

# Interior Designers and Decorators

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## PREFACE

This publication is intended as a general guide to the Sales and Use Tax Law and Regulations as they apply to interior designers and decorators.

If you cannot find the information you are looking for in this publication, please visit [www.boe.ca.gov](http://www.boe.ca.gov) or call our Customer Service Center at 1-800-400-7115. Customer service representatives are available to answer your questions weekdays between 8:00 a.m. and 5:00 p.m. (Pacific time), except state holidays. This publication complements [publication 73](#), *Your California Seller's Permit*, which includes general information about obtaining a permit; using a resale certificate; collecting and reporting sales and use taxes; buying, selling, or discontinuing a business; and keeping records. Please also refer to [www.boe.ca.gov](http://www.boe.ca.gov) or the [For More Information](#) section for Board of Equalization (BOE) information and all regulations and publications referenced in this publication.

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

# CONTENTS

<i>Section</i>	<i>Page</i>
Designer Fees and Charges Related to the Sale of Merchandise	4
Improvements to Real Property	10
Purchases, Resale Certificates, and Use Tax	14
Reporting Tax and Keeping Records	16
For More Information	20

## DESIGNER FEES AND CHARGES RELATED TO THE SALE OF MERCHANDISE

Many charges made by interior designers and decorators are subject to sales tax. This chapter explains how tax applies to sales of merchandise, professional fees, taxable and nontaxable labor, subcontracted work, out-of-state sales, and shipping and delivery charges. Applying tax to work involving improvements to real property, such as residential and commercial buildings, is addressed in the next chapter. Please refer to [www.boe.ca.gov](http://www.boe.ca.gov) or the [For More Information](#) section for BOE information and all regulations and publications referenced in this publication.

### Do you need a seller's permit?

As an interior designer or decorator, your work may include services such as design, repair, reupholstering, color coordination, and planning. You may also sell merchandise, including furniture, window coverings, carpeting, home accessories, cabinets, and samples. Generally, if you sell *any* merchandise to clients, including samples or finished drawings, you must obtain a seller's permit from us and pay tax on your taxable sales. If you do not sell, install, order, or fabricate any merchandise or transfer finished plans or drawings to clients, you may not need a seller's permit. For help in determining whether you need a permit, please refer to [publication 107, Do You Need a California Seller's Permit?](#)

### Sales of merchandise

You generally must pay sales tax on the sale of merchandise to your clients, including the sale of samples and finished drawings or plans you transfer to clients. You owe tax based on the retail selling price of the merchandise, including your markup and any related taxable labor and service charges (see next section).

*Note:* Special tax rules apply to the sale of items that you or a subcontractor attach to real property (houses, apartments, commercial buildings, and so forth), including carpeting, wallpaper, paint, and cabinets. For information on those situations, see [Improvements to Real Property](#).

The table below is a basic guide showing how sales tax applies to your charges. The remainder of the publication provides essential details to help you apply this basic information.

*Typical interior decorator charges: introduction to application of sales tax*

YOUR CHARGE IS FOR:	DOES SALES TAX APPLY?
Fees for professional services	<ul style="list-style-type: none"><li>• Yes, when your fees are directly related to a taxable sale of merchandise.</li><li>• No, when your fees have no relation to the sale of merchandise.</li></ul>
Labor charges	<ul style="list-style-type: none"><li>• Yes, when your charge is for fabrication labor.</li><li>• No, when your charge is for repair or installation labor or work performed on real estate (see <a href="#">Improvements to Real Property</a>).</li></ul>
Sales of merchandise	<ul style="list-style-type: none"><li>• Yes, when you are the retailer of the merchandise.</li></ul>

## Fees for professional services

Many designers and decorators charge a fee for professional services. Typical services include consulting, design, layout, selection of color schemes, coordinating furniture and fabrics, supervising installations, and so forth. The fee may be a negotiated fixed amount or a percentage of the selling price of furnishings, labor, and installation charges.

Tax does not apply to charges for professional services that are not directly related to the sale of merchandise. Be sure to list those charges separately on your invoice.

However, tax *does* apply to your charges for fees that are directly related to acquiring and providing furnishings and other merchandise you sell to a client. For example, when you charge fees to accompany a client to a showroom to select furniture the client is buying from you, those fees are taxable.

*Note:* Normally, an interior decorator's selling price of furnishings should be the *retail price*—that is, the cost to the decorator plus a reasonable markup. However, decorators sometimes invoice for sofas, tables, chairs, carpets, or other goods at their cost and then add a separately stated fee that includes their overhead and profit. If you bill in this manner, your *total fee* will be considered taxable unless you can clearly establish that a portion of the fee is for nontaxable professional services.

### *Example*

A client contacts you and expresses interest in renovating his office. You show him different carpet, wallpaper, fabric, and paint samples. You also spend a substantial amount of time developing alternative color schemes, colors, and looks. Tax would not apply to your fee for these services because you have not yet sold any merchandise to your client. Now, after reviewing your proposals, the client makes his choice and places an order with you for merchandise. To complete the job, you spend time measuring for draperies, shopping for furniture, and accompanying your client to showrooms. Your charges for those services are taxable because they are a part of your taxable sale of merchandise.

It's not always easy to determine the line between nontaxable professional services and taxable services related to a sale. If you need help determining whether your professional fees are taxable, please call our Customer Service Section.

## Labor charges

You may also charge your clients for labor associated with a taxable sale. For purposes of calculating sales tax, labor charges are generally divided into three basic categories: fabrication, repair, and installation. In general, tax applies to charges for *fabrication labor*, but not to charges for labor considered *repair* or *installation*. Nontaxable labor charges should be itemized separately on your invoice. For additional information, see [Regulation 1526, Producing, Fabricating and Processing Property Furnished by Consumers—General Rules](#), [Regulation 1546, Installing, Repairing, Reconditioning in General](#), and [publication 108, Labor Charges](#).

### ***Fabrication labor***

When you make a new item or change the form or function of an existing item and then sell it to your client, the labor is considered fabrication labor. Alteration of new items includes any work performed upon new items such as garments, bedding, draperies, or other personal and household items to meet the requirements of your customer. 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. Tax applies to your charges for fabrication labor whether you provide the materials or use materials provided by your client.

Examples of taxable fabrication labor include:

- Quilting new fabric.
- Converting a vase to a lamp.
- Making bedspreads, draperies, slip covers, and pillows from fabric provided by you or your client.
- Making an area rug from carpet remnants.
- Converting an old love seat into separate chairs.
- Cutting and sewing materials to be used in reupholstering (see [Furniture reupholstering](#)).
- Dyeing a client's *new* rug or other new fabrics.

### **Repair labor**

Repair labor is the repairing, refinishing, or reconditioning of an item to refit or restore it for its original use. Alteration of used items *includes* mending, shortening or lengthening, taking in or letting out, or otherwise altering used items such as bedding, draperies, or other personal and household items. When your alterations merely refit or repair an item for which the item was created or produced, charges for the alteration of used items are not subject to tax.

Examples of nontaxable repair labor include:

- Refinishing or putting a faux finish on a client's antique table.
- Cleaning a client's used rug.
- Dyeing a client's *used* rug.
- Relining old draperies.

Please refer to [Regulation 1526](#), *Producing, Fabricating and Processing Property Furnished by Consumers—General Rules*, for additional information on repair and fabrication labor.

### **Installation labor**

Installation labor is the labor required to install an item after it has been delivered to the client's premises. It does not include any work performed prior to installation. Charges for installation labor are not taxable. However, tax generally applies to charges for materials you provide in installing a product, such as nails, bolts, screws, cables, and so forth.

Examples of exempt installation labor include:

- Hanging draperies after delivery to the job site.
- Hanging paintings and other artwork.
- Connecting an appliance to a power source.

## **Applying tax to typical interior decorator sales that include labor**

### **Draperies**

When you fabricate and then install new draperies, all labor up to the point of installation is taxable fabrication labor. This includes taking measurements at the client's premises, cutting and sewing fabric, fireproofing or otherwise treating the fabric or other materials, shirring, lining, pleating, and pressing. The amount you charge for hanging the draperies is nontaxable installation labor and should be itemized as such on your invoice. Your charges for the draperies themselves and any installation hardware, including rods, brackets, and so forth, are taxable.

Clients may also contract with you to have their draperies cleaned, resized, relined, fireproofed, and installed at a new location. All of these services would be nontaxable repair and installation labor. Only the selling price of the lining and charges for installation hardware would be taxable.

For information on applying tax to the sale and installation of blinds and shutters, please see [Sale and installation of blinds and shutters](#).

### ***Furniture reupholstering***

Furniture reupholstering generally involves sales of materials as well as fabrication, repair, and installation labor. Sales tax applies to your charges for materials and parts such as fabric, foam rubber, springs, cushions, legs, and casters. Tax also applies to your charges for items commonly referred to as “findings.” These items include merchandise with small unit values such as brads, buttons, tacks, twine, and thread. You may choose to either itemize your charge for findings or use the alternative invoicing method described under, “Invoicing options,” below.

### ***Fabrication or repair labor?***

When you reupholster furniture, your charges for cutting and sewing materials for coverings, including seat and back cushions, are taxable fabrication labor. However, stripping old materials, applying new materials, retieing springs, and refinishing or applying faux finishes are nontaxable repair labor.

### ***Invoicing options***

You may use one of two methods to invoice your clients for reupholstery work. You may either:

- Itemize your charge for all materials and findings used, charges for fabrication labor, and charges for nontaxable repair labor, or
- List one charge for materials (do not include findings) separate from total labor charges. If you use this method, you may claim 80 percent of your total labor as nontaxable (see example below). The remaining 20 percent will be considered taxable charges for fabrication labor and findings.

### ***Example***

You can invoice a client using the second invoicing method for a reupholstery job with total charges of \$150 for labor and findings. Twenty percent of the total \$150 labor charge is considered taxable labor and findings ( $\$150 \times 20\% = \$30$ ).

#### Reupholster chair

Fabric and other materials	\$ 450.00
Taxable labor and findings	<u>30.00</u>
Taxable total	\$ 480.00
Sales tax @ 8.25%* ( $480.00 \times 8.25\%$ )	39.60
Nontaxable repair labor	<u>\$ 120.00</u>
Total due	<u><u>\$ 639.60</u></u>

For further information on applying tax to reupholstery jobs, please see [Regulation 1550, Reupholsterers](#).

\*Note: Even though this and other examples show tax calculated at a rate of 8.25 percent, you should use the rate in effect at your business location. Please see, [California City and County Sales and Use Tax Rates](#) for current tax rates.

## Subcontracted work

You may subcontract out work including sewing, upholstery, custom furniture production, picture framing, and so forth. When you contract with your client to provide an item custom made by a subcontractor, your charge for that item and the labor to make it is taxable. However, if the subcontractor performs repair or installation labor as part of your contract, your charges for that work are not taxable.

Decorators and designers sometimes encounter difficulty in properly billing and reporting taxable and nontaxable charges because their subcontractors do not furnish them with a breakdown of materials, repair labor, and installation labor. The subcontractors may assume that because their sale to you is a sale for resale, no breakdown is necessary. For your own protection, we urge you to insist on accurate and itemized billings from subcontractors.

### Example

A client hires you to redecorate a bedroom. You subcontract with Frank's Fine Fabrics to make draperies and pillows, and to install the draperies. Your invoice from Frank's says:

Throw pillows (2)	\$100.00
Make and hang draperies	<u>850.00</u>
Total resale	<u><u>\$950.00</u></u>

You should ask Frank's to itemize his charge for hanging the draperies so that you can itemize the nontaxable installation labor charge on your invoice to the client. Your charge for the pillows and the draperies would be taxable, but tax would not apply to your charge for hanging the draperies.

## Sales of products delivered outside California

Sales tax generally does not apply to your transaction when you sell a product and ship it directly to the purchaser at an out-of-state location, for use outside California.

*Note:* You must ship the item directly to the out-of-state destination using your own delivery vehicle, the U.S. Mail, common or contract carrier, a customs broker, or a forwarding agent. If the purchaser or their representative takes possession of the item inside California, even temporarily, your sale does not qualify for this tax exemption.

In addition, if you deliver an item to a known California resident at an out-of-state location, you should apply tax unless the buyer states, in writing, that they are purchasing the item for use outside California.

To claim an exemption for an interstate sale, you must retain records of delivery or shipment, such as shipping invoices, postage receipts, and so forth.

Sales in interstate commerce are discussed in greater detail in [Regulation 1620](#), *Interstate and Foreign Commerce*. You may also refer to [publication 101](#), *Sales Delivered Outside California*.

## Shipping and delivery charges

Tax does not apply to charges for shipping or delivery for nontaxable sales. For taxable sales, your charges for shipping or delivery are generally not taxable if *all* of the following conditions apply:

- The charges are separately stated on your invoice.
- A contract or common carrier, or the U.S. Mail, makes the delivery.
- Your charges to the client for delivery do not exceed the amount you pay to the carrier.
- Charges are for transportation directly to the client. Charges for delivery from the factory or dealer to your place of business or other intermediate point are generally taxable.



*Note:* If you deliver goods using your own vehicle, or sell them for a price that includes delivery charges, the delivery charge is usually taxable.

Your invoice should use terms such as *delivery, shipping, freight, or postage* to represent delivery charges. Other related charges, including *handling*, are generally taxable. If you charge a single amount that combines delivery and a related handling charge, for example, *shipping and handling*, you must apply tax to the handling portion of the charge. The shipping portion is not taxable if it meets the criteria listed above. It is important to keep good records that fully document your shipping costs.

For more information, see [Regulation 1628, Transportation Charges](#), and [publication 100, Shipping and Delivery Charges](#).

## IMPROVEMENTS TO REAL PROPERTY

*Interior decorators often contract with customers to make improvements to real property as part of a job. This chapter is a general guide to applying tax for those types of charges. For more information you may wish to obtain a copy of [Regulation 1521](#), Construction Contractors, and [publication 9](#), Construction and Building Contractors. Please refer to [www.boe.ca.gov](http://www.boe.ca.gov) or the [For More Information](#) section for BOE information and all regulations and publications referenced in this publication.*

### You may be a construction contractor for sales and use tax purposes

As an interior designer or decorator you may furnish, install, or repair carpeting, other floor coverings, shutters, blinds, wall mirrors, custom cabinets, plumbing fixtures, and other items that are *attached to real property* such as houses, apartment buildings, office buildings, mobilehomes with permanent foundations, or stores. When you buy items that will be attached to real property and install them yourself or pay a contractor to install them, you are generally considered a construction contractor for sales and use tax purposes, even if you do not hold a contractor's license. Any work you perform as a construction contractor falls under special sales and use tax rules, explained in this chapter.

*Note:* If you only supervise the work of a contractor who bills your client directly, you are not considered a construction contractor for that job.

### Fixtures vs. materials—what's the difference?

*Fixtures* are accessories to a building that do not lose their identity when installed. Examples include:

- Air conditioning units
- Awnings
- Prefabricated: cabinets, counters, or lockers
- Furnaces
- Heating units
- Shutters
- Blinds
- Plumbing fixtures
- Garbage disposal units
- Lighting fixtures

If you furnish and install fixtures, tax will apply to your charges for the fixtures but not to your charge for installation.

*Materials* are generally considered to be products that lose their identity and become an integral and inseparable part of the real estate when installed. Examples include:

- Carpet
- Padding
- Flooring
- Adhesive
- Wallpaper

- Paint
- Sizing
- Molding

Whether tax applies to your charges for materials in a construction contract depends on the terms of the contract, as explained in Types of construction contracts.

## Types of construction contracts

Most construction contracts fall into one of two basic categories. In a *lump-sum* contract, you generally bill your client one set, agreed upon amount for all charges associated with the work. In a *time and materials contract*, you generally bill your client separate amounts for labor (time) and for materials and/or fixtures you furnish.

### Lump-sum contracts

In a lump-sum construction contract, you are the consumer of materials used in improving the real estate. Consequently, you should not charge your client amounts for sales tax. Instead, your *purchase* of the materials is taxable. If you do not pay an amount for tax at the time of purchase, you must pay use tax to us (see [Purchases subject to use tax](#)).

#### Example

You contract with a client to furnish and install 100 square yards of wall-to-wall carpeting for a lump-sum amount of \$1,600, which includes all of your charges for the job. Your direct costs are:

Acme Carpet Mills, 100 square yards of carpeting @ \$8.00 per square yard	\$800.00
Expert Installers Inc.: Install 100 square yards of carpet @ \$3.00 per square yard, including labor, padding, and tackless strip	\$300.00

You are the consumer of the carpet and should pay an amount for tax to Acme Carpet Mills on the \$800 carpet purchase price. The installer is the consumer of padding, strip, and any other materials used, and should pay an amount for tax on these materials to its supplier. Your total \$1,600 charge to your client is not taxable.

### Time and materials contracts

You are also considered the consumer of materials in a time and materials construction contract *unless* you bill a separate amount for materials and:

- The contract explicitly states that ownership of the materials transfers to the client before they are installed,  
*or*
- You bill your client an amount for *sales tax* on your invoice.

If you bill a separate amount for materials and either condition above applies, you are considered the retailer of the materials you furnish and your charges for them are taxable.

### Example

Using the amounts in the example on the previous page, but with a time and materials contract, your direct costs remain \$1,100. You bill your client as follows:

100 square yards of carpeting	
@ \$12 per square yard	\$ 1,200.00
Sales tax @ 8.25%* (1,200 x 8.25%)	99.00
Installation	400.00
Total	<u>\$ 1,699.00</u>

\*Note: Even though this and other examples show tax calculated at a rate of 8.25 percent, you should use the rate in effect at your business location. Please see [California City and County Sales and Use Tax Rates](#) for current tax rates.

You are considered the retailer of the materials (carpet) since you have added an amount for tax on an itemized, marked-up billing for materials. You, therefore, owe tax of \$99 on your \$1,200 material charge. Since you are a retailer of materials, you may issue a resale certificate to your supplier, Acme Carpet Mills.

## Labor charges—work performed on real property

Generally, sales tax does *not* apply to the labor portion of charges for work performed on real property. This is true when you perform work on items that are attached to the building or which are part of it, such as carpets, built-in appliances, or indoor swimming pools. However, if you fabricate separate items of personal property or fixtures as a part of the job, such as shutters or throw rugs made from carpet scraps, your charge for that work is taxable fabrication. You should itemize the charge on your invoice.

## Common interior decorator issues—work performed on real property

### **Sale and installation of cabinets**

You may contract with a client to install cabinets in a home, store, office, or other building. For sales and use tax purposes, some cabinets are considered materials and others are considered fixtures. Each cabinet in a project must be evaluated individually.

#### **Custom cabinets**

Cabinets are considered *custom* and treated as materials if you incur *less than 90 percent* of the direct cost of related labor and materials in fabrication and installation of the cabinet before the cabinets are attached to your client's building. The application of tax to your charges for materials depends on how you contract with your client, as explained on the previous page.

#### **Prefabricated cabinets**

Cabinets are considered *prefabricated* and treated as fixtures if you incur *at least 90 percent* of the direct cost of labor and materials in fabrication and installation of the cabinets before they are attached to your client's building. In this case, you are considered to be the retailer of the cabinets and tax will apply to your charges for them. Installation charges are not taxable.

## Sale and installation of blinds and shutters

Certain window coverings—including interior wood shutters, miniblinds, vertical blinds, honeycomb blinds, Roman shades, and Venetian blinds—are considered fixtures and your sale of them is taxable. However, hardware items attached to a building in order to hang window coverings, such as brackets, rods, and tracks, are considered materials. The application of tax to their purchase or sale depends on whether you are a consumer or retailer for that particular construction contract. The sale and installation of draperies is not a construction contract.

## Subcontracted work on real estate

Your charges to your client for subcontracted improvements to real property (the subcontractor furnishes and installs materials/fixtures) are generally not taxable because the contractor is responsible for reporting the tax. When the subcontractor is the retailer of materials and fixtures furnished in a construction contract, he or she owes tax to us on the sale. If your client pays the subcontractor directly, the subcontractor may charge your client an amount for tax on charges for materials and fixtures. If you pay the subcontractor yourself, you may be charged an amount for tax. You cannot give the subcontractor a resale certificate for materials or fixtures furnished in a construction contract (see [Purchases, Resale Certificates, and Use Tax](#)).

### *Example*

You have a contract to furnish a master bathroom. As part of the job, you subcontract with a tile installer who furnishes and installs 400 square feet of marble tiles for a total, nontaxable lump sum charge of \$8,000. You do not owe tax on the amount you charge your client for this work. The contractor is the consumer of the tile used on the job and, therefore, must pay tax to his supplier or to us.

You subcontract another portion of the job to a plumber who furnishes and installs a new sink, toilet, and whirlpool tub. The plumber charges you \$750 for installation labor, \$3,200 for the fixtures, and an amount for *sales tax* on the fixtures. The plumber owes sales tax on the \$3,200 fixture charge and may bill you for tax. You may not issue a resale certificate to the plumber. Again, you do not owe tax on the amount you charge your client for this work.

## PURCHASES, RESALE CERTIFICATES, AND USE TAX

*Under certain circumstances, you are required to pay amounts for tax on your purchases. This chapter describes how tax applies to typical business purchases. Please refer to [www.boe.ca.gov](http://www.boe.ca.gov) or the [For More Information](#) section for BOE information and all regulations and publications referenced in this publication.*

### Purchases for resale

When you are the retailer of an item, you may buy that item for resale without paying an amount for sales and use tax to your vendor. You may also buy for resale those materials you physically incorporate into items you sell, such as fabric. To make purchases of this type, you must give the seller a properly completed resale certificate. You should not issue a resale certificate when you are buying a product that you will use rather than sell, use before you sell it, or use for a personal purpose. You may not furnish resale certificates to construction contractors for work they perform on real property.

If you know at the time you make a purchase that you will not resell the merchandise you are buying, you should not use a resale certificate for that transaction. In addition, it is not legal for you to give out your permit number to any other party, including your clients, for their use at retail stores or furniture marts to make purchases without paying sales tax.

For more information on issuing resale certificates, see [Regulation 1668](#), *Sales for Resale*, and [publication 103](#), *Sales for Resale*.

### Merchandise you use in your business

Tax generally applies to purchases of items that you will use in your business rather than resell. Examples include cleaning supplies, office supplies, stationery, business cards, display fixtures, tools, and equipment. You should pay an amount for sales or use tax to your suppliers when you buy these and similar items. If you use an item you originally purchased for resale, that use is generally taxable (see below).

### Purchases subject to use tax

If you purchase products without paying tax and use the merchandise for a purpose other than resale, you must generally pay *use tax* with your sales and use tax return. The use tax rate is the same as the sales tax rate for your location.

Common examples of situations where you may owe use tax include:

- Giving an item purchased for resale to a family member, friend, or client.
- Using in your home or business an item purchased for resale.
- Using in your business office supplies, tools, or equipment you purchased without paying tax.
- Using, storing, or giving away items purchased from an out-of-state seller who did not collect California sales or use tax on your purchase.

To report your use tax liability, enter the purchase price for the items on your sales and use tax return as *Purchases Subject to Use Tax*.

## Typical situations—purchases subject to use tax

### *Items used for demonstration and display*

If you remove an item from your resale inventory and use it for demonstration or display, you do not owe use tax provided the item remains for sale. However, if you use a demonstration or display item for any additional purpose—including personal use—or you do not offer it for sale while it is used for demonstration or display, you owe use tax on its purchase price. For more information, see [Regulation 1669, Demonstration, Display and Use of Property Held for Resale—General](#).

### *Purchases from out-of-state vendors*

You generally owe use tax when you purchase merchandise from an out-of-state vendor and use, store, give away, or consume the merchandise in this state. If the vendor does not collect the tax on your purchase you must pay the tax directly to our agency.

Some out-of-state retailers are authorized to collect and pay California use tax. If such a retailer charges you California tax, you should obtain a receipt from them. It must describe the item and show the purchase amount; the tax amount; the vendor's name, address, and California seller's permit number (or use tax registration number); and your name and address.

You should also check the tax rate applied to your purchase. While out-of-state vendors often apply tax at the statewide rate, you are liable for the use tax at the full [rate in effect](#) at the California location where you use or you store the item. If the vendor charged you tax at a lower rate than the rate in effect for your location, you owe the remaining use tax.

### *Purchases made over the Internet*

Except for the purchase of electronically transmitted products such as software or digital graphics, tax applies to your Internet purchases in the same way it does to your purchases from brick-and-mortar stores or mail-order dealers. You owe use tax when:

- You purchase goods over the Internet from an out-of-state retailer,
- The seller does not collect an amount for California sales or use tax from you, and
- The merchandise was delivered for your own use in California.

You must pay the use tax on the purchase with your next regularly filed sales and use tax return.

## Tax deductions related to taxable purchases

If you pay another state's sales tax on a purchase, or sell an item on which you have paid California tax before you use it, you may be able to take a deduction on your sales and use tax return. (See [Tax-paid purchase resold prior to use](#), also see [Credit for payment of another state's tax](#).)

## REPORTING TAX AND KEEPING RECORDS

This chapter includes information on reporting sales and use tax, common deductions, and keeping records. Please refer to [www.boe.ca.gov](http://www.boe.ca.gov) or the [For More Information](#) section the BOE information and all regulations and publications referenced in this publication.

### Reporting sales tax

You generally must report all of your charges on your sales and use tax return. The amount you list for total (gross) sales must include all of your charges for merchandise, labor, professional fees, overhead, delivery, and so forth, whether the charges are taxable or nontaxable. The tax due with each return is based on your total gross sales for the period, plus your purchases subject to use tax, less any allowable deductions.

### Collecting an amount for tax from your clients

When you make sales as a retailer, the law allows you to collect from your clients an amount equal to the sales tax you will owe on each sale. This is known as *sales tax reimbursement*. You may add the reimbursement amount to your charges, being sure to itemize the amount on your invoice or receipts (most retailers itemize this charge as *sales tax*). Or, you may include the reimbursement in the total price you charge. If you choose the latter method, you must post a visible sign stating, "All prices of taxable items include sales tax reimbursement calculated to the nearest mill," or include a similar statement on your sales invoices (see [Regulation 1700](#), *Reimbursement for Sales Tax*).

### Credit sales and installment payments

The *total sales* you list on your sales and use tax return must include the price of items you sold on credit during the reporting period, even though you may not receive full payment until a later date. Tax is due on the full selling price. However, you may exclude amounts for insurance, interest, finance, and carrying charges from the taxable selling price you report for a credit sale, provided you keep adequate and complete records documenting those charges.

*Note:* Tax is due when ownership or possession of the product sold transfers to your client, regardless of when you receive payment. Consequently, if you take a deposit for future delivery of merchandise, you should not report that amount on your tax return until the delivery is actually made or you transfer ownership to your client.

#### *Example*

In June, a client places an order for new chairs, tables, and a desk for her office, for a total price of \$7,500. You deliver the products in July. The client pays you \$4,500 in June and agrees to pay the balance in two monthly installments. Regardless of when you receive the balance due, the full \$7,500 sale must be included in your total sales for the tax return that covers the month of July.

More information is available in [Regulation 1641](#), *Credit Sales and Repossessions*.

### Credit card sales

You should report credit card sales as if they were cash transactions. The service charge or *discount* you pay the credit card organization is not allowed as a discount or deduction for sales tax purposes. You should report the sale when the client takes possession or ownership of the merchandise, not when you are paid by the credit card company.



## Purchases subject to use tax

As discussed in the previous chapter, some of your purchases are subject to use tax. You must report the total cost of all of your taxable purchases on your sales and use tax return as *Purchases Subject to Use Tax*. Tax is due with the return for the period in which you incurred the tax liability.

### *Example*

You issue a resale certificate in January when you purchase 1,000 square yards of fabric for \$7 a yard. You sell 400 square yards to walk-in clients in your showroom and use another 580 square yards in making draperies you sell to clients. In August, you give the remaining 20 yards to a friend—a taxable use. You must report your \$140 cost for that fabric (\$7 per yard x 20 yards) as a \$140 purchase subject to use tax on your tax return that covers the month of August.

## Common sales and use tax deductions

### ***Nontaxable labor***

As discussed in Designer fees and charges related to the sale of merchandise, tax does not apply to your charges for repair and installation labor or to certain professional fees. On your tax return you should list these amounts under “Nontaxable Labor” and deduct them from your total sales.

### ***Tax-paid purchases resold prior to use***

You may take a deduction on your sales and use tax return if you paid an amount for California sales or use tax when you purchased an item and then sold that item in a taxable transaction before using it. Include the price of the item under *Cost of Tax-Paid Purchases Resold Prior to Use* (see [Regulation 1701](#), “Tax-Paid Purchases Resold”).

### *Example*

You buy furniture for your office, paying an amount for sales tax to your supplier. You decide not to use one end table and sell it to a client. You can take a deduction for the cost of the table on the same tax return on which you report the sale to your client.

### ***Credit for payment of another state’s tax***

If you were required to pay, and did pay another state’s sales or use tax on a purchase, you may take a credit against *your use tax liability* by:

- Reporting the amount of the purchase under *Purchases Subject to Use Tax*, and
- Deducting the amount of tax paid under *Sales or Use Tax Paid to Other States* on your return. You can claim a credit up to the amount of California use tax due.

### ***Bad debts***

If you pay tax on a sale and then cannot collect all or part of the amount due to you for that sale, you may claim a deduction for the taxable portion of the bad debt. You must first charge off the bad debt for income tax purposes, or if you are not required to file income tax returns or you file income tax returns on a cash basis, charge it off in accordance with generally accepted accounting principles. You should claim the deduction on the tax return for the period in which you found the account worthless and charged it off.

If only a portion of your original charges were taxable, you may deduct only a like portion of the bad debt. First, you must determine the taxable percentage of your original sale (taxable portion ÷ total charge = taxable percentage of total). Next, apply the taxable percentage to the total bad debt to determine the allowable bad debt deduction.

### Example

You contract with a client who pays you 50 percent of your charges in advance and does not pay the balance due (you do not repossess any of the property you provided). Your invoice reads:

	Taxable	Nontaxable
<i>Furnish and install draperies</i>		
Custom draperies, track and hardware	\$700.00	
Installation labor		100.00
<i>Reupholster sofa</i>		
Fabric and other materials	275.00	
Labor	25.00	100.00*
<i>Preliminary design consultation</i>	0.00	180.00
	<u>\$1000.00</u>	<u>\$380.00</u>
Subtotal	\$1380.00	
Sales tax (8.25% x \$1,000)	82.50	
Total charge	\$1,462.50	
Deposit—50% (\$1,462.50 x 50% = \$731.25)	\$731.25	
Balance due	<u>\$731.25</u>	
*See <a href="#">Furniture reupholstering</a> .		

To calculate your bad debt deduction:

- 1) Divide taxable portion of charge (\$1,000) by the total charge including tax (\$1,462.50):  $\$1,000 \div \$1,462.50 = 68.376\%$
- 2) Multiply result of step 1 by bad debt to determine amount of deduction:  $\$731.25 \times 68.3876\% = \$500.00$

Your total allowable bad debt deduction is \$500.00.

*Note:* If the tax rate has changed since you originally paid tax on the sale, you will need to make adjustments in your calculation. Please call our Customer Service Center for help.

If you collect payment from your client after you have claimed a bad debt deduction, you must report and pay tax on the taxable percentage of the amount collected. You cannot take a deduction for any amounts you paid a collection agency to collect a bad debt or for related legal fees or court costs.

*Note for construction contracts:* If you are the retailer of materials and fixtures furnished in a contract to improve real property (see [Improvements to Real Property](#)) you may take a bad debt deduction for bad debts related to that construction work. Otherwise, you may not take a bad debt deduction for unpaid amounts related to charges for improvements to real property.

*Note:* The rules regarding bad debts are somewhat complex. Before you claim a deduction for a bad debt or pay tax on an amount you received after you claim a bad debt deduction, you may wish to contact our Customer Service Center for help. Detailed information is also available in [Regulation 1642, Bad Debts](#).

## Keeping adequate records

You are required to keep complete records documenting your sales and purchases. For nontaxable transactions, those records should clearly indicate the reason the transaction was not subject to tax. You should be sure to maintain resale and exemption certificates and other information necessary to back up each exemption or deduction.

### ***How long should I keep my business records?***

You should keep required records for at least *four years* unless we give you specific, written authorization to destroy them sooner.

*Exception:* Records that cover reporting periods before January 1, 2003, may be covered by an extended statute of limitations if you did not participate in the 2005 tax amnesty program. You must keep those records for at least *ten years*.

If you are being audited, you should retain all records that cover the audit period until the audit is complete, even if that means you keep them longer than four years. In addition, if you have a dispute with us about how much tax you owe, you should retain the related records until that dispute is resolved. For instance, if you appeal the results of an audit or another determination (billing), or you file a claim for refund, you should keep your records while that matter is pending.

For more information, you may obtain a copy of [Regulation 1698, Records](#), and [publication 116, Sales and Use Tax Records](#), from [www.boe.ca.gov](http://www.boe.ca.gov) or our Customer Service Center.

## FOR MORE INFORMATION

For additional information or assistance with how the Sales and Use Tax Law applies to your business operations, please take advantage of the resources listed below.

### CUSTOMER SERVICE CENTER

1-800-400-7115

TTY:711

Customer service representatives are available weekdays from 8:00 a.m. to 5:00 p.m. (Pacific time), except state holidays. In addition to English, assistance is available in other languages.

### FIELD OFFICES

City	Area Code	Number
Bakersfield	1-661	395-2880
Culver City	1-310	342-1000
El Centro	1-760	352-3431
Fairfield	1-707	427-4800
Fresno	1-559	440-5330
Glendale	1-818	543-4900
Irvine	1-949	440-3473
Norwalk	1-562	466-1694
Oakland	1-510	622-4100
Rancho Cucamonga	1-909	257-2900
Rancho Mirage	1-760	770-4828
Redding	1-530	224-4729
Riverside	1-951	680-6400
Sacramento	1-916	227-6700
Salinas	1-831	443-3003
San Diego	1-858	385-4700
San Francisco	1-415	356-6600
San Jose	1-408	277-1231
Santa Clarita	1-661	222-6000
Santa Rosa	1-707	576-2100
Ventura	1-805	677-2700
West Covina	1-626	480-7200

### Out-of-State Field Offices

Chicago, IL	1-312	201-5300
Houston, TX	1-713	739-3900
New York, NY	1-212	697-4680
Sacramento, CA	1-916	227-6600

### INTERNET

[www.boe.ca.gov](http://www.boe.ca.gov)

You can log onto our website for additional information—such as laws, regulations, forms, publications, and policy manuals—that will help you understand how the law applies to your business.

You can also verify seller's permit numbers on the BOE website (look for "[Verify a Permit/License](#)") or call our toll-free automated verification service at 1-888-225-5263.

Multilingual versions of publications are available on our [website](#) at [www.boe.ca.gov](http://www.boe.ca.gov).

Another good resource—especially for starting businesses—is the California Tax Service Center at [www.taxes.ca.gov](http://www.taxes.ca.gov).

### FAXBACK SERVICE

Our faxback service, which allows you to order selected publications, forms, and regulations, is available 24 hours a day. Call 1-800-400-7115 and choose the fax option. We'll fax your selection to you within 24 hours.

### TAX INFORMATION BULLETIN

The quarterly Tax Information Bulletin (TIB) includes articles on the application of law to specific types of transactions, announcements about new and revised publications, and other articles of interest. You can find current and archived TIBs on our website at [www.boe.ca.gov/news/tibcont.htm](http://www.boe.ca.gov/news/tibcont.htm). Sign up for our BOE updates email list and receive notification when the latest issue of the TIB has been posted to our website.

### FREE CLASSES AND SEMINARS

Most of our statewide field offices offer free basic sales and use tax classes with some classes offered in other languages. Check the Sales and Use Tax Section on our website at [www.boe.ca.gov](http://www.boe.ca.gov) for a [listing of classes and locations](#). You can also call your local field office for class information. We also offer [online seminars](#) including the Basic Sales and Use Tax tutorial and how to file your tax return that you can access on our website at any time. Some online seminars are also offered in other languages.

### WRITTEN TAX ADVICE

For your protection, it is best to get tax advice in writing. You may be relieved of tax, penalty, or interest charges that are due on a transaction if we determine that we gave you incorrect written advice regarding the transaction and that you reasonably relied on that advice in failing to pay the proper amount of tax. For this relief to apply, a request for advice must be in writing, identify the taxpayer to whom the advice applies, and fully describe the facts and circumstances of the transaction.

Please visit our website at: [www.boe.ca.gov/info/email.html](http://www.boe.ca.gov/info/email.html) to email your request. You may also send your request in a letter to: Audit and Information Section, MIC:44, State Board of Equalization, P.O. Box 942879, Sacramento, CA 94279-0044.

### TAXPAYERS' RIGHTS ADVOCATE

If you would like to know more about your rights as a taxpayer or if you have not been able to resolve a problem through normal channels (for example, by speaking to a supervisor), please see *Understanding Your Rights as a California Taxpayer*, [publication 70](#), or contact the [Taxpayers' Rights Advocate Office](#) for help at 1-916-324-2798 (or toll-free, 1-888-324-2798). Their fax number is 1-916-323-3319.

If you prefer, you can write to: Taxpayers' Rights Advocate, MIC:70; State Board of Equalization; P.O. Box 942879; Sacramento, CA 94279-0070.

## Regulations, forms, and publications

### *Lists vary by publication*

Selected regulations, forms, and publications that may interest you are listed below. A complete listing of sales and use tax [regulations](#), [forms](#), and [publications](#) appears on our [website](#). Multilingual versions of our publications and other multilingual outreach materials are also available at [www.boe.ca.gov/languages/menu.htm](http://www.boe.ca.gov/languages/menu.htm).

### *Regulations*

- 1521 *Construction Contractors*
- 1526 *Producing, Fabricating and Processing Property Furnished by Consumers—General Rules*
- 1546 *Installing, Repairing, Reconditioning in General*
- 1550 *Reupholsterers*
- 1620 *Interstate and Foreign Commerce*
- 1628 *Transportation Charges*
- 1641 *Credit Sales and Repossessions*
- 1642 *Bad Debts*
- 1668 *Sales for Resale*
- 1669 *Demonstration, Display and Use of Property Held for Resale—General*
- 1698 *Records*
- 1700 *Reimbursement for Sales Tax*
- 1701 *“Tax-Paid Purchases Resold”*

### *Publications*

- 9 *Construction and Building Contractors*
- 17 *Appeals Procedures: Sales and Use Taxes and Special Taxes*
- 44 *District Taxes*
- 47 *Mobilehomes and Factory-Built Housing*
- 51 *Resource Guide to Free Tax Products and Services for Small Businesses*
- 61 *Sales and Use Taxes: Exemptions and Exclusions*
- 70 *Understanding Your Rights as a California Taxpayer*
- 73 *Your California Seller’s Permit*
- 74 *Closing Out Your Seller’s Permit*
- 75 *Interest, Penalties and Fees*
- 76 *Audits*
- 100 *Shipping and Delivery Charges*
- 101 *Sales Delivered Outside California*
- 103 *Sales for Resale*
- 105 *District Taxes and Delivered Sales*
- 107 *Do You Need a California Seller’s Permit?*
- 108 *Labor Charges*
- 109 *Internet Sales*
- 114 *Consignment Sales*
- 116 *Sales and Use Tax Records*

獲取進一步訊息線上訪問  
자세한 정보가 필요하면 인터넷으로 접속하십시오  
**Để biết thêm chi tiết vào mạng**

