



Does Your Business Add a Surcharge?

The California Department of Tax and Fee Administration is providing you with this informational letter to ensure you are correctly collecting and reporting sales and use tax (tax) on surcharges. Below is general information about the application of tax to surcharges and provides you with references to law sections, online guides, and helpful publications.

Sales and Use Tax Law in California

In California, a retailer owes tax based upon their gross receipts on retail sales (that is, sales to consumers). Gross receipts include *all* amounts received with respect to a sale, with no deduction for the cost of the materials, service, or expense of the retailer (you) passed on to the purchaser (your customer), unless there is a specific statutory exclusion.

Surcharges Added to Taxable Sales

If you separately add a surcharge to your taxable sales, whether it be a flat fee or a percentage of the selling price, tax generally also applies to the surcharge amount. Surcharges have various titles, such as a merchant card processing fee, healthcare surcharge, COVID-19 surcharge, wage increase fee, inflation fee, tourism fee, fuel surcharge, paid sick leave fee, restaurant surcharges, or other such charges.

In the examples below, the computation of tax is based on the total taxable transaction, which includes the surcharge. The tax rate in both examples is 8.50 percent (8.50%), but your actual tax rate may differ¹.

Example 1		Example 2	
Baked pasta	\$ 14.00	Rental: Adult Bicycle	\$ 25.00
Side salad	4.00	Rental: Adult Bicycle	25.00
Wine	8.00	Rental: Child Bicycle	12.00
Subtotal	<u>26.00</u>	Subtotal	<u>62.00</u>
Employee Wellness Surcharge (2%)	<u>0.52</u>	Tourism Surcharge (3%)	<u>1.86</u>
Total amount subject to tax	26.52	Total amount subject to tax	63.86
Tax [8.50% x \$26.52]	<u>2.25</u>	Tax [8.50% x \$63.86]	<u>5.43</u>
Total due	\$ 28.77	Total due	\$69.29

For more information

For more information, please see Revenue and Taxation Code sections 6012, *Gross receipts*², and 6051, *Imposition and rate of sales tax*³; our *Industry & Tax and Fee Guides*⁴, and various publications, including publication 44, *District Taxes (Sales and Use Taxes)*⁵, available on our website. You may also contact our Customer Service Center at 1-800-400-7115 (CRS:711). Customer service representatives are available Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays. You can also subscribe to our email lists and receive newsletters, tax and fee updates, and other announcements online at www.cdtfa.ca.gov/subscribe/.

¹ The statewide sales and use tax rate is 7.25 percent (7.25%). However, the total tax rate is higher in areas where district taxes are imposed. In those districts, the total tax rate includes the standard statewide tax rate plus applicable district taxes. Please visit www.cdtfa.ca.gov/taxes-and-fees/sales-use-tax-rates.htm for current tax rates. More information on the application of district taxes may be found in our *Local and District Tax Guide for Retailers* at www.cdtfa.ca.gov/industry/localanddistricttaxes.htm.

² www.cdtfa.ca.gov/lawguides/vol1/sutl/6012.html

³ www.cdtfa.ca.gov/lawguides/vol1/sutl/6051.html

⁴ www.cdtfa.ca.gov/industry/

⁵ www.cdtfa.ca.gov/formspubs/pub44.pdf