

# Publication 100, *Shipping and Delivery Charges*

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**June 2012**

- **Invoices and Records**

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 (see [Applying Sales Tax](#)). 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. Please consider the following basic information before you review the quick reference guide.

## **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.

*Note:* This publication summarizes the law and applicable regulations in effect when the publication was written, as noted above. 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.

- **Applying Sales Tax**

### *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.
Sale is a taxable transaction.	Delivery–related charges may be nontaxable, partially taxable, or fully taxable. <i>See rest of table.</i>
<b><i>Delivery–related charge is not taxable when:</i></b>	
<p><i>All of these conditions must apply:</i></p> <p>You ship directly to the purchaser by common carrier, contract carrier, or US Mail;</p> <p>Your invoice clearly lists delivery, shipping, freight, or postage as a separate charge;</p> <p>The charge is not greater than your actual cost <i>for delivery</i> to customer.</p>	<ol style="list-style-type: none"> <li>1. <i>Exception:</i> Charge is taxable if you do not maintain records that show the actual cost of the delivery (see <a href="#">Invoices and Records</a>).</li> <li>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 BOE.</li> <li>3. See sections that discuss "handling" charges.</li> </ol>
<b><i>Delivery–related charge is partially taxable when (for taxable sales only):</i></b>	
<p>Delivery meets conditions in box above, except: your charge to the customer for delivery is greater than your actual shipping cost.</p> <p>You make one combined charge for “shipping and handling” or “postage and handling”.</p>	<p>The portion of the delivery charge that is greater 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.</p> <p>Handling portion of charge taxable; shipping portion may be taxable—see other criteria in this table.</p>
<b><i>Delivery–related charge is taxable when (for taxable sales only):</i></b>	
<p>You do not keep records that show the actual cost of the delivery.</p> <p>You deliver merchandise with your own vehicles.</p>	<p>Many businesses charge standard amounts for shipping and do not track the cost of individual deliveries.</p> <p><i>Exception:</i> May not be taxable if title to merchandise transfers to buyer before delivery. This is unusual —contact the BOE.</p>

You make a separately stated charge for fuel surcharge or “handling,” etc.

You include a delivery charge in the unit price of the item sold.

Your charge to your customer represents the cost of shipping the merchandise to your place of business (“freight-in”).

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”).

Separately stated charges, in addition to the actual shipping charges, are generally taxable. See above section on one charge for “shipping and handling.”

Sample invoice entry: “\$6.50 per bale, including delivery.”

“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.

*Exception:* Delivery charges may not be taxable if title to merchandise transfers to buyer before delivery. This is unusual—contact the BOE for information.