

Shipping and Delivery Charges

California sales tax may apply to charges for delivery, shipping, and handling. To help you apply tax properly in your business, we've created the quick reference guide printed on the reverse. It gives examples of common shipping situations and charges and explains how sales tax applies in each situation. Be sure to read the notes and exceptions in the chart (the "fine print") and to remember that more than one condition may apply to your specific sale. Before you turn the page, please consider the following basic information.

Sales and Use TAX FACTS

Publication 100 • LDA

For additional information you may wish to read Regulation 1628, *Transportation Charges*. You may download regulations, forms and publications from our website or you may call our Information Center to talk to a Board of Equalization representative.

BOE website and Board Member contact information:
www.boe.ca.gov

Information Center
800-400-7115
TDD/TTY 800-735-2929

Taxpayers' Rights Advocate
888-324-2798

Make sure that your invoices are clear

Be sure that your invoices and receipts use specific terms to describe delivery-related charges. If you are charging for shipping, which *may not* be taxable, use terms such as *shipping, delivery, freight, or postage*. If you are charging for handling, which *is* taxable, be sure to use that term on your invoice. This will help you determine how to apply tax and will make things clearer for your customers. It will also make it easier for everyone if we audit your records.

Keep good records

It's important to keep good records that fully document your shipping costs. Acceptable forms of documentation include

- Bills of lading
- Freight invoices
- Express receipts or express company invoices
- Parcel post receipts or shipment records
- Sales invoices showing transportation charges and shipping instructions
- Delivery receipts and expense vouchers supporting your delivery expense
- Correspondence stating requirement and completion of delivery
- Title transfer agreements

Please note: If you do not keep records showing the **actual cost** of an individual delivery, tax applies to your entire delivery charge if it is made in connection with a taxable sale.

Take care when you complete your sales and use tax return

You must report your total sales for the reporting period on your sales and use tax return. If your total sales include *nontaxable* delivery charges, you should take a deduction for those amounts on the line for "Other" deductions. If you don't take the deduction, you'll pay more tax than you owe.



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Applying Sales Tax to Delivery-Related Charges

Condition of sale or type of delivery charge	Notes and exceptions
Sale is not a taxable transaction.	Related charges are not taxable. <i>Ignore rest of table.</i>
Sale is a taxable transaction.	Delivery-related charges may be nontaxable, partially taxable, or fully taxable. <i>See rest of table.</i>
Delivery-related charge is not taxable when:	
<p><i>All of these conditions must apply:</i></p> <ul style="list-style-type: none"> • You ship directly to the purchaser by common carrier, contract carrier, or US Mail; • Your invoice clearly lists delivery, shipping, freight, or postage as a separate charge; • The charge is not higher than your <i>actual cost for delivery</i> to customer. 	<p>1) <i>Exception:</i> Charge is taxable if you do not maintain records that show the <i>actual cost</i> of the delivery (see reverse).</p> <p>2) If the tax amount calculated for the sale was based on the cost of the item plus the nontaxable delivery charge, you must refund the tax amount collected on the delivery or pay that amount to the Board.</p> <p>3) See sections that discuss “handling” charges.</p>
Delivery-related charge is partially taxable when (for taxable sales only):	
Delivery meets conditions in box above, <i>except:</i> your charge to the customer for delivery is higher than your actual shipping cost.	The portion of the delivery charge that is higher than the actual delivery cost is taxable. <i>Please note:</i> Your records must show your actual cost of delivery. The delivery charge should be separately stated on the invoice.
You make one combined charge for “shipping and handling” or “postage and handling”.	Handling portion of charge taxable; shipping portion may be taxable—see other criteria in this table.
Delivery-related charge is taxable when (for taxable sales only):	
You do not keep records that show the actual cost of the delivery.	Many businesses charge standard amounts for shipping and do not track the cost of individual deliveries.
You deliver merchandise with your own vehicles.	<i>Exception:</i> May not be taxable if title to merchandise transfers to buyer before delivery. This is unusual—contact the Board for information.
You make a separately stated charge for fuel surcharge or “handling,” etc.	Separately stated charges, in addition to the actual shipping charges, are generally taxable. See above section on one charge for “shipping and handling.”
You include a delivery charge in the unit price of the item sold.	Sample invoice entry: “\$6.50 per bale, including delivery.”
Your charge to your customer represents the cost of shipping the merchandise to your place of business (“freight-in”).	“Freight-in” is different from “freight-out.” If you bill your customer for freight-in, the charge is taxable. Freight-out shipping may be taxable. See other criteria in this table.
You make a sale for a delivered price (sales agreement specifies that delivery is included in price, whether delivery charge is listed separately, included in per-item cost, or listed as “freight prepaid”).	<i>Exception:</i> Delivery charges may not be taxable if title to merchandise transfers to buyer before delivery. This is unusual—contact the Board for information.

Note: The statements in this fact sheet are general and are current as of September 2007. 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.