

# Combination Packages and Gift-Wrapping

## Combination packages

Combination packages may include food or a combination of food and nonfood items. If you create gift packages that contain only food, such as cheese, crackers, or fruit, the sale of these gift packages is generally exempt from tax. If you decide to include a nonfood product in the gift basket, it may be necessary to determine the taxable portion of the combination package. A container is generally considered the package and any packaging material that holds the product being sold.

## If you maintain records that verify the *cost* of the individual items

This situation generally occurs when you purchase the individual components for a combination package and assemble the combination package yourself. You *must* continue to separate the retail value of the nonfood products when:

1. You have records that verify the *cost* of the individual items in the package, and
2. The retail price of the nonfood product is *more than 10 percent* of the retail value of the entire package, not including the container.

The tax is based on the retail sales price of the nonfood products not including the value of the container. For example, you *have records* to establish the cost of the individual items of a combination package, and your sale includes the following components:

Meat and cheese, retail value (exempt food products)	\$22.00
Serving utensil, retail value (nonfood product)	<u>5.00</u>
Total retail value of contents	27.00
Tray (container) retail value	3.00
Total retail value of the nonfood products	5.00
Sales tax (\$5 × 8.25%)	<u>.41</u>
Total selling price of combination package	<u>\$30.41</u>

In this example, the retail value of the nonfood item, \$5.00, is greater than 10 percent of the retail value of the entire package, not including the container, ( $\$27 \times 10\% = \$2.70$ ). Since you have records to establish the cost of the individual items of the combination package, the tax is measured by the retail sales price of the nonfood products *not* including the value of the container ( $\$5.00 \times$  appropriate tax rate).

## If you do not have records to verify the *cost* of the individual items

This situation generally occurs when you purchase a combination package preassembled from your supplier. Tax may be measured by the retail sales price of the entire package, including the value of the container if:

1. The retail value of the nonfood product *exceeds 10 percent* of the retail price of the entire package, not including the container, and

## Sales and Use TAX FACTS

Publication 106 • LDA

For additional information you may download regulations, forms and publications from our website or you may call our Taxpayer Information Section to talk to a Board of Equalization representative.

BOE website and Board Member contact information:  
[www.boe.ca.gov](http://www.boe.ca.gov)

Taxpayer Information Section  
800-400-7115  
TDD/TTY 800-735-2929

Taxpayers' Rights Advocate  
888-324-2798



## BOARD OF EQUALIZATION MEMBERS

RAMON J. HIRSIG  
Executive Director

BETTY T. YEE  
First District  
San Francisco

BILL LEONARD  
Second District  
Ontario/Sacramento

MICHELLE STEEL  
Third District  
Rolling Hills Estates

JEROME E. HORTON  
Fourth District  
Los Angeles

JOHN CHIANG  
State Controller

2. You do not have records to establish the cost of the individual items of the combination package.

This would also apply if you were selling prepackaged gift baskets, since you do not have records for the cost of the individual items in the package. For example, if you do not have records to establish the cost of the individual items of a combination package and your sale includes the following components:

Meat and cheese, retail value (exempt food products)	\$22.00
Serving utensil, retail value (nonfood product)	<u>5.00</u>
Total retail value of contents	27.00
Tray (container) retail value	<u>3.00</u>
Total	30.00
Sales tax (\$30 x 8.25%)	<u>2.48</u>
Total selling price of combination package	<u>\$32.48</u>

In this example, the retail value of the nonfood item, \$5.00, is greater than 10 percent of the retail value of the entire package, not including the container, ( $\$27 \times 10\% = \$2.70$ ). However, since you do not have records to establish the cost of the individual items of the combination package, the tax is measured by the retail sales price of the entire package, including the value of the container ( $\$30.00 \times$  appropriate tax rate).

**If you do or do not have records to verify the cost of the individual items**

The sales price of the package is nontaxable if:

1. The retail value of the nonfood products is 10 percent or less than the total value of the contents (not including the container), and
2. The container’s retail value is 50 percent or less of the entire package value.

For example, your sale includes the following components:

Cheeses, retail value (exempt food products)	\$45.00
Small knife, retail value (nonfood product)	<u>5.00</u>
Total retail value of contents	50.00
Container, retail value	<u>10.00</u>
Total selling price of combination package	<u>\$60.00</u>

The nontaxable combination package meets both conditions explained in this example. The value of the nonfood items, \$5.00, is 10 percent of the \$50 total value of the contents ( $\$50 \times 10\% = \$5$ ). The value of the container, \$10.00, is less than 50 percent of the retail value of the entire package ( $\$60 \times 50\% = \$30$ ). Your sale qualifies as a nontaxable sale.

*Note:* In these examples, we show tax calculated at a rate of 8.25 percent, however, you should use the tax rate in effect at your business location. For current tax rates, please see [publication 71, California City and County Sales and Use Tax Rates](#), or call our Taxpayer Information Section at 800-400-7115.

**Gift-Wrapping**

If you are wrapping products that you have sold in a nontaxable transaction, generally sales tax does not apply to your gift-wrapping charges. If you gift-wrap items that you did not sell or items that are taxable, all of your gift-wrapping charges—including charges for labor—are taxable. The quick reference table is intended as a general guide and can help you determine whether tax applies to your gift-wrapping charges.

**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 of Equalization (BOE). 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, be sure that your receipt or other transaction record clearly indicates that the wrapping charge was directly related to your nontaxable sale 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.

Applying Sales Tax to Gift-Wrapping Charges			
Item wrapped	Gift-wrapping charge taxable	Gift-wrapping charge not taxable	Notes
Product other than food	1) The sale is taxable; or 2) Your business did not make the sale.	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) The wrapping charge is greater than the value of the food product; or 2) You did not sell the food product yourself.	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) You did not sell the package yourself; or 2) Your selling price or any portion of the combination package is taxable.	If your sale is considered a nontaxable sale and the gift-wrapping charge does not exceed the package price.  If the sale of a combination package is considered nontaxable (see <a href="#">Combination Packages</a> ).	See <a href="#">Combination Packages</a> .

**For more information**

BOE regulations and publications are available at [www.boe.ca.gov](http://www.boe.ca.gov), or by calling our Taxpayer Information Section at 800-400-7115. For additional information, please see [Regulation 1602](#), *Food Products*, [Regulation 1589](#), *Containers and Labels*, and [publication 71](#), *California City and County Sales and Use Tax Rates*.

*Note:* The statements in this fact sheet are general and are current as the date of this publication. 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.