



Sales and Use Tax Explained

The following are provided as general guidelines in the application of Sales and Use tax laws, regulation and more can be found on the California State Board of Equalization's Web site.;

General Information

Only tangible personal property is subject to sales and use tax. Services generally are not taxable unless they are related to the sale of tangible personal property (for example: assembly or fabrication labor services).

As of **4/1/2009**, the statewide sales and use tax rate is 8.25%. Many counties through the state have additional transaction taxes (also called district taxes) which range up to 2.00%. District taxes are generally applied based on the place where the item was received (PoS).

Sales tax vs. Use Tax

Sales tax generally applies to transactions within California. If a sales originates in California, and possession of the item is taken in California, then sales tax applies. There are cases where a vendor based out of state has business ties to California, and they are also required to charge sales tax. For example, an online seller may also have stores located within California. Sales tax is paid to the vendor, who is responsible for remitting the tax to the California Sate Board of Equalization.

Use tax is to be paid by any purchaser who stores uses, or consumes within the state any tangible personal property purchased from any state seller (unless the vendor charges sales tax, as stated above). Use tax was created to protect California vendors from unfair out-of-state competition. The buyer is responsible for remitting use tax to the State Board of Equalization if not collected by the vendor.

Taxable Non Taxable

Noteworthy Exemptions, Exclusions and Other Loop-Holes

	X	Transactions between the university and another government entity (this includes the US government, other State of California agencies, agencies of other states or of foreign governments).
	X	Items delivered to points outside of California and functionally used outside the state for more than 90 days are exempt from California sales and use tax.

Shipping and Handling

	X	Common carrier transportation charges from a vendor to a purchaser if the charges are separately stated. Common carriers include UPS, FedEx, US Mail, freight lines, etc. Sometimes common carriers add a hazard charge, insurance charge, or something similar.
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<u>Tax on Shipping & Handling When User Tax Applies</u>	
<i>When shipping and handling is broken out on an invoice</i>	
Shipped VIA:	Sales Tax Applies to:
UPS	Handling only
Outside Freight Carrier	Handling only
Vendor's truck-FOB Destination	Both shipping and handling
Vendor's truck-FOB Shipping Point	Handling only
Left blank	Handling only

<u>Tax on Shipping & Handling When User Tax Applies</u>	
<i>When shipping and handling is not broken out on an invoice and there is no information regarding the actual cost of shipping</i>	
Shipped VIA:	Sales Tax Applies to:
UPS	Both shipping and handling
Outside Freight Carrier	Both shipping and handling
Vendor's truck	Both shipping and handling
Left blank	Both shipping and handling

Taxable Non Taxable

Delivery Charges

X		When a vendor uses their own vehicle to deliver the item purchased. Example: Sears delivers a refrigerator.
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Handling Charges

X		Shipping and handling charges when billed as a lump sum are treated as taxable, even though the actual shipping charges are not technically taxable.
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Labor

X		Fabrication labor . By definition, a fabrication creates a new item or changes the function of an existing item.
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X		Assembly labor . Assembly is considered to be the final step in the production process.
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	X	Installation labor . Installation involves placing an item into position for it to function.
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	X	Repair labor . A repair returns an existing item to its original condition.
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X		Repair parts and materials . It is best to ask that the labor and parts be itemized separately. If the two are not stated separately, then the total amount is taxable.
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Exemption - if separately stated on invoice

Print

	X	Scholarly journal and reprints page charges . Example: we are paying a journal to publish our scientific article, so this is more like a service.
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X		Reprints . Tangible personal property, unless there is an exemption that applies. Example: purchase for resale
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Equipment Maintenance Agreements

X		Mandatory maintenance agreements . If a buyer is required to purchase the agreement, the price of the agreement is considered to be part of the selling price of the equipment.
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	X	Optional maintenance agreements .
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Taxable Non Taxable

Software Purchases and Software License Agreements

Software can be purchased outright. Software also can be acquired via a software license agreement that, depending on agreement terms, is considered to be a purchase or a lease. In general the same rules apply to software purchases and software license.

	X	<i>Custom software and license agreements</i> . Custom software is a computer program created and tailored specifically for a customer. This also includes modification of canned software at a charge of 50% or more over its original purchase price.
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X	X	<i>Canned software and license agreements</i> . Canned software is a pre-written program developed for general or repeated sale or lease. Exemption - if delivered via tangible media, such as diskette or cd-rom = taxable Exemption - if delivered electronically or loaded by vendor = non taxable
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Software Maintenance Agreements

	X	<i>Custom software maintenance agreements</i> . This applies to both optional and mandatory agreements.
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X		<i>Canned software mandatory maintenance agreements</i> . Are considered to be part of selling price of the software itself. Taxed accordingly (see above)
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X		<i>Canned software optional maintenance agreements, lump-sum all-inclusive</i> . Receive tangible media; e.g. tape, disk, diskette, cd-rom, etc.
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X	X	<i>Canned software optional maintenance agreements, "Cafeteria Plan"</i> . Exemption - telephone support = nontaxable Exemption - software updates in the form of tangible media = taxable
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Miscellaneous

X	X	<i>Internet Sales/Purchases</i> . Internet sales are currently subject to the same tax rules as transactions made in a store or from a catalog
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	X	<i>Purchases for Resale</i> . Purchase for resale are exempt from both sales and use tax. It is our responsibility to collect sales tax from our customer unless and exemption applies.
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X		<i>Purchases of tangible personal property with a federal grant fund</i> . Exemption - unless the grant award document has a specific clause passing title to the federal government at the time of acquisition.
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