Preface

This publication is a general guide to the Sales and Use Tax Law and Regulations as they apply to sales and purchases by nonprofit organizations, including schools, religious organizations and churches, charitable organizations, and other nonprofit groups.

This publication supplements our basic sales tax publication, Your California Seller’s Permit (publication 73), which is provided to everyone who obtains a seller’s permit. It provides basic information on sales, purchases, and records.

If you cannot find the information you need in this booklet, please visit our website at www.boe.ca.gov or contact our Taxpayer Information Section at 800-400-7115.

We welcome your suggestions for improving this or any of our publications. Please write:

Audit and Information Section, MIC:44
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0044

Tips for using this publication

- **Read the introduction**
  No matter what kind of organization you operate, be sure to read the introductory chapter of this publication. It includes background information that will help you understand the remainder of the publication.

- **Check the organization information**
  While there is no general sales tax exclusion for nonprofit organizations, certain types of organizations are eligible for specific tax exemptions and exclusions. Please check the organization-specific chapters for information that may apply to your group before you move on to the rest of the publication.

- **Know your income and property tax exemptions**
  As you read this publication, it will help if you know which sections of the Federal and State income tax law and property tax law apply to your organization. For example, you may need to know if your organization is exempt from
income tax under Internal Revenue Code section 501(c)(3) or (c)(4), and/or California Revenue and Taxation Code section 23701. You may also need to know if your group is exempt from property taxes under Revenue and Taxation Code section 214, commonly known as the “welfare exemption.” For information on the welfare exemption, contact your county assessor or visit the Property Taxes section of our website: www.boe.ca.gov.

Note: This publication summarizes the law and applicable regulations in effect when the publication was written, as noted on the cover. However, changes to the law or regulations may have occurred since that time. If there is a conflict between the text in this publication and the law or regulation, the law or regulation is controlling.
Contents

1. Introduction: Sales and Use Tax Basics for Various Types of Nonprofit Organizations  6

Types of Organizations

2. Charitable Organizations That Relieve Poverty and Distress  9
3. Cultural Organizations: Museums, Government Art Programs, Library Support Organizations, and Zoological Societies 12
4. Nonprofit Veterans’ Organizations 17
5. Religious Organizations 19
6. Social and Fraternal Organizations 23
7. Schools, Parent-Teacher Associations, Children’s Organizations, or Youth Organizations, and Children’s Clothing 25
8. Organizations That Provide Human Services and Goods Related to Medical or Health Information, Disabilities, HIV/AIDS, Nutrition, and Homelessness  30

Specific Sales Activities

9. Food and Meals 35
10. Vending Machines 43
11. Newspapers and Periodicals 45
12. Sales That Involve Fundraiser Companies 50

General Obligations of Sellers and Purchasers

13. Registration Requirements 52
14. Collecting and Paying Tax 54
Donations to Nonprofit and Religious Organizations Resources

15. Business Donations of Goods and Services 60

Resources

16. For More Information 63

To contact your Board Member, see www.boe.ca.gov/members/board.htm
1. Introduction: Sales and Use Tax Basics for Various Types of Nonprofit Organizations

This chapter provides introductory information describing California’s sales and use tax and how it generally applies to sales and purchases by nonprofit organizations. It also provides basic information that can help you determine whether any of your organization’s sales may qualify for special sales tax exemptions or exclusions. Be sure to read this chapter before you move on to the rest of the publication.

Tax applies unless there is a specific exemption or exclusion

In California, sales tax applies to the sale of tangible personal property (referred to as “merchandise” or “goods” in this publication) unless the sale is covered by a specific legal exemption or exclusion. Individuals, businesses, and groups that sell taxable merchandise in California must pay sales tax on their taxable sales. Sellers may charge their customers for sales tax reimbursement (referred to as “sales tax”).

Similarly, use tax applies to the purchase of taxable merchandise that will be used, consumed, stored, or given away in this state unless the purchase is exempt or excluded from tax. Individuals, business, and groups must pay use tax on their taxable purchases. The state use tax is complementary to, and mutually exclusive of, the state sales tax.

Tax generally applies regardless of whether the items you sell or purchase are new, used, donated, or homemade.

No general exemption for nonprofit and religious organizations

Although many nonprofit and religious organizations are exempt from federal and state income tax, there is no similar broad exemption from California sales and use tax. Generally, nonprofit groups’ sales are taxable, as are their purchases. In other words, nonprofit and religious organizations, in general, are treated just like other California sellers and buyers for sales and use tax purposes.

However, there are special exemptions and exclusions available for certain nonprofit and religious organizations. Some organizations may not owe tax on any of their sales, whereas some organizations may owe tax on certain types of sales, but not all sales. Other organizations may be responsible for tax just
like other California sellers. It all depends on what type of organization you are and what your organization’s practices and activities are. Later sections of this publication provide information to help you determine which exemptions and exclusions may apply to your organization.

Typical taxable sales by nonprofit organizations

As noted above, a sale of merchandise or goods is generally taxable unless it’s covered by a specific exemption or exclusion. Before you read the sections on specific organizations or types of sales, you may need to know more about sales in general.

A sale is an exchange of merchandise or goods for something else of value: money, barter, or trade. The barter or trade doesn’t have to be a two-way exchange of merchandise. It also includes an exchange of merchandise for services. For example, if you give an accountant meals in your museum café in exchange for accounting services, that’s considered a sale of the meals.

Nonprofits commonly conduct a variety of activities that are considered sales. These include (but are not limited to) the following:

- Sales of food, meals, beverages, and similar items under a number of different circumstances.
- Sales of tickets that buyers will exchange for food, beverages, or other physical products.
- Sales of booklets, books, pamphlets, and so forth.
- Sales of tickets for fundraising events when the ticket price includes amounts for food or beverages.
- Sales of items at rummage sales, bazaars, carnival booths, community events, and other fundraisers.
- Sales of merchandise in Internet, live, and silent auctions.
- Sales of tickets for game booths where prizes are guaranteed to each ticket purchaser, even when the prizes have little value. Examples include white elephant, fish pond, grab bag, and “pitch-til-you-win” games.

Typical nontaxable activities by nonprofit organizations

Nonprofits also carry out certain activities that are not considered sales for sales tax purposes. These activities are generally not subject to sales or use tax. Examples include:

- The gifting of merchandise for a true donation: an amount someone gives your organization without expecting to receive merchandise of equal value in return. (Example: A member donates $100 and receives a tote bag worth $5, this is generally not a sale.)
• Sales of tickets for concerts, movies, plays, shows, and similar events when food and meals are not included in the ticket price.

• Sales of tickets for game booths and raffles when prizes are not guaranteed to every ticket purchaser.

• The sale of travel, home rentals, guide services, personal services, tutoring, and other things of value that are not physical products.

• Sales of gift cards, gift certificates, and coupon books.

• Membership drives and other fundraising activities that do not involve the exchange of merchandise or that include merchandise premiums of a much lower value than the donation or membership amount.

• Sales of advertising that does not involve exchanges of merchandise or goods.

Most nonprofits that make sales need seller’s permits

Nonprofit organizations generally need a seller’s permit if they make sales of goods or merchandise in California. This is true even if the sales are not taxable. In limited instances, when the organization makes sales only occasionally, we can issue a temporary seller’s permit. Permit requirements are explained in more detail in the organization-specific chapters of this publication and in chapter 13, “Registration Requirements,” which begins on page 52.
2. Charitable Organizations That Relieve Poverty and Distress

The Sales and Use Tax Law includes special exemptions for qualifying charitable organizations that relieve poverty and distress. This chapter is designed to address those exemptions. For more information, you may wish to obtain Regulation 1570, Charitable Organizations. See page 64 for ordering information.

Seller’s permit required

The organizations described in this chapter are considered retailers and must hold a seller’s permit if they make sales of goods or merchandise, even if the sales are exempt from tax. Please see page 52, “Registration Requirements,” and page 54, “Collecting and Paying Tax” for more information on seller’s permits and tax reporting requirements.

Sales exempt from tax if charitable organization meets certain qualifications

If your organization meets all of the following qualifications, your sales are not subject to sales or use tax. The organization must:

- Be formed and operated for charitable purposes.
- Qualify, under Revenue and Taxation Code section 214, for the “welfare exemption” from property taxation on the retail site where you sell merchandise. Or if the organization does not own the store, the organization must qualify for the welfare exemption on its personal property located there, such as the store fixtures and equipment (thrift store operators—please see note on page 11).
- Carry out activities that relieve poverty and distress.
- Sell or donate items principally to assist purchasers or recipients in distressed financial condition.
- Make, prepare, assemble, or manufacture the items it sells or donates. “Preparation” includes cleaning, repairing, or reconditioning items. “Assembly” includes gathering together items at one or more locations for sale or donation.

Example: Your 501(c)(3) charitable nonprofit corporation, which conducts a rehabilitation program, has qualified for the welfare exemption from property tax. You operate an emergency shelter for homeless families where you cook inexpensive hot lunches and sell them to families in need
at reduced prices. Although sales of hot meals are ordinarily taxable, your sales are tax exempt because your organization and sales meet all of the conditions listed on the previous page.

Some purchases may be tax exempt

If your organization meets the certain qualifications described earlier, your qualifying organization’s purchases are not subject to sales or use tax, provided you will donate or sell the items you purchase. In the example above, purchases of clothing, personal supplies, and other articles donated to the families in the emergency shelter would be tax exempt. However, tax does apply to purchases of items you use rather than donate or sell, such as office supplies or equipment, tools, displays and so forth.

Welfare exemption from property tax

For information on the welfare exemption, see the Property Taxes section of our website. The welfare exemption is jointly administered by our agency and each county assessor. We determine whether an organization is eligible for the exemption. The county assessor determines whether the organization’s use of property qualifies the property for the exemption.

Eligibility review

If you believe your organization’s sales or purchases are exempt from sales and use tax as described above, you can write us and ask us to review your eligibility. If we determine you qualify for the special exemption, we will send you a letter that verifies your exempt status. We will also let you know which documents to provide to your suppliers to enable you to purchase items without tax.

Send your request to:

Compliance and Technology Section, MIC:40
Board of Equalization
PO Box 942879
Sacramento, CA 94279-0040

Please provide all of the following information with your request:

• Your type of organization.
• A letter describing your organization’s practices and activities.
• Letters from the California Franchise Tax Board and the Internal Revenue Service to verify your organization’s tax-exempt status.
• A copy of your articles of incorporation or bylaws (or both).
Note for thrift store operators: To qualify for the welfare exemption, a thrift store must, among other things, conduct a rehabilitation program recognized by the California Department of Rehabilitation or operate under a city or county rehabilitation program. It must also sell goods processed in some manner by people who are being rehabilitated through the program and are employed in the operation of the store.
3. Cultural Organizations: Museums, Government Art Programs, Library Support Organizations, and Zoological Societies

This chapter includes information relating to sales and purchases by certain cultural organizations. For more information, you may wish to obtain the regulations noted in the text.

Permit and tax requirements, in general

■ Permit requirements

Museums, government art programs, library support groups, and zoological societies generally must hold seller’s permits if they make sales of merchandise or goods. Please see page 52, “Registration Requirements,” and page 54, “Collecting and Paying Tax” for more information on seller’s permits and tax reporting requirements.

■ General tax requirements

Unless your sales qualify as tax exempt under one of the special exemptions described in this chapter, your sales of merchandise are generally taxable. This is true whether you buy the merchandise, make it, or receive it as a donation from an individual or a business. When you buy merchandise you sell as a retailer in a taxable sale, you can do so without paying sales tax to the supplier by issuing a resale certificate (see page 55). If you buy merchandise you will use rather than sell, you may be required to pay use tax or an amount for the sales tax to your supplier.

Museums and government art programs

For more information, you may wish to obtain a copy of Regulation 1586, Works of Art and Museum Pieces for Public Display. See page 64 for ordering information.

■ Purchases and leases of artwork and museum pieces

For the exemptions described below, works of art include two-dimensional and three-dimensional works of visual art. The exemption is not limited to paintings, drawings, prints, photographs, and sculptures; it also includes film and crafts. Operative January 1, 2007, costumes, dresses, clothing, and items of personal adornment (such as jewelry) are also included.
Sale or purchase of works of art on public display

Under certain conditions, the sale or purchase of original works of art for permanent collections on public display is exempt from sales and use tax. The exemption covers original artworks that are any of the following:

1. Purchased by the state or any California county, city, or other local government entity for free public display.

2. Purchased by a nonprofit organization operating a public museum under contract with a government entity described in condition 1.

3. Purchased by a nonprofit organization exempt from state income taxes under section 23701d of the Revenue and Taxation Code, for a museum open to the public at least 35 weeks a year for at least 20 hours a week. The buyer or another qualifying nonprofit organization must operate the museum.

4. Purchased by any buyer from a retailer for donation to a qualifying organization or government entity (see conditions 1-3). The retailer must deliver the artwork directly to the donee. The donor must transfer ownership to the recipient in writing.

Leases of works of art

Leases of original works of art are exempt from sales or use tax when both of the following conditions are met:

- Both parties to the lease are nonprofit organizations of the types listed under condition 2 or 3 in the previous section.
- The term of the lease is at least 35 years.

The exemption also includes public art leased by the state or any local government from another entity for display in public places.

Museum defined

A museum is a place specifically designated for display of artifacts or objects of art which has a significant portion of its display space open to the public without charge during its normal operating hours; or has its entire display space open to the public without charge for at least six of its normal operating hours during each month of operation; or has its entire display space open without charge to a segment of the student or adult population for educational purposes.

Purchase of replacement museum pieces

Museums and governments sometimes lose items in their permanent collections to fire, flood, earthquake, and other causes. Sales and use tax does not apply to the purchase of replacement pieces under certain conditions.
The replacement pieces must be all of the following:

- Purchased to replace a museum display piece that was physically destroyed by fire, flood, earthquake, or other calamity.
- Purchased within three years of the calamity.
- Used exclusively for display.
- Valued at the same or a lesser amount as the destroyed item as of its destruction date.

The replacement piece does not have to be similar to the destroyed piece.

To qualify as tax exempt, the purchase must be made by one of the following:

- A nonprofit museum regularly open to the public and operated by or for a local or state government entity.
- A nonprofit museum regularly open to the public and operated by a nonprofit organization exempt from state income tax under section 23701d of the Revenue and Taxation Code.
- A state or local government entity for its art collection that is open to the public without charge.

*Please note:* Display cases, lighting fixtures, shelving, and similar items used in displaying the artwork or operating the museum do not qualify for this exemption.

**Nonprofit organizations assisting museums: rummage sales**

Under certain conditions, sales tax does not apply to sales by an authorized nonprofit museum auxiliary association or equivalent organization that assists a California city or county museum. You are considered a consumer, not a retailer of the items you sell and you can not issue resale certificates on your purchases. As a consumer, you may be required to pay use tax or sales tax on your purchase. The sales of the items are not taxable if both of the following conditions are met:

- The rummage sale is at least the sixth consecutive, annual rummage sale sponsored by the organization.*
- All profits are used exclusively to advance the purpose of the organization.

* For the first five consecutive, annual rummage sales, the museum auxiliary is considered to be a retailer of the items it sells. It must report the sales and pay sales tax on the proceeds.

If your organization’s sales are tax-exempt as shown above, you are considered a consumer, not a retailer, of the items you sell. Although you are not required to pay tax on your sales, you do need a seller’s permit. See page 52 for more information.
Friends of the Library organizations

Nonprofit associations commonly called “Friends of the Library” and equivalent organizations are considered consumers of items they sell when they meet both of the following conditions:

- The organization performs auxiliary services to a library district, municipal library, or county library in California as authorized by the library’s governing authority.
- The organization uses all profits from sales exclusively to advance its purpose.

As a consumer, your sales are not taxable. However, you may be required to pay sales tax or use tax on your purchases.

Example: The Sierraburg Friends of the Library receives a donation of 20 new books. It sells the books in its annual book sale and uses the profits to buy more books for the library. Because the organization qualifies as a consumer for sales tax purposes, it does not owe tax on the sale of the books. Since the books were donated there is no sales tax due on the purchase.

If Sierraburg had purchased the books from a retailer and then sold them at the annual book sale, sales tax should be paid to the vendor the books were purchased from. Sierraburg must not issue a resale certificate to the vendor to purchase the books without tax.

Zoological societies

The sale, purchase, trade, or exchange of certain animals and plants is exempt from sales and use tax when both of the following conditions are met:

- The animal or plant is a member of a threatened or endangered species listed on one of the CITES Appendixes or the federal threatened or endangered species list. Please see www.cites.org.
- The buyer and the seller are nonprofit zoological societies [private charitable, scientific, or educational (501)(c)(3) entities or government agencies].

Donations

In the normal course of business, items withdrawn from a seller’s inventory that are not resold are subject to use tax. However, items withdrawn from a seller’s inventory and donated to an organization operated for the educational, scientific, or literary purposes, including nonprofit museums, art galleries, libraries, and performing arts groups are not subject to use tax.
Merchandise or goods donated by a donor who paid sales or use tax at time of purchase does not qualify for this exemption. This is true even if the donated items are resold by the organization and the organization must charge sales tax when they sell it.

Generally, donations of gift cards, gift certificates, checks, cash, or services are not subject to sales tax since there is not an exchange of merchandise or goods. Donations of services and gift cards are not considered taxable regardless of the person donating, buying or using them.

**Leases of artwork**

Effective January 1, 2007, Revenue and Taxation Code 6365 expands the exemption for original works of art to include those leased from one nonprofit organization to another nonprofit organization for 35 years or more. The exemption includes public art leased by the state or any local government from another entity for display in public places. The definition of a work of art now includes a costume, dress, clothing, or personal adornment. A permanent collection, as it applies to leases of original works of art, means a collection with a lease term of 35 years or more.
4. Nonprofit Veterans’ Organizations

This chapter describes specific exemptions that apply to nonprofit veterans’ organizations. If your organization sells food or meals, be sure to also read chapter 9, “Food and Meals,” which begins on page 35.

Permit and tax requirements (in general)

■ Permit requirements

Nonprofit veterans’ organizations that make sales of merchandise or goods generally must hold a seller’s permit. Please see page 52 “Registration Requirements” and page 54 “Collecting and Paying Tax” for more information on seller’s permits and tax reporting requirements.

■ General tax requirements

Except for transactions where you are a consumer or for exempt sales described in this chapter, your organization’s sales of merchandise are generally taxable. This is true whether you buy the merchandise, make it, or receive it as a donation from an individual or a business. When you buy merchandise to resell as a retailer in a taxable sale, you can do so tax-free by issuing a resale certificate (see page 55). If you buy merchandise you will consume rather than sell, you may be required to pay sales tax to your supplier.

Sales of flags and symbolic pins

Nonprofit veterans’ organizations are considered the consumers of American flags they sell when the profits from the sales are used exclusively to advance the organization’s purpose. As explained in chapters 1 and 14, when your organization is a consumer, your sales are not taxable. However, tax does apply to your purchase of the flags or materials used to make them.

For more information, you may wish to obtain a copy of Regulation 1597, Property Transferred or Sold by Certain Nonprofit Organizations. See page 64 for ordering information.

Sales or use tax does not apply to a veterans’ organization’s sale or purchase of “Buddy Poppies,” and similar symbolic, temporary lapel pins when both of the following conditions are met:

- The pins are sold or purchased by the Veterans of Foreign Wars or other specified organizations described in Revenue and Taxation Code section 6360.1.
- The pins memorialize U.S. military veterans killed in foreign wars.
Meals served by nonprofit veterans’ organizations

*Meal exemption*

Tax does not apply to your nonprofit veterans’ organization’s sales of meals and food products when all of the following conditions are met:

- You sell the food or meals at a social or other gathering you conduct.
- You furnish the meals or food to raise funds for your organization’s functions and activities.
- You use the proceeds to carry out those functions and activities.

*Please note:* Sales of carbonated and alcoholic beverages are tax exempt as described above only when included in the price of a meal. Sales of carbonated and alcoholic beverages for a separate price are taxable.

For more on the sale of food and meals, see chapter 9, “Food and Meals,” which begins on page 35.

Loans of motor vehicles

Loans by a retailer of motor vehicles to a veterans’ hospital or other nonprofit facility for use in teaching disabled veterans how to operate specially equipped vehicles are exempt from use tax.
5. Religious Organizations

As discussed in chapter 1, there is not a blanket sales or use tax exemption available for nonprofit religious organizations or churches, even when the organizations are exempt from income tax. This chapter discusses the special exemptions that do exist. You may also want to read chapter 2, “Charitable Organizations That Relieve Poverty and Distress,” which begins on page 9.

Permit and tax requirements (in general)

- Permit requirements

Unless all of your sales are exempt from tax, religious organizations and churches that make sales of goods or merchandise must hold a seller’s permit as described below and file sales and use tax returns. Please see page 52, “Registration Requirements,” and page 54, “Collecting and Paying Tax” for more information on seller’s permits and tax reporting requirements.

- General tax requirements

Unless your sales qualify as tax exempt under the meal exemption described in this chapter, your sales of merchandise are generally taxable. This is true whether you buy the merchandise, make it, or receive it as a donation from an individual or a business.

Sales of items other than food

Religious organizations’ sales and purchases of goods and merchandise other than food are generally taxable. If your religious organization holds or participates in fundraising events where you sell goods and merchandise, such as auctions, festivals, bazaars, firework stands, swap meets, or craft shows, your sales of nonfood items are generally taxable. Tax also applies when you sell from a church bookstore, from tables in your church at events, by Internet, or mail order.

Donations to religious organizations

Donations vs sales

You may receive donations at the same time you are selling merchandise. “True donations” are not taxable. A true donation is an amount someone gives you without expecting merchandise in return.
Example: If one of your members donates $100 and receives a tote bag worth $5, this is generally not a sale. However, your purchase of the tote bags is subject to sales or use tax when you purchase it. If the tote bags were donated to your organization by another member, then no sales or use tax is due when the member donates the $100.

If your members make donations and expect merchandise in return, then this is a sale.

Example: Your religious nonprofit organization receives 100 knitted afghans donated by the local knitting guild. Afghans of this quality usually are sold for $75. Your organization decides to sell the afghans and use the proceeds to fund one of its community projects. You sell some of the afghans for $100 and toward the end of the sale you reduce the price to $50. In this example, the sales of the afghans are taxable regardless of the price you charge for them. You are making a sale of merchandise or goods, since the person purchasing the afghans is expecting merchandise or goods in exchange for the set price. If you purchase afghans to resell instead of receiving them as a donation, you may present your vendor with a resale certificate and purchase the afghans without tax.

Donations from businesses

In the normal course of business, items withdrawn from a seller’s inventory that are not resold are subject to use tax. However, items withdrawn from a seller’s inventory and donated to qualified religious organizations located in California are not subject to use tax. Qualified organizations are described in section 170(b)(1)(A) of the Internal Revenue Code.

Merchandise or goods donated by a donor who paid sales or use tax at time of purchase does not qualify for this exemption. This is true even if the donated items are resold by the religious organization and the religious organization charges sales tax when they sell it.

Donations of gift cards, gift certificates, services, or cash donations are not subject to sales tax since there is not an exchange of merchandise or goods for a consideration. Gift cards, gift certificates, services, or cash donations are not considered taxable regardless of the person donating, buying, or using them.

---

1 Includes religious organizations; charitable organizations such as Red Cross, Salvation Army, nonprofit schools and hospitals, medical assistance and research groups; organizations operated for educational, scientific, or literary purposes including nonprofit museums, art galleries, and performing arts groups; organizations operated for the protection of children or animals; fraternal lodges if the property is used for charitable purposes; and U.S., this state or political subdivisions thereof.
Example: Mr. Bob Smith sells fishing gear at his bait shop and provides guided fishing excursions. Mr. Smith donates a fishing pole, a fishing excursion, and a gift certificate to his church. Mr. Smith does not owe use tax on any of these items since the fishing pole came from his resale inventory and tax does not apply to services or gift certificates.\(^2\)

Example: Ms. Jane Jones works for a company which sells wholesale veterinary supplies. Her temple asks for donations of new or gently used children’s toys to put up for auction at a fundraising event. The company does not sell children’s toys. Ms. Jones purchases and donates fifty children’s toys on behalf of her company.

Ms. Jones should pay sales tax when she purchases the children’s toys from the toy store. The temple should charge sales tax on the auction price of the toys for their fundraiser.

Meals furnished or served by religious organizations

Religious organizations are generally considered retailers of meals. Tax applies to your sales of food as described in chapter 9, “Food and Meals,” which begins on page 35.

However, there is a specific exemption for meals served for fundraising purposes, described below. For purposes of the exemption, “religious organization” means an organization whose property is exempt from property taxation under article XIII, section 3, subdivision (f) of the state Constitution.

\[\text{Tax-exempt sales of meals}\]

Tax does not apply to sales of meals and food by your religious organization when all of these conditions are met:

- You sell the food at a social or other gathering you conduct.
- You furnish the meals to raise funds for your organization’s functions and activities.
- You use the proceeds to carry out those functions and activities.

The tax exemption applies regardless of who serves the meals. Your organization can serve the meal or have someone else serve it.

The person furnishing the meals, such as a restaurant or caterer, is selling the meals for resale to the religious organizations and the religious organizations may issue resale certificates to the person furnishing the meals and purchase the meals without tax.

\(^2\) Once the gift certificate is redeemed, it will be considered the same as cash; thus the retail selling price of the goods must be included in the taxable gross receipts of the bait shop.
Note: It is important to note that sales of alcoholic or carbonated beverages sold for a separate price are subject to sales tax. If such beverages are included in the price of the meal (single price) and the sale meets the requirement of the exemption, the beverage is regarded as part of the exempt sale of the meal.

■ Taxable sales of meals

When your organization serves meals that do not qualify for the exemption described above, sales tax applies as described in chapter 9, “Food and meals,” which begins on page 35. Examples of sales of meals that do not qualify for the exemption include:

- Serving meals at an event where you serve meals but you do not make a profit on the proceeds (meals are free or sold at or below your cost). These sales do not qualify for the exemption because they are not for fundraising.
- Selling meals at church retreats or church camps, or at year-round cafes that are open to the public. These sales do not qualify for the exemption because they do not occur at a social or other gathering, nor are the meals served for the specific purpose of raising revenue.

In addition, the sale of “edible nonfood items” at an event where tax-exempt meals are served may be taxable. For example, tax would apply to your sales of alcoholic or carbonated beverages for a separate price.

■ Purchases of meals

Religious organizations are the retailers of meals even when the sale of the meal is tax-exempt. Your organization may purchase meals tax-free from a restaurant, hotel, caterer, or other supplier by issuing that business a resale certificate at the time of purchase (see page 55). You may use resale certificates to buy meals that you resell.
6. Social and Fraternal Organizations

“Social clubs” and “fraternal organizations” include any corporation, partnership, association or group acting as a unit, such as service clubs, lodges, and community, country, or athletic clubs. This chapter focuses on the limited sales tax exemption available to these organizations. You may also need to read chapter 9, “Food and Meals,” for information on food and meal sales that are not covered by that limited tax exemption. More information on sales of food and meals is found in publication 22, Tax Tips for the Dining and Beverage Industry (see page 64).

Permit and tax requirements (in general)

- **Permit requirements**
  Social and fraternal organizations that make sales must hold a seller’s permit and file sales and use tax returns. Please see page 52, “Registration Requirements,” and page 54, “Collecting and Paying Tax” for more information on seller’s permits and tax reporting requirements.

- **General tax requirements**
  Except for sales that qualify as tax exempt under the meal exemption described in this chapter, your sales of goods and merchandise are generally taxable. This is true whether you buy the merchandise, make it, or receive it as a donation from an individual or a business. Organizations that sell nonfood items at fundraising events, such as auctions, festivals, firework stands, bazaars, swap meets, or craft shows are considered retailers and their sales are subject to sales tax.

Sales of food and beverages

- **Meals, food, and beverages furnished by social clubs or fraternal organizations**
  Tax applies to your group’s sales of meals, food, and drinks in the same way it does to sales by other businesses unless both of the following conditions apply:

  - You sell meals, food, and beverages exclusively to your members. Items paid for by members but consumed by guests are considered sold to members.
  - You make these sales less than once a week.

  **Example:** Your fraternal organization sells meals and drinks only to your members at a monthly dinner. You make no other food or beverage sales. Tax would not apply to the proceeds from your monthly dinner sales. However, if nonmembers attend even one of your dinners and pay for their own food or drinks, all of your food and drink income from all
dinners is taxable. The member must pay for the guest(s) meal for the exemption to apply.

Exception: Meals served to your members by a restaurant are generally taxable. See “Food served by a restaurant,” below.

■ Food served by a caterer

A caterer is a person in the business of serving meals, food, or drinks on premises owned or supplied by a customer, including premises leased by the customer from a person other than the caterer.

Sales of meals to social clubs and fraternal organizations are sales for resale if the social club or fraternal organization is the retailer of the meal. You may issue the caterer a resale certificate and report the sales of meals on your sales and use tax return. Meals served by a caterer, where the social or fraternal organization is the retailer, are subject to tax unless the criteria noted in the previous section are met.

■ Food served by a restaurant

Tax applies to a restaurant’s sales of meals to social or fraternal organizations in the same way it does to sales to any other customers. This is true regardless of the frequency of the meals or whether the meals are served to the organization’s members. However, if the meals are served at a location other than the restaurant, the restaurant is acting as a caterer and tax applies as explained in the previous section.

Donations to fraternal organizations

In the normal course of business, items withdrawn from a seller’s inventory that are not resold are subject to use tax. However, items withdrawn from a seller’s inventory and donated to fraternal organizations are not subject to use tax if the donated items are to be used for charitable purposes and not for the benefit of the members. This exemption does not apply to social organizations unless they are an organization described in Section 170(b)(1)(A) of the Internal Revenue Code.

Merchandise or goods donated by a donor who paid sales tax or use tax at the time of purchase does not qualify for this exemption. This is true even if the donated items are resold by the fraternal organization and the fraternal organization must charge sales tax when they sell it.

Donations of gift cards, gift certificates, checks, cash, or services are not subject to sales tax since there is not an exchange of merchandise or goods. Donations of services and gift cards are not considered taxable regardless of the person donating, buying, or using them.
7. Schools, Parent-Teacher Associations, Children’s Organizations, Youth Organizations, and Children’s Clothing

This chapter provides information on sales and use tax issues for schools, parent cooperative nursery schools, parent-teacher associations, children’s organizations, and youth organizations. Note: When considered the consumer, it is not an “exemption.”

Permit and tax requirements (in general)

- Permit requirements
  The organizations described in this chapter are generally considered to be the consumers of items they sell rather than retailers. They generally are not required to hold California seller’s permits or pay tax on their sales. However, some of the organizations are consumers for certain types of sales and retailers for others. Retailers must hold a seller’s permit and file sales and use tax returns. Please see page 52, “Registration Requirements,” and page 54, “Collecting and Paying Tax” for more information on seller’s permits and tax reporting requirements.

Before you apply for a permit, please read the rest of this chapter to see whether any part of your organization is considered a retailer or a consumer regarding the sales it makes.

- General tax requirements
  When you are the consumer of items you sell, you should pay an amount for tax reimbursement to your supplier when you buy those items. You cannot legally buy the items for resale using a resale certificate. When you are a retailer, tax applies to your sales whether the items you sell are things that you buy, make, or receive as a donation from an individual or a business. You may buy items tax-free by issuing a resale certificate providing you will resell the goods or merchandise in your normal sales activities (see page 55).

Schools

- Meal and food sales
  Tax does not apply to sales of meals or individual food products to school students when the sales are made by public or private schools, school districts, student organizations, parent-teacher associations, or any blind person operating a
restaurant, vending machine, or vending stand in an educational institution. To qualify for the tax exemption, meals must be served to students at a time regularly set aside for meals, not at recess or breaks.

The following food sales at schools are taxable:

- Sales of edible nonfood products—such as carbonated beverages—unless the products are sold as part of a meal.
- Sales of food to students and nonstudents in a place where admission is charged—such as an athletic event—even when the event is held at a school.
- Sales of meals and food products to nonstudents.

Sales made by caterers are subject to tax unless:

- The premises used by the caterer to serve the lunches to the students are used by the school for other purposes such as sporting events and other activities during the remainder of the day;
- The fixtures and equipment used by the caterer are owned and maintained by the school; and
- The students purchasing the meals cannot distinguish the caterer from the employees of the school.

Yearbooks and catalogs distributed to students

A public or private school, school district, student organization, or county office of education is considered the consumer of yearbooks and catalogs it sells. The yearbooks or catalogs must be prepared for or by the school, district, or organization and distributed to students. There is no restriction on how the profits may be used.

Donations to schools

In the normal course of business, items withdrawn from a seller’s inventory that are not resold are subject to use tax. However, items withdrawn from a seller’s inventory and donated to a nonprofit school are not subject to use tax.

Merchandise or goods donated by a donor who paid sales tax or use tax at time of purchase does not qualify for this exemption. This is true even if the donated items are resold by the organization and the organization must charge sales tax when they sell it.

Donations of gift cards, gift certificates, checks, cash or, services are not subject to sales tax since there is not an exchange of merchandise or goods. Donations of services and gift cards are not considered taxable regardless of the person donating, buying, or using them.
**Loans to schools**

Certain loans by retailers are exempt from use tax, including:

- Loans of items to a school district for a district educational program.
- Loans of motor vehicles to be used exclusively in driver training programs by accredited private or parochial secondary schools. The driver training program must be approved by the State Department of Education as a regularly conducted course of study.
- Loans of motor vehicles to the California State University or the University of California for exclusive use in an approved driver education program conducted by the university.

**Donations of children’s new clothing**

Effective January 1, 2008, through December 31, 2013, if your charitable non-profit organization distributes new clothing to *individuals under 18 years of age* at no charge, to assist those in financial need, you are not required to pay sales tax or use tax on the *purchase* or use of the clothing. To qualify for this exemption, your organization must be organized for charitable purposes and exempt from state income tax under Revenue and Taxation Code section 23701d or 23701f. Nonprofit organizations are no longer required to be engaged in relieving poverty or distress to qualify for this exemption.

Prior to January 1, 2008, if your charitable nonprofit organization distributed new clothing to *elementary school children* at no charge, to assist those in financial need, you were not required to pay sales tax or use tax on the *purchase* or use of the clothing. To qualify for the exemption, your organization must be organized for charitable purposes, engaged in relieving poverty or distress, and exempt from state income tax under Revenue and Taxation Code section 23701d.

**Parent cooperative nursery schools**

Nonprofit parent cooperative nursery school associations are considered consumers of property they sell, provided the resulting profits are used exclusively to advance the organization’s purpose.

**Nonprofit parent-teacher associations**

Nonprofit Parent-Teacher Associations (PTAs) chartered by the California Congress of PTAs, Incorporated and equivalent organizations authorized by school authorities to perform the same type of service for public or private schools are considered to be consumers of products they sell. The profits from the sale must be used exclusively to further the organization’s purpose.
Important: Connection with a school does not automatically make a group equivalent to a chartered PTA. To be considered equivalent, your group must meet all of the following conditions:

- It is a nonprofit organization that includes parents.
- The group’s objectives include enhancing the welfare of all of the students in the school and developing better communication between parents and school authorities. (Groups such as athletic booster clubs, whose efforts are directed toward a select group of students rather than all students, are not considered PTA-equivalent organizations.)
- The group is authorized to operate in the school by the school’s governing authority.
- The profits from the group’s sales are used exclusively to advance the group’s purpose.

If your group meets these qualifications or is a chartered PTA, you are the consumer of products you sell provided your group uses the profits from the sales only to advance your organization’s purpose. Your organization is generally not required to hold a California seller’s permit or file sales and use tax returns.

Although your organization’s sales may not be taxable, your purchases generally are taxable and you cannot issue resale certificates to buy merchandise tax-free. Since businesses that sell to your organization generally must pay tax on their sales to your organization, you can expect to pay an amount for tax when you buy merchandise unless the sale qualifies for a specific exemption or exclusion. If you work with a fundraiser company or similar supplier, different regulations may apply—please see page 50 for details.

Nonprofit youth organizations

- Retailers

Youth groups that sell merchandise such as t-shirts, wrapping paper, mugs, and so forth are generally retailers of those products. Sales of these items are taxable and your group must obtain a seller’s permit and file sales and use tax returns. Please see page 52, “Registration Requirements,” and page 54, “Collecting and Paying Tax.” Your group may need a permanent seller’s permit.
Consumers

Qualifying requirements

Specific types of nonprofit youth organizations may qualify as consumers in certain situations. To qualify as a consumer, your group must be one of the following:

- A nonprofit organization that qualifies for tax-exempt status under Internal Revenue Code section 501(c). Your primary purpose must be to provide a supervised program of competitive sports for youth or to promote good youth citizenship. The group must not discriminate on the basis of race, sex, nationality, or religion.

- A youth group or club sponsored by or affiliated with a “qualified educational institution.” This includes but is not limited to student activity groups such as debating teams, swimming teams, bands, and choirs. Most public and private schools are qualified educational institutions. Qualified educational institutions do not include schools that discriminate on the basis of race, sex, nationality, or religion. Youth organizations affiliated with them do not qualify for the tax exemption.

If your youth group does not meet the requirements listed above, it is generally considered the retailer of products it sells and may need a seller’s permit. Please see, “Registration Requirements,” which begins on page 52.

Qualifying sales

If your group qualifies as described above, you are a consumer when you do all of the following:

- Sell food products or nonalcoholic beverages, or items made by members of your organization.

- Make sales on an irregular or intermittent basis. Sales made in storefront or mobile retail outlets that normally require local business licenses do not qualify as intermittent or irregular sales.

- Use the profits from your sale only to advance your organization’s purpose.

As a consumer, you do not owe tax on your sales. But your purchases are generally taxable and you cannot issue resale certificates to your suppliers (see page 55). Since your suppliers will generally owe tax when they sell you merchandise, you can expect them to collect tax on your purchases. If you work with a fundraiser company or similar supplier, different regulations may apply—please see page 50 for details.

For more information, you may wish to obtain a copy of Regulation 1597, Property Transferred or Sold by Certain Nonprofit Organizations (see page 64).
8. Organizations That Provide Human Services and Goods Related to Medical or Health Information, Disabilities, HIV/AIDS, Nutrition, and Homelessness

This chapter focuses on the limited tax exemptions available to certain organizations that provide community health and human services. If your organization’s sales are not covered by those specific exemptions, be sure to read the other chapters of this publication that may apply to you.

Permit and tax requirements (in general)

- Permit requirements
  Please see page 52, “Registration Requirements,” and page 54, “Collecting and Paying Tax” for more information on seller’s permits and tax reporting requirements.

- General tax requirements
  Unless they qualify as tax exempt under the exemptions described in this chapter, your sales of merchandise are generally taxable. This is true whether you buy the merchandise, make it, or receive it as a donation from an individual or a business. Organizations that sell nonfood items at fundraising events, such as auctions, festivals, firework stands, bazaars, swap meets, or craft shows are considered retailers and sales tax is due on their sales. Please see chapter 14, “Collecting and Paying Tax” for more information on tax reporting requirements (page 54).

Medical health information literature or health and safety materials

- Qualifying organizations
  If your charitable organization’s local office distributes medical health information literature, you are not required to pay use tax on the purchase, storage, or other use of that literature, provided you meet all of these conditions:
    - You purchase the literature from your organization’s national or branch office.
• Your organization is formed and operated for charitable purposes.
• Your organization qualifies for the welfare exemption from property taxation under Revenue and Taxation Code section 214.

This exemption also applies to your purchase, storage, or distribution of health and safety educational materials you routinely sell in connection with health and safety and first aid classes. To qualify for the exemption on materials you sell, your national organization must routinely distribute health and safety information and meet all the conditions listed above. However, your other sales of medical health information or health and safety materials are generally taxable.

Example: You operate the local office of a national, nonprofit charitable organization that distributes health and safety materials to the public. As part of your activities, you conduct CPR classes. You purchase textbooks from your national or branch office and provide them to CPR students. Your textbook purchases would not be taxable. However, if you also sell health booklets you purchase from other sources, your sales of those booklets would be taxable.

Medical identification tags

People wear medical identification tags to alert others that they have a medical disability or allergic reaction to certain treatments. A nonprofit organization’s sale, storage, or other use of those tags is exempt from sales and use tax provided the organization is exempt from state income taxes under Revenue and Taxation Code section 23701.

Thrift stores benefiting individuals with HIV or AIDS

Through December 31, 2011, tax does not apply to certain thrift stores’ sales of used clothing, household items, or other retail merchandise. A nonprofit organization must operate the thrift store to raise funds that will be used to provide medical, hospice, or social services for individuals chronically ill with HIV or AIDS.

The organization operating the thrift store must:

• Spend at least 75 percent of the store’s net revenues providing the medical, hospice, or social services described above, and
• Be exempt from state income tax under section 23701d of the Revenue and Taxation Code.
If you believe that your organization’s sales qualify for this tax exemption, you may ask us to review your eligibility. If you qualify, we’ll provide your organization with a verification letter. Please send your request to:

Compliance and Technology Section, MIC: 40  
Board of Equalization  
PO Box 942879  
Sacramento, CA 94279-0040

Please provide the following information with your request:

• A letter signed by an officer of your organization describing the organization’s activities and certifying that it meets the requirements for the exemption described above.

• A letter from the California Franchise Tax Board verifying your organization’s exempt status under Revenue and Taxation Code section 23701d.

• A list of the types of merchandise your organization will sell.

Organizations providing services to people with developmental disabilities or children with severe emotional disturbances

Under certain circumstances, organizations whose primary purpose is to provide services to individuals with developmental disabilities or children with severe emotional disturbances are considered consumers of items they sell. The organization must:

• Be tax-exempt under Internal Revenue Code section 501(c)(3).

• Not discriminate on the basis of race, sex, nationality, or religion.

In addition, all of the following conditions must be met:

• The items sold are handcrafted or artistic and designed, created, or made by individuals with developmental disabilities or children with severe emotional disturbances. Those individuals must be members of your organization or receive services from it.

• Each item sells for $20 or less.

• Your organization makes sales on an irregular or intermittent basis.

• You use the profits from your sales exclusively to advance your organization’s purpose.

Tax applies to your organization’s purchases of materials and supplies for use in making the items you sell. You cannot buy materials and supplies for resale using a resale certificate (see page 56).
Example: Your charitable, Internal Revenue Code section 501(c)(3) tax-exempt organization, provides educational services and skills training for adults with developmental disabilities. Each year, participants in your programs make holiday decorations you sell at an annual open house for $20 each. The profits are used to buy educational materials for your classes. Your organization’s sales are not taxable.

Organizations and institutions that serve meals or food

■ Deliveries to the elderly and people with disabilities
Tax does not apply to the sale or use of meals by a nonprofit volunteer home-delivery organization that delivers meals to homebound elderly people or people with disabilities.

■ Meals or food served to low-income elderly people
Sales tax does not apply to meals served to low-income elderly people by a nonprofit organization when both of the following conditions are met:

• The meals or food are served at or below the organization’s cost.
• The meals are provided under a state-financed or federally-financed program.

■ Meals served to patients or residents of institutions
Sales of meals and food products to residents or patients of certain institutions are exempt from sales tax. These facilities include:

• Qualified health care facilities.
• Qualified community care facilities.
• Qualified residential care facilities for the elderly.
• Qualified alcoholism recovery, drug recovery, or drug treatment facilities.
• Any house or institution financed by state or federal programs that (1) serves as a principal residence exclusively for people age 62 or older, and (2) supplies room and board for a flat monthly rate.

In addition, sales tax does not apply to those institutions’ purchases of food products, meals, and nonreusable items that become parts of meals or food products such as straws, paper napkins, and carbonated beverages. The meals or food products must be furnished or served to patients or residents.

For more information on qualifying institutions, you may wish to obtain a copy of Regulation 1503, Hospitals and Other Medical Service Facilities, Institutions and Homes for the Care of Persons (see page 64).
Homeless shelters and related organizations

- Homeless shelter operators

Nonprofit organizations operating homeless shelters may qualify for an exemption from sales and use tax. See chapter 2, “Charitable Organizations That Relieve Poverty and Distress,” which begins on page 9.

- Auctions to benefit homeless shelters

Auction sales made to benefit a homeless shelter are exempt from tax when the auction is conducted by or affiliated with a nonprofit organization and all three conditions below are met:

• The funds raised in the auction are spent to benefit the homeless shelter and homeless people.

• The organization is exempt from state income tax under Revenue and Taxation Code section 23701d.

• The organization conducts only one such auction during any 12-month period.
9. Food and Meals

This chapter is a general guide for applying tax to sales of food and meals. It is not intended for organizations that are considered consumers of items they sell and is not a detailed explanation of all circumstances affecting food sales. Be sure to also read the portions of the prior chapters that may apply to your specific kind of organization. If after reading this publication, you have questions regarding how to apply tax to the sale of food at your particular event, please call our Taxpayer Information Section (see page 63).

Food sales (in general)

The sale of food can be tax-exempt or taxable, depending on:

- The type of food,
- The circumstances under which the food is sold, and
- Who makes the sale.

However, the source of the food does not affect how tax applies—the same rules apply whether the food is purchased, donated to you, or homemade.

Special exemptions for the sale or use of meals and food products

Some nonprofit organizations qualify for special exemptions from sales or use tax on meals and food products. For more information, see the chapters referenced in the list below.

Sales or use tax exemptions may be available for meals and/or food that are:

- Served to low-income elderly people. See chapter 8, which begins on page 30.
- Delivered to elderly people and people with disabilities. See chapter 8, which begins on page 30.
- Sold at schools. See chapter 7, which begins on page 25.
- Furnished or served by religious organizations. See chapter 5, which begins on page 19.
- Furnished by social clubs and fraternal organizations. See chapter 6, which begins on page 23.
- Sold by nonprofit veterans’ organizations. See chapter 4, which begins on page 17.
- Served to patients or residents of “institutions.” See chapter 8, which begins on page 30.
- Sold by nonprofit youth organizations. See chapter 7, which begins on page 25.
If your organization’s food-related activity isn’t listed above, your sale of food or meals may be taxable. The next section “Sales of food at fundraising events” discusses how tax generally applies to various event sales. If you have an ongoing food sales operation, such as a café or restaurant, please refer to our publication 22, *Tax Tips for the Dining and Beverage Industry* (see ordering information on page 64).

Sales of food at fundraising events

The circumstances under which you sell food at fundraising events affect whether your sales are taxable. The chart below and the following sections describe certain general rules for those food sales. They will help you understand how to apply tax to common fundraising situations such as bake sales, fundraising dinners, and other events. Be sure to read the chapters that apply to your nonprofit organization rather than rely on this table alone.

*General rules for applying sales tax to food sold at events*

*Note:* This table does not apply to nonprofit organizations covered by the exemptions listed previously in this chapter, to restaurant sales, or to vending machine sales (see page 43).
### Sales of food “to go”

<table>
<thead>
<tr>
<th>Type of food</th>
<th>Is sale usually taxable?</th>
<th>See more on</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cold food (candy, snack food, produce, etc.)</td>
<td>No. <em>Exception:</em> Tax applies to the sale of cold food when it is part of a hot food combination package.</td>
<td>Page 37</td>
</tr>
<tr>
<td>Cold beverages</td>
<td>No. <em>Exception:</em> Tax applies to the sale of alcoholic, carbonated beverages and cold beverages sold in hot food combination packages.</td>
<td>Page 38</td>
</tr>
<tr>
<td>Hot prepared food</td>
<td>Yes. <em>Exception:</em> Tax does not apply to sales of individual hot drinks or bakery goods sold for a separate price.</td>
<td>Page 38</td>
</tr>
<tr>
<td>Combination packages</td>
<td>Yes. Application of tax depends on contents of package.</td>
<td>Page 38</td>
</tr>
</tbody>
</table>

### Sales of food for consumption on-site

<table>
<thead>
<tr>
<th>Type of sale, location</th>
<th>Is sale usually taxable?</th>
<th>See more on</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food sold where admission is charged</td>
<td>Yes. <em>Exception:</em> Food sold in a form or size that buyers would normally consume at home.</td>
<td>Page 39</td>
</tr>
<tr>
<td>Food sold where dining facilities are provided</td>
<td>Yes. <em>Exception:</em> Food sold in a form or size that buyers would normally consume at home.</td>
<td>Page 39</td>
</tr>
<tr>
<td>Meals served at fundraising events</td>
<td>Yes.</td>
<td>Page 40</td>
</tr>
</tbody>
</table>

**Sales of food “to go”**

The information in this section does not apply to your organization’s sales of food in places where admission is charged or where “dining facilities” are provided for your customers. (Dining facilities include tables, chairs, benches, counters, plates and glasses, and so forth.) For information on those types of sales, see “Sales of food for consumption on-site,” beginning on page 39.

**Cold food products**

Sales of “cold food products” such as produce, candy, cold sandwiches, baked goods, ice cream, and snack foods are generally not taxable (but see “Combination packages,” on following page). However, certain vending machine sales of candy and other food products are partially taxable (see page 43 for more information on vending machine sales).
**Cold beverages**

Sales of alcoholic beverages are taxable. Sales of carbonated beverages—including carbonated bottled water—are also taxable. “To go” sales of noncarbonated and noneffervescent bottled water and juice are not taxable (but see “Combination packages,” below). Special rules for hot beverages are discussed under “Hot prepared foods,” below.

**Hot prepared foods**

Sales of “hot prepared food products” are taxable. This includes food products, items, components, or beverages heated for sale and sold at any temperature higher than the air temperature of their sales location. Examples include hot pizza, hot nuts, hot barbecued chicken, hot sandwiches, and hot soup. Sales of food prepared to be served hot are taxable even if the food has cooled by the time it is served.

Hot bakery goods, hot coffee, and other hot beverages are considered hot prepared food products. However, the sale of individual hot bakery items or drinks “to go” for a separate price is tax-exempt unless the items are sold through a vending machine for more than 15 cents or as part of a combination package (see next chapter).

**Combination packages**

Combination packages are two or more items sold together for one price. The application of tax will vary depending on the type of combination package sold.

<table>
<thead>
<tr>
<th>Contents of combination packages</th>
<th>How tax applies</th>
</tr>
</thead>
</table>
| A. A hot prepared food item or hot drink and any other food item.  
*Examples:* Hot coffee and a pastry; hot sandwich and a cold drink. | Full price is taxable. |
| B. All cold food | Not taxable. |
| C. Carbonated or alcoholic drink and at least one cold food item.  
*Example:* Cold sandwich, chips, a cookie, and a carbonated drink. | The portion of the selling price that represents the charge for the carbonated or alcoholic drink is taxable. |

**Examples:**

- A. Hot coffee and pastry sold together for $3.50. The full $3.50 price is taxable.
- B. Cold sandwich sold with a cookie and chips for $5.75. The sale is not taxable.
- C. Cold sandwich package in B. sold with a carbonated soft drink for $6.00, with the soft drink normally priced at $1.00. Tax applies to $1.00.
Sales of food for consumption on-site

Sales of food for consumption at certain events and locations are generally taxable, even if the sale of the same food product would be tax exempt when sold “to go.” This section explains how tax applies to the sale of food intended to be eaten on-site, but it is not a guide to restaurant sales. For information on restaurant sales, you may wish to obtain a copy of our publication 22, *Tax Tips for the Dining and Beverage Industry* (see page 64).

Where admission is charged

Sales of food, meals, or beverages are generally taxable when the food product is sold ready to eat within a place where admission is charged, such as a concert, a play, a football game, or a similar location.

*Example:* If you sell juice and sandwiches at a dog show where spectators have paid $5 for admission, your food sales are taxable.

However, sales of food products that would not ordinarily be eaten on the premises—such as jars of pickles, whole cakes or pies, or a canned ham—are not taxable. If you make sales of this type, be sure to keep good records that clearly indicate the type of products you sold (see page 58).

*Exceptions:* Certain locations are not covered by this general rule:

- National and state parks, marinas, campgrounds, and recreational vehicle parks.
- Places where admission is based on membership dues or use of a student body card, and places where spectators are admitted free—such as bowling alleys and golf courses—are not considered to be places where admission is charged.
- Meals served by religious organizations at a social event or other gathering when the purpose of serving or furnishing the meals is to obtain revenue for the functions of the organization and the proceeds are actually used in carrying out such functions. A clear separation of charges must be made on the ticket if the admission covers a taxable event, such as wine tasting.

Where dining facilities are provided

Sales of food, meals or beverages are generally taxable when sold ready to eat at a location where your organization provides any of the following:

- Tables, chairs, or counters for dining.
- Trays, glasses, dishes, or other tableware for your customers’ use.

*Example:* Your organization sells ice cream sundaes at a free community fair where tables and chairs are available for use by your customers. Your sales are taxable.
However, if you sell food products that would not ordinarily be eaten on-site—such as jars of jam, whole pies, or packages of cookie dough—those sales are not taxable. If you make sales of this type, be sure to keep good records that clearly indicate the type of products you sold (see page 58).

### Special events involving food, meals, or refreshments

- **Special considerations for ticket pricing**

  Special events sponsored by your organization may include both taxable and nontaxable activities. Consequently, your organization should be especially careful when providing food, drinks, prizes, admission to entertainment, and so forth, for a single amount designated as a donation. Generally, if you charge a single donation for a fundraising event involving taxable sales, the *entire ticket charge* will be taxable unless you do both of the following:

  - List the taxable charges separately on the event tickets.
  - Keep separate records of taxable and nontaxable charges.

  *Example:* You hold a fundraising dinner, where the $75 ticket price includes dinner and drinks (which are taxable—see below) and entertainment (which is not taxable). If your tickets list only one price, that full amount is taxable. However, if the tickets state “Ticket price includes $35 for dinner and drinks” and your event income records reflect this breakdown, tax would apply only to the $35 charge for dinner and drinks.

  *Please note:* When your organization is not responsible for reporting and paying the tax for sales of meals at a fundraising dinner or other event (as explained in the next section) you do not need to separate charges in this manner.

  Amounts you receive from tickets sold, but not used, are not taxable. You should keep records that show the difference between any advance sales you make and the number of tickets actually turned in at your event.

- **Meals served at fundraising events**

  *When your organization serves the meals*

  Tax generally applies to charges for drinks, food, and meals included in the ticket price of fundraising dinners or special events. The business or organization that *serves the meals* at a fundraising event is responsible for reporting the taxable sales and paying the tax due. If your organization serves the meals at your event, you are liable for the tax. This is true whether the meals are furnished by members of your organization, purchased or donated to you. Tax is due based on the ticket price for the meal. As noted in the previous section, if the charge for the meal is not separately listed on the event ticket, the entire ticket price is taxable.
When another business or organization serves the meals

If your organization contracts with someone else to serve the meals at your event, you generally are not responsible for paying tax on your ticket sales. Instead, the business that serves the meals must report the sale of the meals and pay the tax due, based on the amount they charge you.

For example, your organization might contract with a restaurant or hotel to provide and serve meals for a certain price. The food server would be liable for the sales tax, based on the amount the server charged you for the meals.

Example: Your organization holds a fundraising dinner at the ballroom of a hotel, with ticket prices of $100 each that covers a meal, drinks, and entertainment. You contract with the hotel to provide and serve the meals and drinks for $25 per person. Since the hotel serves the meals, it must pay sales tax based on the amount it charges you for the meals and drinks ($25 each). Your organization does not owe tax on your ticket sales.

Refreshments served at event but not mentioned on the event tickets

If your tickets do not mention refreshments, and you serve only an insignificant amount of food or drink at your event, your ticket sales are not taxable. For example, if you hold a Meet-the-Candidates Night and serve only coffee and tea, tax would not apply to your income from ticket sales.

It may be difficult to determine whether the amount of food you serve at an event would be considered insignificant or whether it is a significant enough part of the event to become a taxable sale. If you have questions, you may want to write us and ask for written tax advice before you hold your event (see page 65). Or, you can call our Taxpayer Information Section for help (see page 63).

Purchases of supplies and nonfood products

Tax would not ordinarily apply to your purchases of items you provide with the food or meals you sell at a fundraising event, such as disposable plates, napkins, utensils, cups, and nonfood products such as carbonated or alcoholic beverages. You may buy these items tax-free by issuing a resale certificate (see page 55).

But if you do not buy the items for resale and you pay an amount for tax reimbursement to your supplier, you may be able to take a deduction on your sales and use tax return. The deduction would reduce the amount of your total taxable sales based on the value of the tax-paid purchases. You must use the items for one of the taxable activities covered by the sales or ticket proceeds from your event.
For example, your organization might pay sales tax to a vendor when it buys paper plates on which to serve meals at a fundraising breakfast. In that case, you could take a deduction for the cost of the tax-paid plates. You would take the deduction under “Tax-Paid Purchases Resold Prior to Use” on your sales and use tax return. You must claim the deduction on the same return on which you report the full, taxable gross receipts from the breakfast sales. Taking the deduction does not change the amount you report as total sales for the event.

Recordkeeping

Whenever you sell food for fundraising, your records must indicate the type of food and the location of the sale. If you make tax-exempt sales of food “to go,” your records should state that you did not provide dining facilities for your customers or that you were selling products not suitable for consumption on site (see page 37 and 38).

If you claim a tax exemption for sales of food products in a form or size not suitable for consumption on site, your records should:

• Indicate that the food products would ordinarily not be consumed on the premises, and

• If applicable, separately list income for sales of these “to go” food items from income for your sales of food to be eaten on site. Make the separation in your sales records, cash register tapes, or a similar record that we can verify by audit. For example, you might sell pie slices and whole pies at a fair that charges admission. While you could use one cash box for all sales, you should retain sales receipts for all nontaxable whole pie sales.

Your records must provide sufficient detail to back up your claim that any sales are tax exempt.
10. Vending Machines

For information on vending machine sales at schools, see page 25. The information in this chapter supplements the organization-specific information found in the first section of this publication. If there is a chapter in that section that applies to your specific type of organization, be sure to read that chapter first.

Vending machine sales are generally taxable

Sales tax generally applies to vending machine sales, including sales of toys, snack foods, hot food products and carbonated drinks. However, items considered food (including hot drinks “to go”) when sold in a vending machine are taxed at 33 percent of their selling price. Also, some organizations are consumers for all of their vending machine sales, while other organizations are consumers for only some of their vending machine sales.

- Operator owes the tax

The operator of the vending machine is responsible to report and pay the tax. If your nonprofit organization stocks the machine and collects the money from it, you are the operator and responsible for the sales tax. If an outside company stocks the machine and collects the money, then pays you a portion of the profits, that company must report and pay the tax due.

Some organizations are consumers

Certain nonprofit organizations are considered to be the consumers of all products they sell through vending machines, regardless of price. If you are a consumer of nonfood products sold through the vending machine, tax applies to your purchases of those items, but not to your sales. The organizations include:

- Nonprofit parent-teacher associations and equivalent organizations.
- Nonprofit organizations commonly called Friends of the Library and equivalent organizations.
- Nonprofit parent cooperative nursery schools.

For more information on these organizations, see chapters 3 and 7.

In addition, nonprofit, educational or charitable organizations other than those listed above are considered consumers of the following items they sell in a vending machine:

- Items sold for 15 cents or less.
- Unsorted cold food products (other than beverages), sold in bulk and priced at 25 cents or less, such as loose candies.
More information

You may wish to obtain a copy of Regulation 1574, *Vending Machine Operators* or publication 118, *Sales of Food in Vending Machines*. See page 64 for ordering information.

For information on seller’s permits and tax reporting requirements, please see page 52, “Registration Requirements,” and page 54, “Collecting and Paying Tax.”
11. Newspapers and Periodicals

Nonprofit organizations commonly distribute newspapers, newsletters, and periodicals to the public and their members, and they may sell periodicals, too. This chapter provides general information on the application of sales and use tax to these kinds of publications. Please remember that this chapter addresses the general tax rules that apply. If there is a chapter in that section that applies to your specific type of organization, be sure to read that chapter first.

What is a newspaper or periodical?

For sales and use tax purposes, a publication qualifies as a newspaper or periodical if you publish different issues at least four times a year. Books, annual reports, journals, special reports, and other publications that are published less than four times a year do not qualify for the special tax exemptions discussed in this chapter. The sale of those publications is taxable unless your organization qualifies for the special exemptions described earlier in this publication.

Specific exemptions from tax

- **Types of exemption (in general)**

  An organization’s sale of newspapers and periodicals (including newsletters) is generally taxable. However, tax does not apply to the sale or use of these publications under the specific conditions explained in this chapter. The exemptions apply to:

  - Publications distributed at no charge (explained on page 46).
  - Certain periodicals sold by subscription (explained on page 46).
  - Periodicals published by 501(c)(3) nonprofit organizations only for their members or without commercial advertising (explained on page 47).
  - Periodicals published by other nonprofit organizations for their members (explained on page 47).

  **Important:** Be sure to read the next sections for the specific requirements for each exemption.

  Your periodical may fully or partially qualify for one of the exemptions listed above.

- **Sale of component parts to periodical publishers**

  Tax does not apply to the sale of component parts or ingredients of any periodical that will be sold. In addition, as explained in this chapter, tax does not apply to the sale of component parts or ingredients of certain periodicals that will be given away.
Component parts are the materials that become a physical part of the periodical, such as ink, paper, and binding. Fliers, circulars, handbills, and similar items that are inserted in or attached to a qualifying publication are also considered component parts. Businesses that make nontaxable sales of component parts to periodical publishers should obtain an exemption certificate from the publisher (see page 49).

Publications distributed without charge
Sales tax does not apply when you distribute periodicals (or any other publication) without charge. In addition, purchases of component parts for periodicals you distribute without charge are not taxable, provided the publications:

- Are regularly published, and
- Average at least four issues a year.

If you distribute a publication that qualifies for this exemption, your supplier or printer should not charge you tax for component parts when you provide the supplier or printer with an exemption certificate (see page 49).

What does “without charge” mean?
Distributing a publication to people or businesses without asking for anything of value in exchange is clearly a distribution without charge. Other cases may not be as clear-cut. For your publication to be considered distributed without charge, you:

- May distribute the publication on a voluntary pay basis, meaning that while you request payment, you will give the publication away for free.
- Must not distribute the publication to recipients in consideration of their membership dues or fees.

Periodicals sold by subscription
The sale or use of a newspaper or other periodical by subscription is not taxable if both of the conditions listed below apply. The periodical must be:

- Published from four to 60 times a year
- Delivered by mail or common carrier

If your periodical qualifies for this exemption, you do not owe sales tax on your subscription charges. In addition, you can buy component parts for the periodical without paying an amount for tax to your supplier or printer. You will need to give the printer or supplier an exemption certificate (see page 49).
Periodicals published by nonprofit 501(c)(3) organizations

If your organization qualifies for tax-exempt status under Internal Revenue Code section 501(c)(3), tax does not apply to the sale or use of a newspaper or other periodical you distribute or to its component parts if either of the following conditions apply:

• You distribute issues of the publication to your organization’s members in consideration, in whole or part, of their membership dues.
• The publication does not generate revenue from or accept commercial advertising.

To qualify for the tax exemption, you must regularly publish the newspaper or periodical at average intervals of three months or less.

Newspapers and periodicals distributed by government entities established and administered for the purposes provided in Internal Revenue Code section 501(c)(3) may also qualify for this tax exemption.

If your periodical qualifies for this exemption, you do not owe sales tax on the portion of any dues you receive that go toward the newsletter or income from the sale of publications that do not contain advertising. In addition, you can buy component parts for the periodical without paying an amount for tax to your supplier or printer. You will need to give the supplier or printer an exemption certificate (see page 49).

Periodicals published by other nonprofit organizations for their members

If your tax-exempt nonprofit organization’s publications or newsletters don’t qualify for one of the other tax exemptions already discussed in this chapter, another tax exemption may apply. Tax does not apply to your use or distribution of a publication if both of the following conditions are met:

• The publication is distributed to your organization’s members in whole or in part, in consideration of their membership dues.
• The cost for printing the publication is less than ten percent of the membership fee for the period in which the publication is distributed (please see “Calculating your printing costs . . .,” below).

Example: Your organization, an Internal Revenue Code 501(c)(4) nonprofit group, prints and distributes a monthly newsletter for its members. They receive the newsletter in consideration of their $25 annual membership dues. If the printing cost of the newsletter is less than 20.8 cents per issue ($25 annual membership fee divided by 12 months x 10 percent = $0.208 or 20.8 cents), the publication and its component materials would be exempt from tax.
Common publication situations for nonprofit organizations

You can use the table below to determine how tax may apply to your 501(c)(3) organization’s newspapers, newsletters, and periodicals. Please note that the table assumes that your periodical is published at average intervals of three months or less.

<table>
<thead>
<tr>
<th>Distributed to</th>
<th>For a charge or free?</th>
<th>Subject to tax?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Periodical without advertising revenue or commercial ads</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any recipient</td>
<td>Either</td>
<td>No</td>
</tr>
<tr>
<td><strong>Periodical with advertising revenue or commercial ads</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members of your organization only</td>
<td>Charge included in membership dues</td>
<td>No</td>
</tr>
<tr>
<td>Both members and nonmembers</td>
<td>Members: Charge included in membership dues</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Free</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Nonmembers: For a charge</td>
<td>Sales to nonmembers are taxable unless they qualify for the subscription sales exemption (see page 46)</td>
</tr>
<tr>
<td>Nonmembers only</td>
<td>For a charge</td>
<td>Yes, unless distributions qualify for the subscription sales exemption (see page 46).</td>
</tr>
<tr>
<td></td>
<td>Free</td>
<td>No</td>
</tr>
</tbody>
</table>

Calculating your printing costs

To determine your printing costs, you must include the cost of materials that become physical components of the publication—ink and paper, for example—and the cost of printing labor. Printing labor includes printing, collating, folding, binding, and other finishing work. It does not include prepress work such as camera work, plate preparation, film or plate output, typography, layout, and electronic file preparation. If you claim this exemption, you must obtain and keep documentation from your printer that shows the cost for the allowable charges separate from other charges.

If your organization does its own printing, you must include fringe benefits and payroll taxes in your labor cost. In addition to costs for component materials, you must also include any other costs you incur for the actual printing of the newspaper or periodical.
Using exemption certificates

If your publication qualifies for one of the exemptions described in this chapter, you should issue an exemption certificate to your supplier or printer when you purchase component materials or have the publication printed. The document should certify that your publication is not subject to sales or use tax. This allows your supplier or printer to charge you for materials or printing without charging tax. Sample certificates can be found in Regulation 1590, *Newspapers and Periodicals* (see page 64 for ordering information.)
12. Sales That Involve Fundraiser Companies

Nonprofit organizations and volunteer groups often contract with fundraiser companies to help them raise money. Whether your organization is responsible to report and pay sales tax depends on how the sales are handled.

Organization as a “sales agent,” permit not required

Generally, your organization’s members or representatives are considered agents of a fundraiser company when they solicit orders, collect payments, and distribute merchandise for the company. In that situation, your organization is not required to obtain a seller’s permit for those activities. The fundraiser company is responsible for reporting the sales and paying any tax due, based on the retail selling price of the merchandise.

Please note: Special tax exemptions that apply to an organization’s sales generally do not extend to sales the organization makes as the agent of a fundraiser company. The fundraiser company is responsible for the tax due on those sales.

Organization as a retailer, must obtain seller’s permit

When working with a fundraiser company, your organization is considered to be a retailer when it buys and sells items for its own account. You must obtain a seller’s permit and pay any tax due if your organization does all of the following:

- Executes a contract with the supplier clearly stating that your organization will purchase and resell merchandise.
- Solicits orders from the public in its own name.
- Collects the sales price from customers in its own name.
- Is responsible for and pays the supplier for the merchandise or receives merchandise the supplier indicates it is donating.

Exceptions

Your organization is generally not responsible to obtain a seller’s permit and report tax if the following apply:

- The organization is a qualifying PTA, Friends of the Library group, nonprofit parent cooperative nursery school, or qualified youth organization (under certain circumstances), as described in chapter 3 and chapter 7.
- The profits from the sales are used exclusively in furtherance of the organization.
We consider the fundraiser company or supplier to be the retailer of the products you sell. In this case, the company or supplier is responsible for the tax, but they may charge you for tax reimbursement. Such companies often include multilevel marketing companies that solicit sales through a network of representatives, such as Avon and Tupperware.

For more information

If you’re not sure who is responsible for reporting and paying tax on sales you arrange with a fundraiser company, please call our Taxpayer Information Section for help (see page 63).
13. Registration Requirements

As noted in the introduction to this publication, nonprofit organizations generally need seller’s permits if they make sales in California. This chapter describes general permit requirements and the two types of permits.

Obtaining a seller’s permit

■ In general
As noted in chapter 1, you generally need a seller’s permit if you make sales of merchandise or goods in California. It is your responsibility to apply for a permit, report your sales, file returns, and pay any tax due. Whether you need a regular or temporary permit depends on the frequency of your sales activities (see “Temporary permits . . . ,” below).

There is no fee for a seller’s permit. However, we may require a security deposit to cover any unpaid taxes your organization might owe if it stops operating. The amount of the security, if any, will be determined when you apply for the seller’s permit, based on your anticipated sales.

Certain types of organizations are not ordinarily required to hold a seller’s permit. For more information, please see the organization-specific information in chapters 2 through 8.

■ Temporary permits vs. regular permits
If your nonprofit organization holds less than three fundraising events with taxable sales each year, you may apply for a temporary seller’s permit for each event.

If your organization conducts three or more fundraising sales events each year, or if your taxable sales activities occur continuously, you should apply for a regular seller’s permit.

Even when you are eligible to obtain a temporary permit, you may find it easier to hold a regular permit. It keeps you from having to remember to apply for a temporary permit before each event and ensures that we automatically send you tax returns. You may also find it easier to have a regular permit if you hold annual fundraising events.

■ Applying for a permit
Please contact our Taxpayer Information Section for instructions on how to apply for a permit (see page 63). Applications are available on our website, from our Taxpayer Information Center, and at our field offices. You may also complete your application by mail. If you need a permit quickly and can provide a completed application, our field offices generally can issue your permit the same day.
If you have held a fundraising sales event before you apply for a permit, you should contact us immediately. Prompt action may enable you to apply for the temporary permit, file the required return, and pay any tax due before any penalty and interest are due.
14. Collecting and Paying Tax

This chapter provides general information on charging your customers amounts for tax, using resale certificates, paying tax on purchases, filing sales and use tax returns, and keeping records.

Taxable sales

- Taxable amounts
  In general, the amount you receive in exchange for merchandise is taxable. This is true whether a person pays you by cash or another method, or offers you something in barter or trade. In general, the taxable amount is the price you set and receive for the item. However, in the case of auctions and silent auctions, the full amount you receive is taxable, regardless of the item’s value.

  Examples: You sell books after your church services for a price of $10 each, plus tax. You will owe tax based on the $10 price ($10 x tax rate = tax amount due).

  A member of your church comes by your table and gives you $50. She takes one $10 book and tells you to keep the entire $50. You will owe tax only on the $10 price of the book. The other $40 is a nontaxable donation and you do not owe sales tax on it.

  You sell a copy of the same book in a silent auction for $50. You will owe tax on the entire $50 amount.

- Collecting tax from your customers
  You must pay the correct amount of sales tax due on your sales. You are not required to collect tax from your customers, but the law does allow you to reimburse yourself for the tax from your customer equal to the tax you will owe on each sale. Usually, sellers add this sales tax amount to the price of merchandise when they make the sale. If you choose to follow this practice, your receipts should clearly show the price of the item and the amount of tax you applied.

  However, to simplify your sales procedures, you may not wish to add tax to the price of each individual item as you sell it. Instead, you can include the tax in the sales price, provided you display a sign stating: “All prices of taxable items include sales tax computed to the nearest mill.”

  When you include tax in the price of items you sell, you must remember to subtract the tax amount out on your sales tax return to avoid paying too much tax.
There is a line for this on the return.

Example: You sell boxes of decorative note cards at a fair booth. To save your volunteers from having to calculate the sales tax due and make change with coins, you charge an even $5 for the cards and let your customers know that tax is included in the price by posting the sign described on previous page.

Purchases for resale

In general

If you are a registered seller, you can make purchases for resale without paying an amount for tax to your supplier, as described below. Otherwise, your suppliers will collect sales tax on your purchases unless the transaction qualifies for a specific exemption or exclusion. In some cases, described under “Taxable purchases,” on page 56, you may owe use tax on your purchases.

Organizations that are consumers

If your organization is considered a consumer, you cannot legally issue a resale certificate to make tax-free purchases. Your suppliers may collect tax reimbursement from you. See “Taxable purchases,” on page 56, if you are purchasing items from an out-of-state vendor.

Making purchases for resale

As a registered seller with a permit, you may make tax-free purchases of merchandise for your resale inventory by issuing a resale certificate to your supplier. You must intend to sell the item, either as-is or as a physical part of a product you make and sell. If you plan to use the item for any purpose other than demonstration or display while you hold it for sale, you should not buy it with a resale certificate.

In addition, you should not use a resale certificate to buy an item if you are not sure whether you’ll use the item before you sell it. Your seller may require you to pay sales tax. If you end up selling the item before you use it, you can take a deduction on your sales and use tax return (for example, tax-paid purchase resold prior to use).

Example: Your nonprofit organization sells books to your members and the general public. Since your sales aren’t covered by any special exemption, they’re taxable. You can use a resale certificate to buy books you will sell. However, if every year you order 25 special books to give to volunteers who work in your bookstore and other organization volunteers, you should not use a resale certificate to buy those 25 books since you will give them away rather than sell them.
Using a resale certificate

To make purchases for resale, you must provide your supplier a resale certificate. The resale certificate may be in any form, such as a note, letter, or memorandum. Regardless of form, it must contain all of the following information:

• Your organization’s name and address.
• Your seller’s permit number.
• A description of the property you will purchase.
• A statement that the described property is being purchased for resale (the certificate must contain words that state the property will be resold or is for resale).
• The date of the document.
• The signature of someone authorized to act for your organization.

You can find a sample resale certificate on our website at www.boe.ca.gov.

More information on using a resale certificate can be found in publication 73, Your California Seller’s Permit, and in publication 42, Resale Certificate Tips.

Taxable purchases

Your organization’s purchases may be subject to sales or use tax, as explained below. Use tax generally applies to purchases of items you will use, give away, store, or otherwise consume in California. The use tax rate for a given location is the same as the sales tax rate. The use tax does not apply to transactions subject to California sales tax.

If you purchase an item with a resale certificate, but use it for a purpose other than resale or demonstration and display, you will owe use tax on the purchase price. You must report the purchase price of the item under “Purchases Subject to Use Tax” on your sales and use tax return.

Tax also applies to purchases of supplies and equipment your organization will use rather than sell, such as bookkeeping supplies, office equipment, display equipment, and so forth. You should not issue a resale certificate to purchase those items, as explained earlier in this chapter.

If you purchase items like those described in the previous paragraph from an out-of-state, mail order, or Internet seller who does not collect California tax from you, you must pay use tax on your purchase. Be sure to report the purchase price of the items on your sales and use tax return under “Purchases Subject to Use Tax.”

For more information on purchases subject to use tax, please call our Taxpayer-Information Section (see page 63). You may also wish to obtain a copy of Regulation 1685, Payment of Tax by Purchaser, publication 42, Resale Certificate Tips,

**Filing sales and use tax returns**

- **If you have a temporary permit**

  When we issue you a temporary seller’s permit, we’ll give you a sales and use tax return to use in reporting the tax due from your fundraising event. The return and payment will be due on the last day of the month following the month in which you hold the event (for instance, a return for an event held in May would be due by June 30). Please be sure to comply with the deadline on the form. You may be charged penalty and interest if you do not file the return and payment on time.

- **If you have a regular permit**

  If we issue you a regular seller’s permit, we will mail you monthly, quarterly, or annual sales and use tax returns at the close of each reporting period. (Your filing frequency is determined by your estimated taxable sales.) You must mail your completed return and any tax you owe to our Sacramento Headquarters Office on or before the due date printed on the return. Or, you may file your return at one of our field offices. Generally, the due date is the last day of the month following the end of the reporting period. Please be sure to comply with the due date. You may be charged penalty and interest if you do not file the return and payment on time.

- **Reporting your sales and purchases**

  You must report *all* of your sales on your sales and use tax return, not only your taxable sales. You will be able to take deductions on the return for sales that qualify for specific exemptions and exclusions, including those described in this publication.

  The instructions that come with your tax return explain how to complete the return and take the deductions that may apply in your case. Information on common deductions is also found in the Sales and Use Tax section of our website.

  You are also required to report your taxable purchases (purchases made without tax and used, stored or consumed – not resold) on your sales and use tax return.
Recordkeeping

In general

Because you are required to report and pay the correct amount of tax on your sales and purchases, you should be sure to keep adequate records. Your records must show:

- Gross receipts from all sales of physical products, including sales that you think aren’t taxable.
- All deductions claimed on your sales and use tax returns.
- The total purchase price of all items you purchased without tax, used, or gave away (supplies, equipment, fixed assets, and so forth), or leased to a person, organization, or business.

You should keep separate records for each fundraising or sales event. They should show the total amount you received, clearly distinguishing between taxable and nontaxable sales.

Example: Your organization has a booth at a free community fair selling both t-shirts (taxable) and brownies (nontaxable, in this instance). You must itemize your sales records to clearly distinguish between proceeds from taxable sales of t-shirts and proceeds from nontaxable sales of brownies.

If you use a simple cash box to track your sales at events, you may find it easier to account for your sales if you sell taxable and nontaxable items at separate booths.

Our representatives may examine your books, papers, records, and other documents to verify the accuracy of any sales and use tax return you file. Whether or not you file returns, your records may be reviewed to determine if you owe tax. If you have not paid the correct amount of tax, you may be required to pay penalties and interest in addition to any tax you owe.

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, or if fraud or intent to evade tax is discovered during an audit. You must keep those records for at least ten years. If you are being audited, you should retain all records that over 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 wish to obtain a copy of Regulation 1698, Records, and publication 116, Sales and Use Tax Records (see page 64).

- **Special requirements: operators of flea markets, swap meets, and similar events**

If you conduct a flea market or swap meet where sellers rent or lease space under your control, you must obtain certain information from those sellers and provide it to us. Our publication 111, *Operators of Swap Meets, Flea Markets, and Special Events*, describes your responsibilities, the information you must obtain from sellers, and the significant penalties that apply if you do not collect that information and provide it to us. For ordering information, see page 64. You may also want to contact one of our field offices for assistance (see page 66).
15. Business Donations of Goods and Services

This chapter provides basic information for businesses on the sales and use tax consequences of donations made to nonprofit and religious organizations.

Donations of goods

- **Items withdrawn from business inventory**

  In general, your business owes use tax when you remove items from your resale inventory and use them for a purpose other than to sell or for demonstration and display. But you will not owe use tax if you donate those items to certain nonprofit or governmental organizations without first making any other use of the items. The organization must be operated for educational, scientific, or literary purposes, or is a religious or other organization described in Internal Revenue Code section 170(b)(1)(A).

  The use tax exemption for donation includes, but is not limited to goods you donate to the following:

  - Churches and religious organizations.
  - Charitable organizations such as the Red Cross, Salvation Army, nonprofit schools and hospitals, and medical assistance and research groups.
  - Nonprofit educational organizations and schools.
  - Organizations operated for educational, scientific, or literary purposes including nonprofit museums, art galleries, and performing arts groups.
  - Organizations operated for the protection of children or animals.
  - Fraternal lodges (if the donated item is used for charitable purposes).
  - The United States, State of California, and political subdivisions of the state (counties, cities, and certain special districts).

  *Example:* ABC Tires withdraws eight new truck tires valued at $800 from its resale inventory and donates them to HomeMeals Express, a charitable nonprofit senior meals organization. If ABC Tires had used the tires on its own trucks, it would owe use tax based on their $800 value. But since it donated the tires to a qualified nonprofit organization from its resale inventory, before any use by ABC Tires, it does not owe use tax.
Items purchased for donation

Your business’s purchase of items specifically for donation to a nonprofit, government, or religious organization is not eligible for any exemption from sales or use tax. You should pay an amount for tax to the seller rather than make the purchase with a resale certificate.

*Example:* The owner of California Pets Unlimited, Ms. Jones, is asked to donate new or gently used children’s toys to her temple. Since Ms. Jones doesn’t sell children’s toys, she buys three stuffed animals from a toy store and donates them on behalf of her company. Ms. Jones may not buy the toys for resale since her intent is to donate them rather than sell them in her business. Her business is not eligible for any sales or use tax deduction or exemption related to the purchase and donation.

For recipients: sales of donated goods

If your organization receives a donation of merchandise from a business, please note that tax usually applies if you sell the donated item. But tax would not apply if you qualify as a consumer or if your sale is otherwise tax exempt, as explained earlier in this publication.

*Example:* The Smalltown Friends of the Library receives a donation of 20 new books from Smalltown Books and Espresso. The group sells the books in its annual book sale and uses the profits to buy more books for the library. Because the organization qualifies as a consumer for sales tax purposes, it does not owe tax on the sale of the books (see page 15).

Donations and sales of gift cards, gift certificates, and services

Your business may donate gift cards, gift certificates, or services to nonprofit and religious organizations. When no merchandise changes hands in the donation, the donation has no effect on your sales or use tax liability and the donation does not entitle you to any sales or use tax deduction. Similarly, when the recipient organization sells the items, the sale is not taxable.

*Example:* Joe’s Fishing Shop sells fly fishing gear and provides guided fishing trips. The owner donates a fly fishing rod, fishing trip, and gift certificate to a California nonprofit fish conservation organization for its annual fundraiser. The shop does not owe use tax on the fly fishing rod withdrawn from its inventory. The donation of the trip and gift certificate have no effect on the business’s sales and use tax liability.
The fish conservation organization sells the entire package to a California buyer in an online auction. The organization owes sales tax based on the fair market value of the fly rod. Its sale of the fishing trip and gift certificate are not taxable since those items are not physical merchandise.\(^3\)

### Loans for educational purposes

Certain loans by retailers to schools are exempt from use tax, including:

- Loans of items to a school district for a district educational program.
- Loans of motor vehicles to be used exclusively in driver training programs by accredited private or parochial secondary schools. The driver training program must be approved by the State Department of Education as a regularly conducted course of study.
- Loans of motor vehicles to the State Universities in California CSUS or the University of California for exclusive use in an approved driver education program conducted by the university.
- Loans of motor vehicles used in teaching disabled veterans, including loans to a veterans’ hospital or other nonprofit facility for use in teaching disabled veterans how to operate specially equipped vehicles.

The retailer may not make an earlier use of theloaned property other than retention, demonstration, or display in order for these exemptions to apply.

---

\(^3\) Once the gift certificate is redeemed, it will be considered the same as cash; thus the retail selling price of the goods must be included in the taxable gross receipts of the bait shop.
16. For More Information

Website
For publications, forms, regulations, and more: www.boe.ca.gov.

Taxpayer Information Section
If you have a general tax question, please call our toll-free number and speak with a Customer Service Representative. Representatives are available weekdays from 8:00 a.m. to 5:00 p.m. (Pacific time), except state holidays. Please call:

800-400-7115 TDD/TTY: 800-735-2929

In addition to English, assistance is available in other languages.

Questions regarding your account
Please call the office that maintains your records. The name and telephone number of the appropriate field office is printed on your tax return. Field office telephone numbers are provide on page 67 and are also available on our website. We can help you faster if you have your account number on hand.

Verifying a permit/license
If a customer gives you a resale certificate for a purchase, you may contact us to verify the customer’s seller’s permit number.

You can also verify a cigarette/tobacco license and an E-Waste Recycling Fee account.

Use the Internet: www.boe.ca.gov look for “Verify a Permit/License.”

Call our toll-free automated verification service: 888-225-5263. You will need to provide the seller’s permit number you want to verify.

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

To obtain copies of publications, forms, and regulations:

**Use the Internet.** Most publications, forms, and regulations are available on our website: [www.boe.ca.gov](http://www.boe.ca.gov).

**Call our Taxpayer Information Section.** A Customer Service Representative will help you during working hours. If you know the name or number of the document you need, you may call outside working hours and leave a recorded message. Certain documents are also available on our faxback service, described above.

Selected regulations and publications that may interest you are listed below. A complete listing of sales and use tax regulations and publications appears in publication 73, *Your California Seller’s Permit*.

### Regulations (list varies by publication)

1503 Hospitals and Other Medical Service Facilities, Institutions, and Homes for the Care of Persons
1570 Charitable Organizations
1574 Vending Machine Operators
1586 Works of Art and Museum Pieces for Public Display
1590 Newspapers and Periodicals
1597 Property Transferred or Sold by Certain Nonprofit Organizations
1603 Taxable Sales of Food Products
1668 Resale Certificates
1669 Demonstration, Display, and Use of Property Held for Resale—General
1669.5 Demonstration, Display, and Use of Property Held for Resale—Vehicles
1670 Gifts, Marketing Aids, Premiums, Prizes
1685 Payment of Tax by Purchaser
1698 Records
1699 Permits
1700 Reimbursement for Sales Tax
1701 Tax-Paid Purchase Resold
1821 Foreword—District Taxes

### Publications (list varies by publication)

You may find these publications helpful. The letter C,F,K,S, or V next to a publication means it is available in Chinese (C), Farsi (F), Korean (K), Spanish (S), or Vietnamese (V).

17 Appeals Procedures: Sales and Use Taxes and Special Taxes (S)
22 Tax Tips for the Dining and Beverage Industry (K,S)
42 Resale Certificate Tips (C,K,S)
**Tax Information Bulletin**

As a registered seller, you will receive a copy of the quarterly *Tax Information Bulletin* (TIB), mailed with your paper returns. The TIB includes articles on the application of law to specific types of transactions, announcements about new and revised publications, and other articles of interest to you. If you electronically file (efile) your sales and use tax return and are registered as an E-Client, your email reminder to file will contain a link to the quarterly TIB. You can also find current and archived TIBs on our website at [www.boe.ca.gov/news/tibcont.htm](http://www.boe.ca.gov/news/tibcont.htm).

If you file returns on a yearly basis and would like to read all four bulletins, we post an electronic version on our website and provide notification via an email subscription service. To be notified when a new issue of the TIB is available, subscribe to the BOE Updates email list by visiting our website at [www.boe.ca.gov](http://www.boe.ca.gov). Click on the BOE Updates link under Access to Public Records, and you will be taken to an email list subscription page. Subscribe to the BOE Updates list to automatically receive your TIB and other important BOE notices by email.
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 send your request to:

Audit and Information Section, MIC:44
State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0044

Written tax advice is specific to individual taxpayers. You cannot obtain tax relief by relying on a written opinion given to another business, even if your transactions are similar. In addition, tax relief is not available if you incorrectly apply tax based on advice we give you in person or over the telephone.

Classes

Some of our statewide field offices offer free basic sales and use tax classes. Check the Sales and Use Tax Section on our website at 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 an online Basic Sales and Use Tax tutorial that you can access on our website at any time.

Taxpayers’ Rights Advocate

If you have been unable to resolve a problem through normal channels, we encourage you to contact the Taxpayers’ Rights Advocate Office for help:

Taxpayers’ Rights Advocate Office, MIC:70
State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0070

Phone: 916-324-2798
888-324-2798 toll-free
Fax: 916-323-3319
### Field offices

<table>
<thead>
<tr>
<th>City</th>
<th>Area Code</th>
<th>Number</th>
<th>City</th>
<th>Area Code</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bakersfield</td>
<td>661</td>
<td>395-2880</td>
<td>San Francisco</td>
<td>415</td>
<td>356-6600</td>
</tr>
<tr>
<td>Chula Vista</td>
<td>619</td>
<td>409-7440</td>
<td>San Jose</td>
<td>408</td>
<td>277-1231</td>
</tr>
<tr>
<td>Culver City</td>
<td>310</td>
<td>342-1000</td>
<td>San Marcos</td>
<td>760</td>
<td>510-5850</td>
</tr>
<tr>
<td>El Centro</td>
<td>760</td>
<td>352-3431</td>
<td>Santa Rosa</td>
<td>707</td>
<td>576-2100</td>
</tr>
<tr>
<td>Eureka*</td>
<td>707</td>
<td>576-2100</td>
<td>Suisun City</td>
<td>707</td>
<td>428-2041</td>
</tr>
<tr>
<td>Fresno</td>
<td>559</td>
<td>248-4219</td>
<td>Van Nuys</td>
<td>818</td>
<td>904-2300</td>
</tr>
<tr>
<td>Irvine</td>
<td>949</td>
<td>440-3473</td>
<td>Ventura</td>
<td>805</td>
<td>677-2700</td>
</tr>
<tr>
<td>Norwalk</td>
<td>562</td>
<td>466-1694</td>
<td>West Covina</td>
<td>626</td>
<td>480-7200</td>
</tr>
<tr>
<td>Oakland</td>
<td>510</td>
<td>622-4100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rancho Mirage</td>
<td>760</td>
<td>770-4828</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Out-of-State Field Offices

- Chicago, IL: 312 201-5300
- Houston, TX: 281 531-3450
- New York, NY: 212 697-4680
- Sacramento, CA: 916 227-6700
- San Diego: 831 443-3003

*Limited services are available in Eureka. See [www.boe.ca.gov](http://www.boe.ca.gov) or call the number listed above (Santa Rosa field office).

The field offices listed are current when the publication was written. Field office contact information is available on our website and from our Taxpayer Information Section (see page 63).