

Labor Charges

Many sellers believe there is a general exemption from sales tax for labor charges. However, in California many types of labor charges are subject to tax. Tax applies to charges for producing, fabricating, or processing tangible personal property for your customers. Generally, if you perform taxable labor in California, you must obtain a seller's permit ([BOE-400-SPA, California Seller's Permit Application for Individuals/Partnerships/Corporations/Organizations \[Regular or Temporary\]](#)) from the Board of Equalization (BOE) and report and pay tax on your taxable sales.

Special rules apply to labor when you perform work on houses, buildings, and other real property. For additional information, please see [publication 9, Construction and Building Contractors](#), or [Regulation 1521, Construction Contractors](#), available on our [website](#) or by calling our Taxpayer Information Section at 800-400-7115.

Fabrication labor is taxable

Fabrication is considered to be work done in creating, producing, processing, or assembling a product. Modifying an item or system as part of a sale is also considered fabrication. Charges for fabrication labor are generally taxable, whether you itemize your labor charges or include them in the price of the product. This is true whether you supply the materials for the job or your customer supplies the materials.

Examples of fabrication labor include:

- Manufacturing a new piece of machinery.
- Sizing and engraving a new ring you are selling to a customer.
- Altering a customer's cutting die so that it will produce a new and different item.
- Cutting metal or lumber provided by a customer.
- Assembling a customer's new barbecue or new bicycle that came in parts.
- Altering a new suit to better fit the buyer (unless you are considered a clothes cleaner or dyer establishment [see below]).

Alteration of new items includes any work performed upon new items of tangible personal property (merchandise) to meet your customer's specific needs. Your work may involve adding or removing material from the item, rearranging, restyling or otherwise altering the item. Alterations such as these result in the creation or production of a new item or constitute a step in the creation or production of a new item for your customer and charges for such labor are subject to tax.

Please see [Regulation 1506, Miscellaneous Service Enterprises](#), and [publication 125, Dry Cleaners](#), for information concerning clothes cleaner or dyer establishments. If an establishment is not considered a clothes cleaner or dyer as described in [Regulation 1506](#), tax applies to the charges for altering garments as explained in [Regulation 1524, Manufacturers of Personal Property](#).

Services related to a taxable sale are taxable

Your charges for services related to a taxable sale are generally taxable. This is true whether you itemize the charges or include them in the price of the

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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

Taxpayer Information Section
800-400-7115
TTY: 711

Taxpayers' Rights Advocate
888-324-2798



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product. For example, suppose your taxable sale of a computer program includes 20 hours of training, and the customer cannot buy the program without the training services. The training is taxable as part of the sale whether you show a separate charge for it on your invoice or charge one amount for the program and training together.

Another example of a taxable service charge would be a “trip charge” you make in association with a taxable sale. Please note that if your bill includes taxable and nontaxable charges along with an itemized service charge, part of the service charge may not be taxable. For help determining how tax applies to charges by locksmiths, please see [publication 62, Locksmiths](#).

Labor or service charges related to a nontaxable sale are not taxable

Tax does not apply to labor or services related to nontaxable sales, including sales for resale. For example, if you design and build a custom computer for a retailer who will sell it in a computer store, none of your charges are taxable—provided you obtain a timely and properly completed resale certificate from the retailer.

Nontaxable types of labor

Repair. Tax generally does not apply to your itemized charges for repair labor. Repair labor is work performed on a product to repair or restore it to its intended use. Examples include:

- Replacing a broken water pump on a customer’s used car
- Replacing a hard drive in a used computer
- Restoring a damaged painting
- Altering a customer’s used suit to fit better

Tax usually applies to charges for parts you supply in a repair job if the retail value of the parts is more than 10 percent of your total charges or if you charge separately for the parts.

Installation. Sales tax generally does not apply to charges for installation labor. For example, tax would not apply to your itemized charges for installing a car stereo in a used car. Please note that it can be difficult to tell the difference between nontaxable installation and taxable fabrication on site.

For more information

To help you learn how tax applies to your own charges for labor, you may wish to obtain one of the regulations listed below or one of our industry-specific publications. You can easily download the publications and regulations from our [website](#) or order them from our Taxpayer Information Section.

Publications

- 9 *Construction and Building Contractors*
- 25 *Auto Repair Garages and Service Stations*
- 34 *Motor Vehicle Dealers*
- 35 *Interior Designers and Decorators*
- 62 *Locksmiths*
- 125 *Dry Cleaners*

Regulations

- 1506 *Miscellaneous Service Enterprises*
- 1521 *Construction Contractors*
- 1524 *Manufacturers of Personal Property*
- 1526 *Producing, Fabricating, and Processing Property Furnished by Consumers—General Rules*
- 1546 *Installing, Repairing, Reconditioning in General*
- 1548 *Retreading and Recapping Tires*
- 1549 *Fur Repairers, Alterers, and Remodelers*
- 1550 *Reupholsterers*
- 1551 *Repainting and Refinishing*
- 1553 *Miscellaneous Repair Operations*

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