



CDTFA
CALIFORNIA DEPARTMENT OF
TAX AND FEE ADMINISTRATION

Locksmiths

Preface

This publication is intended as a general guide to the Sales and Use Tax Law and Regulations as they apply to locksmiths.

If you cannot find the information you are seeking in this publication, please contact our Customer Service Center at 1-800-400-7115 (CRS:711). Staff are available to help you from 7:30 a.m. to 5:00 p.m., (Pacific time), Monday through Friday (except state holidays). More information on Customer Service Center services is found in the [For More Information](#) section of this publication.

You may also write the California Department of Tax and Fee Administration (CDTFA) to request written advice regarding a particular transaction.

For general information about sales and use taxes, your obligations as the holder of a seller's permit, and information on filing tax returns, see [publication 73, Your California Seller's Permit](#). It includes general information about obtaining a permit; using a resale certificate; reporting sales and use taxes; buying, selling, or discontinuing a business; and keeping records. Please also refer to www.cdtfa.ca.gov or the For More Information section of this publication for CDTFA information and all regulations and publications referenced in this publication.

We welcome your suggestions for improving this or any other publication. If you would like to comment, please provide your comments or suggestions directly to: We welcome your suggestions for improving this or any other publication. If you would like to comment, please provide your comments or suggestions directly to:

Audit and Information Section, MIC:44
California Department of Tax and Fee Administration
PO Box 942879
Sacramento, CA 94279-0044

Please note: This publication summarizes the law and applicable regulations in effect when the publication was written, as noted on the cover. However, changes in the law or in regulations may have occurred since that time. If there is a conflict between the text in this publication and the law, the decision will be based on the law and not on this publication.

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Locksmith Tax Basics—Types of Transactions

This chapter provides basic information on locksmith transactions, particularly those that involve work on personal property such as automobiles, furniture, and boats. It describes how tax applies to your charges for labor, materials, and supplies. See [Work Performed on Real Property: Houses, Stores, Office Buildings, and Apartments](#) for information on how tax applies to jobs involving real property such as houses and other buildings.

Locksmith transactions, in general

Your locksmith activities generally fall into one of the following basic categories:

- Sales that do not involve labor or services.
- Jobs that involve labor or services only.
- Jobs that involve labor or services *and* charges for merchandise or materials.

Sales that do not involve labor or services

When you sell merchandise such as locks, locksets, lubricating spray, and lock parts without providing any labor or services, your sale is usually subject to sales tax. You must pay tax on the sale with your sales and use tax return.

Jobs that involve labor or services only

Some of your work may involve charges for labor or services only. Generally, if you do not furnish any materials in the course of your job and your charge does not include amounts for materials, your work is not taxable. For more information, see [Jobs that include repair or installation](#), and the summary table, [Applying Tax to Locksmith Labor and Service Charges](#).

Jobs that involve labor or services and charges for materials

When your job includes both labor and materials, sales tax may apply to the entire charge or only to your charges for materials. As explained in the following sections, the application of tax will vary depending on the circumstances of the transaction.

Applying tax to labor and service charges

While many business people mistakenly believe that labor and service charges are always exempt from tax, some of the services you perform in your locksmith operations may be taxable. In general, tax applies to charges for *fabrication labor*, but not to charges for work considered installation or repair.

Fabrication—making new keys and similar work

When you make a new item of personal property and transfer the item to your customer, the labor required to make the item is considered *fabrication*, and your charges for that work are taxable. Making keys, for example, is considered fabrication. Sales tax applies to all of your charges for the work involved in making the item and to your charge for the item itself. This is true whether you charge separate amounts for labor and materials or combine your charges in one lump sum.

Please note: Tax applies to your charges whether you provide the materials or use materials provided by your customer.

Examples of fabrication labor performed by locksmiths include:

- Making new keys by duplication or cutting by code.
- Making an “old key” if necessary to rekey a lock, if you provide the old key to your customer (an “old key” is a new key made in order to open an old lock).
- Installing locks or alarms on *new* personal property, such as automobiles, desks, safes, and boats. An automobile is considered new if it qualifies as a new vehicle when registered with the Department of Motor Vehicles and you contract to work on the vehicle within 60 days of its registration date.

You may obtain a copy of [Regulation 1526, Producing, Fabricating and Processing Property Furnished by Consumers—General Rules](#), for further information on fabrication labor.

Repair—opening locks, rekeying locks, and similar work

Other common locksmith jobs involve *repair labor*. Repair labor is considered to be the repairing or reconditioning of an item to refit or restore it for its original use. Charges for repair labor alone are not taxable. However, tax may apply to the merchandise or material you transfer to your customer as part of your repair job (see summary table, [Applying tax to charges for materials when the job involves repair or installation to personal property](#)).

For example, if you repair or replace a broken lock on a customer's used car, your itemized labor or service charges for the repair are considered nontaxable repair labor. Tax will generally apply to your separate charges for the materials you provide in the repair work.

Examples of common locksmith repair jobs include:

- Removing and replacing a lock in order to make a new key.
- Making an "old key" if necessary to rekey a lock (provided you keep the "old key" rather than provide it to your customer).
- Opening locks.
- Replacing locks in *used* personal property such as automobiles, desks, safes, and boats (see definition of [new automobile](#)).
- Changing a safe's combination or servicing the safe.

Installation—installing locks and similar work

Installation labor is considered to be the installation or application of a ready-made, separate product. For example, if you install an alarm in a used car, your work would be considered installation. Charges for installation labor are not taxable. However, charges for materials you provide in installing a product may be taxable (see summary table, [Applying tax to charges for materials when the job involves repair or installation to personal property](#)).

See [Regulation 1546, Installing, Repairing, Reconditioning in General](#), for further information on the application of tax to repair transactions. For information on applying tax to materials used in installation jobs involving real property, please see [Work Performed on Real Property: Houses, Stores, Office Buildings, and Apartments](#).

Service charges or trip charges

Your service or trip charge associated with a job or sale may be taxable. For more information, see [Other Locksmith Charges, Sales, and Purchases](#).

For more information on labor charges

Please see the summary table, [Applying tax to charges for materials when the job involves repair or installation to personal property](#), and the examples in the [Appendix](#) for information on how tax applies to labor charges for specific locksmith operations. If you don't find the information you need, please call our Customer Service Center for assistance at 1-800-400-7115 (CRS:711).

Applying tax to charges for materials—jobs including labor or services performed on personal property

In the course of your work as a locksmith, you commonly furnish or use merchandise and materials such as locks, keys, safes, alarms, locksets, key wafers, and lock components. For certain locksmith jobs, you are considered the *retailer* of the merchandise and materials you provide, and your charges for materials are taxable. You may issue a

resale certificate to your supplier when you buy materials you will sell as a retailer (see [Purchases for resale](#)).

In other situations you are considered the *consumer* of materials for tax purposes. When you are considered a consumer, your charges for materials are not taxable. Your purchases, however, are subject to tax and you should not issue a resale certificate to your supplier (see [Purchases for resale](#)). If your supplier does not charge you an amount for California tax, you will generally owe use tax on the amount you paid for the materials (see [Purchases subject to use tax](#)).

For information on applying tax when you work on real property such as a house or an office building, see [Work Performed on Real Property: Houses, Stores, Office Buildings, and Apartments](#).

Fabrication of personal property, such as keys

When your job involves fabrication of personal property such as keys, you are considered the retailer of materials you provide on that job and tax applies to your charges for them (See [Fabrication—making new keys and similar work](#)).

Jobs that include repair or installation

When your job involves repair or installation, you may be considered the consumer of any materials you use rather than the retailer. When you are working on *personal property* such as automobiles, boats, or furniture, whether you are considered the retailer or consumer of materials depends on your billing method and may vary depending on the relative value of the materials to your total charge (see table below). Different conditions apply to work performed on real property such as a house or store, as explained in the next chapter.

Applying tax to charges for materials when the job involves repair or installation to personal property		
Terms and condition of sale, locksmith job that includes repair or installation on personal property	Is the locksmith a retailer or a consumer?	Are locksmith's charges for materials taxable?
Separate charge listed for materials	Retailer	Yes
Labor and materials billed as one lump-sum amount Retail value of materials is <i>more than 10%</i> of total charge	Retailer	Yes
Retail value of materials is <i>10% or less</i> of total charge	Consumer	No



As noted on the previous page, sales tax applies to your separate charges for materials when you perform repair or installation work to personal property. However, if you charge your customer a lump-sum amount, tax applies *only* if the fair retail selling price of the materials is *more than 10 percent of your total charge*.

For example, you may repair the locks on a customer's desk and file cabinets, charging your customer \$46 for labor and \$4 for materials. If your invoice shows a separate \$4 charge for materials, you are considered a retailer and your charge for materials is taxable.

On the other hand, you may charge your customer one \$50 lump-sum amount for labor and materials. Since \$4 is less than 10 percent of your total \$50 charge ($\$50 \times 10\% = \5), you are considered the consumer of the materials and sales tax does not apply. You must pay an amount for tax when you buy the materials or pay use tax with your sales and use tax return. However, if the retail value of the materials was more than \$5 (more than 10 percent of your \$50 charge), you would be the retailer of the materials and would owe tax on their selling price.

Please refer to [Regulation 1546, Installing, Repairing, Reconditioning In General](#).

Supplies

Supplies are considered to be those items you use in your business that do not become a physical part of the final products you sell, install, or repair. Common examples for locksmiths include cleaning solvent, rags, and steel wool. You are considered the consumer of your supplies and you should expect to pay an amount for tax to your vendor when you buy them. If you do not, you generally must report use tax based on their purchase price (see [Purchases subject to use tax](#)).



Work Performed on Real Property: Houses, Stores, Office Buildings, and Apartments

This chapter explains the basic sales and use tax rules that apply to your locksmith jobs when you are working on real property such as houses, apartment buildings, stores, and office buildings. For more information, please see [Regulation 1521](#), Construction Contractors and [publication 9](#), Construction and Building Contractors.

Are you considered a construction contractor for sales and use tax purposes?

You may install or repair locks, alarms, door hardware, safes, or other items that are attached to real property such as houses, apartment buildings, office buildings, or stores. When you work on an item attached to real property you are generally considered a construction contractor for sales and use tax purposes, even if you do not hold a contractor's license. Any work you perform on real property is considered a construction contract and falls under special sales and use tax rules.

Types of construction contracts

Most locksmith construction contracts fall into one of two basic categories. In a *lump-sum contract*, you bill your customer one set, agreed-upon amount for all charges associated with your work. In a *time-and-materials contract*, you bill your customer separate amounts for labor (time) and for the materials you furnish for the job.

In most situations, sales tax does *not* apply to the labor portion of charges included in a construction contract, whether you bill your customer one lump-sum amount or for time and materials. This rule is true when you perform work on items that are attached to the building or which are part of it, such as locks, alarm systems, and built-in safes. However, if you fabricate keys or other separate items of personal property as part of the job, your charge for that work is taxable fabrication labor (see [Fabrication—making new keys and similar work](#)) and you should itemize it on your bill.

Example: You rekey all of the locks in a store and provide a master key system for them. You design a master key system, remove and rekey all the locks using new or used cylinder pins and master-key wafers. You furnish master keys and change keys to your customer and reinstall the locks. Your charges for the work you perform on the locks is not taxable since they are attached to the building. However, tax would apply to your charges for fabricating and furnishing the keys, including your charges for the key materials. The keys are separate items of personal property and are not attached to the real property.

Service or trip charges

Service or trip charges associated with a construction contract may be taxable. For more information, see [Trip and service call charges](#).

For more information

For more information on applying tax to labor charges, you may refer to the table and examples in the [Appendix](#). If you need additional help determining how tax applies to your job, please call our Customer Service Center at 1-800-400-7115 (CRS:711).

Applying tax to charges for materials—construction contracts

Materials are generally considered to be products that become part of the real property, such as locks, locksets, strike plates, door hardware, and electronic lock systems. When you are considered the *consumer* of materials furnished in a construction contract, sales tax does not apply to amounts you charge for materials.

However, when you are considered the *retailer* of materials furnished for a construction contract, sales tax does apply to your charges for materials.

You are considered the consumer of materials used in a construction contract when you bill your customer one combined, lump-sum amount for labor and materials. You also are considered the consumer in a time-and-materials construction contract *unless* you bill a separate amount for materials and *one* of the following conditions exists:

- The contract explicitly states that ownership of the materials transfers to the customer before they are installed.
- You bill your customer an amount for “sales tax” computed on a marked-up billing for materials.

If you bill a separate amount for materials *and* either condition above applies, you are considered the retailer of the materials you furnish for the job and tax applies to your charges for them.

Applying tax to purchases of materials furnished in construction contracts

When you are the retailer of materials furnished in a construction contract, you may issue a resale certificate to your supplier when you buy those materials (see [Purchases for resale](#)). When you are considered the consumer of materials furnished for a construction contract, you must pay tax to your supplier at the time of purchase. If you buy materials without paying an amount for California tax at the time of purchase, you generally must pay use tax to CDTFA based on their purchase price (see [Purchases subject to use tax](#)).

Example, locksmith-contractor considered consumer of materials

You contract with a theater owner to install panic hardware on the doors of a theater for a set price of \$750. Your invoice shows one \$750 charge and does not include separate amounts for materials or sales tax. You do not owe sales tax on the transaction because you are considered the consumer of all materials furnished. However, you would be required to pay an amount for tax to your supplier when you purchase materials for the contract, or pay use tax to CDTFA based on the amount you paid your supplier.

Example, locksmith-contractor considered retailer of materials

You contract with an apartment building owner to install an electronic lock system. Your contract specifies that you will charge an hourly rate for labor plus amounts for materials. Your invoice shows separate charges for labor, the lock system, and sales tax. Since you have billed a separate amount for materials and charged an amount for sales tax, you are considered the retailer of the materials and must pay tax to CDTFA on your charges for them. You may issue a resale certificate to your supplier when you buy the materials you will furnish for the job.

Personal property fabricated along with work performed under a construction contract: keys and similar items

Locksmiths often fabricate and sell items of personal property, such as keys, along with the repair or installation work they perform in a construction contract. When you make and sell new items of personal property, all of your charges for materials and labor related to those items are taxable (see [Fabrication—making new keys and similar work](#)). If you fabricate personal property such as keys in conjunction with a construction contract, you should be sure to itemize and pay tax on the amounts you charge for the personal property items—including any charges for related labor or services. You may charge your customer an amount for tax equal to the amount you will owe on the sale.

Supplies

Supplies are considered to be those items you use in your business that do not become a physical part of the final products you sell. Common examples for locksmiths include cleaning solvent, rags, and steel wool. You are considered the consumer of your supplies. You should expect to pay an amount for tax to your vendor when you buy supplies. If you do not, you generally must report use tax based on their purchase price (see [Purchases subject to use tax](#)).

Other Locksmith Charges, Sales, and Purchases

This chapter includes information on other common sales and use tax issues for locksmiths, including trip or service charges, delivery charges, leases, and making sales and purchases for resale.

Trip and service call charges

A *trip charge* or a charge for a *service call* may be nontaxable, fully taxable, or partially taxable, depending on conditions of the transaction.

Trip or service charge not taxable

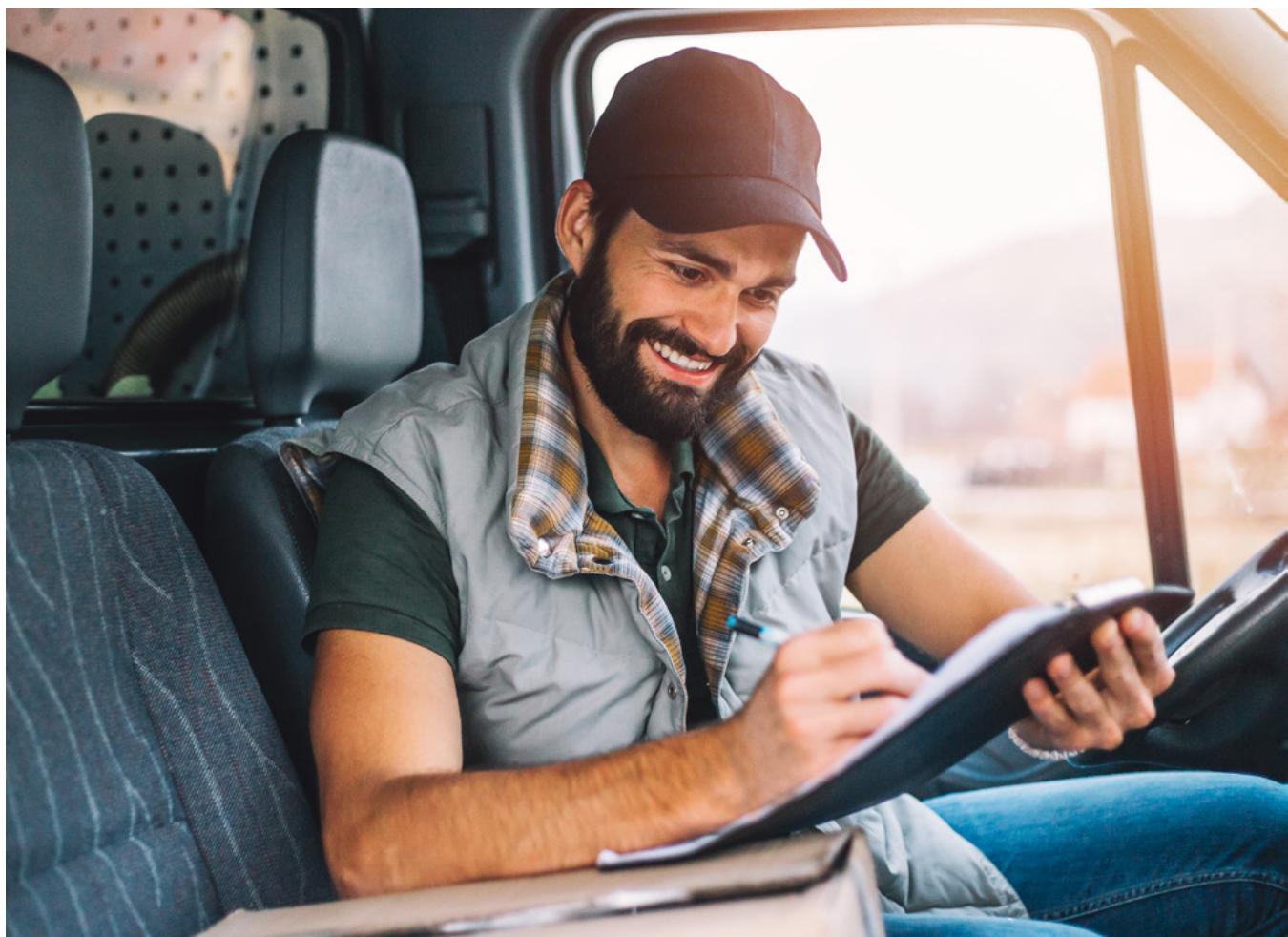
A trip charge or service call is not taxable when:

- You are the consumer of the materials furnished for the job.
- Your job involves labor or services only and you do not transfer any merchandise to your customer.

For example, you may charge an amount for a service call when the only work you perform is opening a lock. Since opening a lock is a nontaxable repair service, tax would not apply to your service call charge.

Trip or service charge fully or partially taxable

If you are the retailer of materials furnished for a job, all or part of your related trip charge or service call charge is taxable. If all of your other charges for a job are taxable, the full amount of your trip charge is also subject to tax.



When your job includes both taxable and nontaxable charges, tax applies to part of your trip charge. To determine how much of the trip charge is taxable, you should follow these steps:

1. Total your charges for services and materials, not including the trip charge.
2. Total the taxable portion of your charges.
3. Divide the result of step 2 by the result of step 1.
4. Multiply the trip charge by the result of step 3. The result is the taxable portion of the trip charge.

Example: You make a house call that involves nontaxable repair of a deadbolt lock and taxable fabrication charges for cutting a new key. Your trip charge is \$30. To figure out how much of your trip charge is taxable, you:

1. Determine that your subtotal without the trip charge is \$75.
2. Determine that the taxable portion of the charges—for cutting and providing the key—is \$25.
3. Divide subtotal of \$25 by taxable subtotal \$75: $\$25 \div \$75 = 33\%$. (33.33% is rounded down to 33%).
4. Multiply the trip charge by the result: $\$30 \times 33\% = \10 . (\$9.90 is rounded up to \$10.)

Tax would apply to \$10 of your trip charge.

Taxable total: \$35 ($\25 key charge + \$10 taxable part of trip charge)

Sale does not involve any service other than delivery

A trip charge or service call charge is taxable if the charge is made only for delivering merchandise you have sold and there is no explicit written agreement transferring ownership to your customer prior to delivery (see Delivery charges).

Delivery charges

If you charge a separate amount for a delivery, your charges are generally taxable if:

- You make the charge in connection with a taxable sale, and
- You make the delivery in your own vehicle.

However, if your contract specifies that ownership of the property transfers to the customer prior to delivery, tax does not apply to your separately stated delivery charges, provided the charges are reasonable for the service provided. In addition, under certain circumstances, deliveries you make using delivery or shipping services are not subject to tax.

For more information on how tax applies to delivery-related charges, please see [publication 100, Shipping and Delivery Charges](#), and [Regulation 1628, Transportation Charges](#).

Leases

If you lease a safe or alarm to a customer rather than selling it outright, tax generally applies to the lease payments you receive. However, tax does not apply to the payments if you lease the item in substantially the same form as you acquired it, and:

- You paid an amount for sales tax when you bought the item, or
- You paid use tax on the purchase price of the item when the use tax was due (with the timely filed tax return for the reporting period in which you first lease the safe or alarm to your customer).

This is true whether the item is installed to real property or attached to personal property. In addition, separately stated installation charges for items you lease are not taxable.

Sales for resale

Items of personal property (not attached to real property)

When you sell an item of personal property from your shop to another business person who will resell it, and you accept a valid resale certificate in good faith and in a timely manner, your sale is considered a nontaxable sale for resale. Similarly, when you perform work on personal property and you are considered the retailer of materials furnished for the job, you can accept a resale certificate from your customer if he or she will resell the final product. However, when you are considered the consumer of materials on a job, you cannot legitimately accept a resale certificate from your customer.

Example: You rekey the locks on a used automobile for a used car dealer who will sell the car. Your total lump-sum charge for the work is \$175. The portion of your charge included for materials, including keys, is \$15. Since your materials charge is less than 10 percent of the lump-sum charge ($\$175 \times 10\% = \17.50), you are considered the consumer of the materials and tax applies to your purchase of those materials (see table on page 3: [Retail value of materials is 10% or less of total charge](#)). As a result, although your customer will resell the car on which you performed the work, you cannot accept a resale certificate for the cost of the materials. Your labor charges are not taxable because they are considered repair labor.

For more information, please see [Regulation 1546, Installing, Repairing, Reconditioning In General](#), and [publication 103, Sales for Resale](#).

Selling materials and supplies as a construction contractor

In general, you may not accept a resale certificate for work you perform under a construction contract as a contractor or subcontractor. Therefore, you may not accept a resale certificate from a prime contractor, interior decorator, designer, department store, or any other person who has contracted with you to perform the work (see exception below, regarding certain leased fixtures). Tax applies to your contract as explained in [Work Performed on Real Property: Houses, Stores, Office Buildings, and Apartments](#).

Example: You are hired as a subcontractor to install an electronic lock system in a commercial building. Your customer is the prime contractor for the project. You cannot accept a resale certificate from the prime contractor for the lock system materials.

Exception: When you furnish and install *fixtures* as a construction contractor, you may accept a resale certificate for the product *only* if you:

- Furnish and install the fixture, such as a safe, for a person other than the owner of the building; *and*
- That person will lease the fixture to another party and pay tax on the rental receipts.

For more information, please see [Regulation 1521, Construction Contractors](#), and [Regulation 1668, Sales for Resale](#). Please contact our Customer Service Center if you have any questions at 1-800-400-7115 (CRS:711).

Purchases for resale

You may issue a resale certificate to your supplier when you purchase an item you will sell as a retailer. However, if you know at the time you make the purchase that you will *use* the item—either for personal purposes or as a consumer—you should not issue a resale certificate. Instead, you should pay an amount for tax to your supplier. If you do not pay an amount for tax at the time of purchase and you do not hold the item for sale in your business, you will owe use tax on your purchase (see [Purchases subject to use tax](#)). For more information on making purchases for resale, please see Regulation 1668, *Sales for Resale*. [Publication 103, Sales for Resale](#), also contains information that may help you decide when you can legitimately make a purchase for resale.

Reporting Tax and Related Issues

This chapter includes information on reporting sales and use tax to CDTFA, common deductions, and keeping records.

Reporting sales tax

You generally must report all of your charges on your sales and use tax return. The amount you list for total (gross) sales must include all of your charges for merchandise, labor, overhead, delivery, trips, etc., whether the charges are taxable or nontaxable. The tax due with each return is based on your total gross sales for the period less any allowable nontaxable sales and deductions.

Collecting an amount for tax from your customer

When you make sales as a retailer, the law allows you to collect from your customers an amount equal to the sales tax you will owe on each sale. This is known as "tax reimbursement." You may add the reimbursement amount to your charges, being sure to itemize the amount on your invoice or receipts (most retailers itemize this charge as "sales tax"). Or you may include it in the total price you charge. If you choose the latter method, you must post a visible sign stating, "All prices of taxable items include sales tax reimbursement calculated to the nearest mill," or include a similar statement on your sales receipts.

Reporting charge and credit sales

The "total sales" you list on your sales and use tax return must include the price of items you sold on credit during the reporting period, even though you may not receive full payment until a later date. Tax is due on the full selling price. However, you may exclude amounts for insurance, interest, finance, and carrying charges from the taxable selling price you report for a credit sale, provided you keep adequate and complete records documenting those charges.

Example: In June you rekey a customer's car door lock and cut two new keys for \$150. Your customer pays you \$100 and agrees to pay the balance in future months. Regardless of when you receive the balance due, the full \$150 sale must be included in your tax return for the reporting period that includes the month of June.



Credit card sales

You should report credit card sales as if they were cash transactions. The service charge or "discount" you pay the credit card organization is not allowed as a discount or deduction for sales tax purposes.

Purchases subject to use tax

Merchandise that you purchase for resale and then use for another purpose is generally subject to use tax based on the purchase price. The rate for the *use tax* is the same as the sales tax rate in your location. You must report the cost of merchandise subject to use tax on your sales and use tax return under "Purchases Subject to Use Tax."

For example, you issue a resale certificate to your supplier when you buy a case of ten deadbolt locks that you intend to sell in your shop. You:

- Sell eight locks to walk-in customers, and
- Install two locks in a house under a lump-sum contract.

You are the retailer of the eight locks and you must pay sales tax to CDTFA on the amount you receive for them.

You are the consumer of the two installed locks, as explained on [Work Performed on Real Property: Houses, Stores, Office Buildings, and Apartments](#). Since you did not pay an amount for tax on the two locks when you purchased them, you now owe use tax on their purchase price. You must report the amount subject to use tax on the sales and use tax return for the period in which you used (installed) the locks.

Purchases from out-of-state vendors

Unless your purchase is for resale, you owe use tax on items you buy from an out-of-state vendor if the vendor does not collect an amount for California sales or use tax from you. Use tax is due on purchases of items such as:

- Materials you use rather than sell, including materials you furnish and install on a job as a consumer.
- Supplies such as cleaning solvent, lubricants, or office supplies.
- Tools.
- Store and office fixtures and equipment.

You must report the cost of these items as "Purchases Subject to Use Tax" on your sales and use tax return.

Credit against use tax liability for payment of another state's sales tax

If you were required to pay, and did pay, another state's sales tax on a purchase, you may take a credit against your *use tax* liability by:

- Deducting the amount of tax paid under "Taxes Imposed by Other States" on your return. You can claim a credit up to the amount of California use tax due.

Please note: You may not claim this credit against your sales tax liability for merchandise you resell.

Common deductions

Nontaxable labor

As noted in the first two chapters of this publication, tax does not apply to certain labor and service charges. If you include amounts for nontaxable labor in the total sales figure on your sales and use tax return, be sure to also deduct those amounts by listing them under "Nontaxable labor."

Tax-paid purchases resold prior to use

You may take a deduction on your sales and use tax return if you pay an amount for California sales or use tax when you buy an item, and then sell it in a taxable transaction before you use it in any way. Include the price of the item under "tax-paid purchases resold prior to use." More information is available in [Regulation 1701, "Tax-paid Purchases Resold."](#)

Bad debts

If your customer's check is not honored by the bank or if a customer buys on credit and does not pay you, you may be able to take a bad debt deduction to recover tax you paid on the sale. The bad debt must be charged off for income tax purposes. If you do not file income tax returns or file those returns on a cash basis, the bad debt must be charged off in accordance with generally accepted accounting principles.

Your deduction would be limited to the portion of the bad debt on which you had paid tax on an earlier return. If only part of the unpaid charge was taxable, you must prorate the bad debt to determine the amount you can claim as a deduction. To prorate the debt, multiply the bad debt amount by the taxable percentage of the total charge (taxable portion of charge ÷ total charge).

If you collect payment from your customer after you have claimed the deduction, you must report and pay tax on the amount collected that applies to the taxable portion of your charges. If your charges included both taxable and nontaxable amounts, you must prorate the payment between those amounts to determine how much tax is due on the recovered bad debt.

Please note: The rules regarding bad debts are somewhat complex. Before you claim a deduction for a bad debt or pay tax on an amount you received after you claim a bad debt deduction, you may want to contact our Customer Service Center for help at 1-800-400-7115 (CRS:711). Detailed information is also available in [Regulation 1642, Bad Debts](#).

Keep adequate records

You are required to maintain records that adequately document the amounts reported on your sales tax returns. Upon request, you must make these records available for examination by a CDTFA representative. If the representative is unable to verify your reported sales and tax amounts based on your records, you may be subject to penalties.

Your records should include those generally expected from a locksmith. Besides your summary records, you should keep all sales and purchase invoices, cash register receipts, repair orders, and any other documents that support the sales and use tax returns you have filed. To ensure that your records adequately support the amounts you report on your returns, you should:

- Make sure your invoices and repair orders are complete and easy to read. Identify all parts you have furnished and describe the type of labor performed.
- File invoices and repair orders in the same sequence as entered in your books.
- Separately list on your books the purchase of resale inventory and purchases of supplies and other nonresale items.

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. If you are being audited, you should retain all records that cover 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

For additional information or assistance, please take advantage of the resources listed below.

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

OFFICES

Please visit our website at www.cdtfa.ca.gov/office-locations.htm for a complete listing of our office locations. If you cannot access this page, please contact our Customer Service Center at 1-800-400-7115 (CRS:711).

INTERNET

www.cdtfa.ca.gov

You can visit our website for additional information—such as laws, regulations, forms, publications, industry guides, and policy manuals—that will help you understand how the law applies to your business.

You can also verify seller's permit numbers on our website (see [Verify a Permit, License or Account](#)).

Multilingual versions of publications are available on our website at www.cdtfa.ca.gov/formspubs/pubs.htm.

Another good resource—especially for starting businesses—is the California Tax Service Center at www.taxes.ca.gov.

TAX INFORMATION BULLETIN

The quarterly *Tax Information Bulletin* (TIB) includes articles on the application of law to specific types of transactions, announcements about new and revised publications, and other articles of interest. You can find current TIBs on our website at www.cdtfa.ca.gov/taxes-and-fees/tax-bulletins.htm. Sign up for our [CDTFA updates](#) email list and receive notification when the latest issue of the TIB has been posted to our website.

FREE CLASSES AND SEMINARS

We offer free [online](#) basic sales and use tax classes including a tutorial on how to file your tax returns. Some classes are offered in multiple languages. If you would like further information on specific classes, please call your local office.

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.

For written advice on general tax and fee information, please visit our website at www.cdtfa.ca.gov/email to email your request.

You may also send your request in a letter. For general sales and use tax information, including the California Lumber Products Assessment, or Prepaid Mobile Telephony Services (MTS) Surcharge, send your request to: Audit and Information Section, MIC:44, California Department of Tax and Fee Administration, P.O. Box 942879, Sacramento, CA 94279-0044.

For written advice on all other special tax and fee programs, send your request to: Program Administration Branch, MIC:31, California Department of Tax and Fee Administration, P.O. Box 942879, Sacramento, CA 94279-0031.

TAXPAYERS' RIGHTS ADVOCATE

If you would like to know more about your rights as a taxpayer or if you have not been able to resolve a problem through normal channels (for example, by speaking to a supervisor), please see [publication 70, Understanding Your Rights as a California Taxpayer](#), or contact the [Taxpayers' Rights Advocate Office](#) for help at 1-888-324-2798. Their fax number is 1-916-323-3319.

If you prefer, you can write to: Taxpayers' Rights Advocate, MIC:70, California Department of Tax and Fee Administration, P.O. Box 942879, Sacramento, CA 94279-0070.

Regulations, forms, publications, and industry guides

Lists vary by publication

Selected [regulations](#), [forms](#), [publications](#), and [industry guides](#) that may interest you are listed below. Spanish versions of our publications are also available online.

Regulations

- 1501 *Service Enterprises Generally*
- 1521 *Construction Contractors*
- 1526 *Producing, Fabricating and Processing Property Furnished by Consumers—General Rules*
- 1546 *Installing, Repairing, Reconditioning in General*
- 1668 *Sales for Resale*
- 1698 *Records*
- 1821 *Foreword—District Taxes*

Publications

- 9 *Construction and Building Contractors*
- 17 *Appeals Procedures: Sales and Use Taxes and Special Taxes and Fees*
- 44 *District Taxes (Sales and Use Taxes)*
- 51 *Resource Guide to Tax Products and Services for Small Businesses*
- 61 *Sales and Use Taxes: Exemptions and Exclusions*
- 73 *Your California Seller's Permit*
- 74 *Closing Out Your Account*
- 75 *Interest, Penalties, and Collection Cost Recovery Fee*
- 76 *Audits*
- 100 *Shipping and Delivery Charges*
- 103 *Sales for Resale*
- 105 *District Taxes and Sales Delivered in California*
- 108 *Labor Charges*

Appendix

Common locksmith transactions

Summary table—“Applying Tax to Locksmith Labor and Service Charges”

This section is intended to illustrate the principles described in the other chapters of this publication. It gives examples only and should not be considered a comprehensive list.

Fabrication of personal property

- 1.A customer brings you a lock that is missing a key and asks you to make a new key. Using one or more techniques (impression, duplication, disassembly, cutting by code, etc.), you make a key to fit the lock.
Making a key is a taxable transaction (fabrication), provided you give the customer the key. All related labor and service charges are taxable.
- 2.You travel to a customer’s home to make an automobile ignition key or a new house key. You charge a trip charge in addition to the charges for making the key and the key itself.
Making a key is a taxable transaction (fabrication) and tax applies to all charges for materials, labor, and services, including any trip charge or service call charge.

Installation of lock—real property

- 3.You install a door lock in a customer’s shop and charge one lump-sum amount for the installation, the lock, and a trip charge.
Your charges, including your trip charge, are not taxable. Since you have performed a lump-sum construction contract (see [Applying tax to purchases of materials furnished in construction contracts](#)), you are the consumer of the lock and other materials. If you did not pay an amount for tax to your supplier when you bought the lock, you must pay use tax on its purchase price with your sales and use tax return.
- 4.Would tax apply differently in the example above if you billed under a time-and-materials contract and charged your customer an amount for “sales tax” on materials?
Yes. In a time-and-materials contract where you charge an amount for “sales tax” computed on a marked-up billing for materials, you are the retailer of the materials you provide. Tax applies to your charge for materials. Your installation charge, however, is not taxable. Your trip charge is partially taxable (see [Applying tax to purchases of materials furnished in construction contracts](#)).

Installation of lock—personal property

- 5.You travel to a location away from your shop and install a lock in a customer’s used car. You charge separate amounts for materials, installation, and travel.
You are the retailer in this situation and your sale of the lock is taxable (see [Installation - installing locks and similar work](#)). Your installation charge is not taxable. Your travel charge is partially taxable (see [Other Locksmith Charges, Sales, and Purchases](#)).

Repair of personal property and fabrication of key

6.A customer provides a lock and asks you to change the lock so that the existing key will no longer operate the lock. She also wants you to provide a new key. You take apart the lock and change the internal components so that the original key will not work, using some components from the lock itself and some minor new components. You charge your customer a lump-sum amount for the job.

Do you apply tax differently if the customer furnishes a functioning key or if you use only original parts for the repair?

The object of the transaction is to rekey the lock, which is considered a repair service, and to provide a new key that works. Tax applies in the same way regardless of whether your customer provides a key or whether you use only original components for the repair.

How does tax apply to amounts for labor included in your charges?

Rekeying a lock is considered a repair service, as noted above. The labor for rekeying the lock is not taxable. The labor for making the key, however, is taxable as fabrication labor. Your fabrication charge is considered part of the total charge for the new key.

How does tax apply to amounts for materials included in your charges?

Tax applies to your charge for the new lock components and the total charge for the new key (including the fabrication labor charge for making the key) if their combined retail selling value is more than 10 percent of your total lump-sum charge. If their value is lower, you are the consumer of the materials and you owe use tax on their purchase price unless you paid an amount for tax to your supplier when you bought them. Tax would not apply to the amount you charge your customer for materials (see [Applying tax to charges for materials—jobs including labor or services performed on personal property](#)).



Applying Tax to Locksmith Labor and Service Charges			
Type of work you perform	Labor taxable (fabrication)	Labor not taxable (repair)	Labor not taxable (installation)
Making new keys Making key by duplication or cutting by code	X All charges associated with making the key, including any trip or service charge		
Removing and replacing lock in order to make new key		X	
Rekeying locks Removing and replacing lock cylinder, repinning a new cylinder to a new code, shimming or picking lock cylinder		X	
Cutting new key	X		
Making "old key" if necessary to rekey lock	X If you provide key to your customer	X If you use key only to open lock for rekeying and do not deliver key to customer	
Opening locks		X	
Installing locks	X On new personal property such as automobiles (see note) desks, safes, boats	X On used personal property such as autos (see note) desks, safes, boats	X In real property, such as houses, office buildings, apartment buildings
Safes—servicing and installing Changing combinations, servicing		X	
Installing floor or wall safe in building			X
Alarms—installing new systems	X In new automobiles (see note below)		X In buildings or used automobiles

Please note: Fabrication labor is not taxable if your transaction is a sale for resale.

An automobile is considered "new" if:

- It qualifies as a new vehicle when registered with the Department of Motor Vehicles.
- You contract to work on the vehicle within 60 days of its registration date.

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