrap it. The package includes:

Cheeses & crackers, retail value	\$ 45.00
Small cheese knife, retail value	<u>5.00</u>
<i>Total value of contents</i>	\$ 50.00
Basket, retail value	<u>10.00</u>
<i>Total price of gift basket</i>	\$ 60.00

The package is considered food because it meets both conditions explained in the table above. The value of the food items, \$45.00, is at least 90% percent of the \$50 total value of the contents ($\$50 \times 90\% = \45). The value of the container (the basket), \$10.00, is less than 50% of the retail value of the entire package ($\$60 \times 50\% = \30). Your sale qualifies as a nontaxable sale of food and tax does not apply to your \$5 gift-wrapping charge.

Note: The statements in this fact sheet are general and are current as of October 2004. The sales and use tax law and regulations are complex and subject to change. If there is a conflict between this publication and the law or regulations, decisions will be based on the law and regulations.