



A comprehensive guide to California sales tax

xero



The complexities of sales tax in California

Dealing with sales tax can be a complicated task for businesses across the US.

In California, sales tax has a reputation for being tricky – different districts and frequently changing rates can add to the complexity and confusion. Applying the right rate to invoices, using exemption and resale certificates where necessary, and ensuring you pay the right amount of sales tax is enough to make your head spin.

In this guide, we simplify California sales tax for small businesses, and give you the tools to handle compliance with ease. Learn about the differences between sales tax and use tax, how to automate tax processes to save time, and how to register for a seller's permit.

Understanding the basics: sales tax vs use tax

There are two types of tax when you sell products. Sales tax is primary, with retailers operating in California responsible for registering, collecting this tax from customers, and paying to the government. But when sales tax isn't collected – say, the item was sold by an out-of-state retailer to a customer – the buyer needs to pay a use tax.

What is sales tax?

Sales tax is applied to the retail sale of tangible personal property. Essentially, this means physical products are subject to sales tax.

If your business sells in California, you must register with the California Department of Tax and Fee Administration (CDTFA), and pay sales tax. Retailers act as agents on behalf of the state, and are responsible for registering, collecting, and sending sales tax onto the government.

The sales tax base rate for California is currently 7.25% (as of July 2025). The total rate you pay is made up of state, local, and additional district tax rates. For example, the Santa Monica sales tax rate is 10.75% once local and district rates are taken into consideration.

What is use tax?

Use tax applies when you buy something from outside California and bring it into the state to use, store, or consume. If sales tax wasn't collected at the time of purchase, you'll be responsible for paying the equivalent use tax. For example, you may have procured raw materials from a supplier outside of California, to be used within the state.

Think of use tax as the flip side of sales tax – the rate is the same, but instead of the seller charging it, the buyer reports and pays it directly. If items are purchased for business, use tax is to be paid in a sales and use tax return. If a taxable item is purchased for retail, but you then use it in your business, you need to pay use tax.

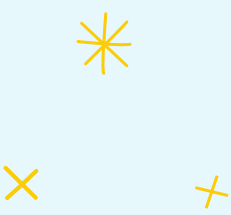
Sales tax vs. use tax: What's the difference?

Both sales tax and use tax apply to tangible goods sold. Here's what's different about the two tax types:

- **Collection point:** Sales tax is collected by the retailer at the point of sale. Use tax is self-assessed and paid by the buyer (when sales tax hasn't been collected on the item)
- **Responsibility:** The retailer is responsible for collecting and remitting sales tax to the government, whereas the buyer is responsible for this with use tax (though some out-of-state sellers may collect use tax on behalf of the state)
- **It's one or the other:** You never pay both sales tax and use tax on the same transactions. If sales tax is collected on an item, use tax doesn't apply



Which businesses need to pay sales tax?



Retailers operating in California need to collect sales tax and pay it to the government. The first step is registering for a seller's permit. In some cases, casual sellers can register for a temporary 90-day permit. An artist selling prints at a craft fair would need a temporary permit, for example.

Previously, businesses needed a physical presence in California to qualify for sales tax. Following the U.S. Supreme Court's decision in [South Dakota v. Wayfair, Inc.](#) (June 21, 2018), sales tax obligations were extended to remote sellers.

This means businesses can be taxed based on their economic or virtual connections to the state – referred to as 'nexus'. And a retailer doesn't need a physical location in a state to be liable for sales and use tax.

What is a nexus and how can you tell if you have it?

In relation to sales tax, nexus is simply a way of saying your business has a connection to the state. Once this connection exists, it determines whether you need to pay sales tax in specific states. Before *South Dakota v. Wayfair, Inc.*, nexus was determined by physical presence. Now, other factors create a nexus between a business and a state:

- **Economic nexus:** If you reach \$500,000 in sales in California, whether you're an out-of-state or in-state seller, you have an economic nexus and need to pay sales tax in the state
- **Click-through nexus:** If you receive online referrals from someone within the state and pay a commission or reward them, you establish a click-through nexus with the state

Marketplace Facilitator laws

The rules are slightly different for marketplace facilitators like Amazon, Etsy, or eBay. These platforms are responsible for collecting and remitting sales tax on behalf of their sellers.

So, if you are considered an individual seller and you sell items through these platforms, you're not responsible for collecting sales tax for those specific sales. However, if you also sell through your own website, or in a physical store, you'll still need to collect sales tax for purchases made there.

Trailing nexus

If your nexus ends – say, you close stores in California, or you no longer reach \$500,000 of in-state sales each year – you may still need to keep your permit and file sales and use taxes.

In California, the trailing nexus rules mean that you need to follow sales and use tax rules throughout the year you exceed the \$500,000 threshold, plus the following year. So, if you meet the threshold in the 2025 calendar year, you need to continue following sales and use tax rules throughout 2026 (regardless of whether you meet the threshold).

Getting a California seller's permit

It's important that you register for a California seller's permit before any taxable sales are made, so you can report on and pay taxes on those sales. If you make sales but don't have a permit in place, it's a violation of the law, and you could face penalties and fines.

How to register for a seller's permit

You can register for a seller's permit for free, on the [CDTFA](#) website. You'll need some business information on hand, like your business type, ownership, estimated sales, Federal EIN, and start date of sales.

If your sales are for a short-term period – no longer than 90 days in a single location – you can apply for the temporary sales permit instead. Examples of where this might be useful is if you're doing a trade show, or selling at seasonal markets.

Calculating sales tax

The formula for calculating sales tax on an item is:

$$\text{Tax rate} / 100 \times \text{item price} = \text{sales tax}$$

So, if you're adding the base rate of 7.25% to an item that's originally priced at \$80, the formula looks like this:

$$7.25 / 100 = 0.0725 \times \$80 = \underline{\$5.80}$$

This means the total price including sales tax is **\$85.80**.

Finding the correct tax rate

The California base rate of 7.25% is made up of 6% state, and 1.25% local rates (as of July 2025). Local municipalities add to these rates with district taxes, which can be an additional 0.1% to 2% increase on the total tax rate (depending on location).

For example, in Orange County, there's a district tax rate of between 0.5 - 2% depending on the specific location. The lowest [sales tax rate](#) you could pay in Orange County is 7.75% whereas the highest rate you could pay is 9.25%.

It's important to apply the right combined state and district rate to stay compliant. The CDTFA provides a table of up-to-date [tax rates](#) for specific locations, which you can use to find the right rate.

Alternatively, you could use software that automates tax collection. Using [Xero accounting software and Avalara](#), you can set up sales tax in every state where your business operates. The right rate of sales tax is automatically calculated for invoices based on where you're selling from and to, so you don't need to do complex calculations for yourself.



Saving time on sales tax with automation

Depending on the tools you use to sell, you may be able to automate some of the sales tax collection process. For example, many point-of-sale (POS) solutions allow you to set sales tax rates for specific store locations, and create tax groups for product rules. Mobile POS systems use GPS signals to determine the sale location and tax rate, and you can also customize the tax rules within the system.

And, if you use a hosted online store platform like Shopify or Squarespace, you can set up automated sales tax calculations so it's collected from customers. Online marketplaces like Amazon, Etsy, and eBay also offer integrated sale tax rate determination and collection. These services can come at a fee, so it's important to take this into consideration when you price your products.

Origin-based vs. destination-based sales tax:

District sales tax for in-state sales is origin-based, so the rate you use is based on where you're located. But for out-of-state sellers, it's destination-based, so the tax rate is based on where the item is being shipped to. This makes California a modified origin-based state for sales tax, because it uses both origin-based and destination-based rules.

- For in-state purchases, sales tax is collected at the rate where the sale occurs, such as a retail store location
- For out of state sellers with a nexus in California, sales tax is collected at the rate where the sale is delivered, like the buyer's home
- For in-state sellers who are selling online, state, county, and city taxes are based on the ship-from address – the seller's location in California. District taxes are based on the ship-to address – the customer's location

Sales tax		Auto tax rates ▼	
From (origin)		From (origin)	
5800 Dolphin Dr, El Paso, TX 79924		79 Madison Ave, New York City, N...	
Description	Price	Sales tax code	Taxability
Stickers	575.00	Printing Services	Fully taxable
			NY tax (8.875%)
		Subtotal	575.00
		Total sales tax	11.10
		View tax calculations	
		TOTAL	586.10

• automated-calculations

May need artwork file for high res
Maybe Wellington HUB?

- URL: <https://www.xero.com/us/accounting-software/calculate-sales-tax/>

Taxable vs exemptions and resale certificates

Sales tax generally applies to tangible goods, like equipment, office supplies, or books. Most services aren't subject to sales tax, unless they result in the creation of new physical goods.

Common exemptions include:

- Food for human consumption
- Prescription medicines and medical devices
- Downloadable software, ebooks, or applications (though physical media, like CDs, are subject to sales tax)
- Sales to the US government

Some purchases qualify for [partial exemptions](#), which means you pay a lower tax rate. For example, buildings for raising livestock and solar power facilities may be partially exempt for the [agriculture industry](#). The purchase or lease of certain machinery or equipment for [manufacturing](#) can also be subject to a lower rate.

Check which exemptions may apply to your specific industry so you know exactly when to charge sales tax and when the rate may vary. You still need to report exempt sales on your sales and use tax return, but they will then be reported as a nontaxable transaction in the deductions section.

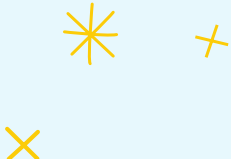
If you're purchasing an item strictly for resale, you can provide the supplier with a resale certificate, and won't need to pay sales tax. You may also need to accept resale certificates, should a customer purchase from you with plans to sell the item. The [CDTFA](#) provides a blank resale certificate you can use as a template.

The resale certificate must contain certain details such as the purchaser's seller's purchase number and confirmation that the item is being purchased for resale. You can [verify the seller's permit](#) of the purchaser online to check it is legitimate. It's important to use resale certificates correctly – misuse can lead to serious penalties, including criminal prosecution. Sellers must collect a valid exemption or resale certificate from buyers. Supporting documentation for non-taxable items is required for compliance.



Sales Tax Report				
Sales Tax Breakdown				
Hornblower Enterprises				
Dec 1, 2022 to Dec 31, 2022				
Accrual				
California	auto tax rates	Taxable sales	Tax rate	Tax
		804.95	6.000%	48.30
		164.95	0.250%	0.41

Shipping, handling and drop-shipping charges



If a sale isn't taxable, related charges such as shipping aren't taxable either. If the sale is taxable, then related charges might be taxable too.

Whether shipping is taxable depends on how you charge for it. If you only pass on the exact cost of mailing or use a common carrier or US mail, it usually isn't taxable. These charges are partially taxable if you mark up the shipping cost – the fee you charge is greater than the cost for you. And delivery-related charges are fully-taxable if you use your own delivery vehicles, include the delivery charge in

the unit price, or you make a fuel surcharge or apply a fee for handling.

CDTFA has a full list of [delivery-related charges](#) and their taxable status. Make sure your invoices and documentation are clear so that buyers and tax agents understand your charges.

Filing and remitting California sales tax returns

Registered sellers must submit sales data by filing a return, and remit the collected tax dollars to the CDTFA. You can [file online directly with the CDTFA](#), submit a paper tax form, or use accounting and sales tax automation software to ensure accuracy and speed up admin.

When you register with the CDTFA, you'll be assigned a filing frequency – monthly, quarterly, or annually – as determined by your estimated taxable sales. Filing frequency can change as your sales volume changes, so make sure you know when you're expected to file.

You'll need your CDTFA account details, as well as sales, transactions, and deductions information when you're ready to submit your sales tax return. You'll also need payment information so you can settle your tax bill. Whether you make taxable sales or not, you must still file for sales and use tax. In cases where you haven't made taxable sales, you'll need to file a zero tax return.

Returns are due at the end of the month following the reporting period. You can find [specific filing dates](#) on the CDTFA website. For example, a monthly return for September is due by the end of October (31st). And for those who make prepayments, these are due on the 24th of the following month.

It's vital that you keep accurate records of sales, sales tax collected, and exemption certificates. These records are essential for getting your sales and use tax correct, and ensuring accurate and compliant submissions.

Avoiding penalties and ensuring compliance

Missing a filing date or underpaying can lead to penalties, but with the right systems in place, you can easily stay on top of deadlines.

Make sure you have the correct tax rate and that you're applying it to the right sales, and that you're using exemption and resale certificates appropriately. Automation software makes it much easier to comply, with safe storage for records and automatic sales tax calculations for accuracy.

It's also important that you stay informed on rate changes and regularly review your sales tax obligations. Compliance can be tricky, especially if you operate in multiple states and need to follow various rules. Getting an accounting professional onboard can help to ease the pressure and ensure compliance.

There's a 10% penalty for late filing, and a 10% penalty for late payment. If you file and pay late, the penalty will not exceed 10% of the tax due. Interest on outstanding tax is calculated monthly, the day after your return was due. The interest rate is based on the Internal Revenue Service short-term rate, plus 3%.

The CDTFA recommends keeping records for at least four years, as you may need these as evidence for an audit. If you're [audited by the CDTFA](#), you could be expected to provide books of account, original records such as invoices, certificates, bank statements, and previous tax returns.



Streamline your California sales tax with Xero

Calculating sales tax, applying it to your invoices, and keeping the right records for compliance isn't easy. It takes time to research the right rates, make accurate calculations, and organize records, certificates, and file tax returns.

But you don't need to do this work manually. With accounting software like Xero, and integrated tax compliance tool Avalara, you can [automate sales tax](#) admin and make compliance simple.

Xero automatically calculates sales tax on invoices based on origin, destination, item type, and customer exemption status. You can set up sales tax for every state you operate in, and adapt it for specific services and items you sell.

And Avalara automatically updates with the latest tax rates and rules, including California's ever-changing district taxes, so there's no need to worry that you're tax rate is out of date.

You can run a sales tax report in Xero in a matter of clicks. See sales tax by jurisdiction and filing period, and see a summary of sales and tax amounts as well as non-taxable and exempt items. This makes it easier to track upcoming payments, review past filings, and plan for future tax bills.

The integration between Xero and Avalara means both systems work together to make sales tax easier for you – data flows between both pieces of software so you always have the latest tax rates and rules available. Set up is quick and simple, so you can start streamlining your sales tax processes immediately.

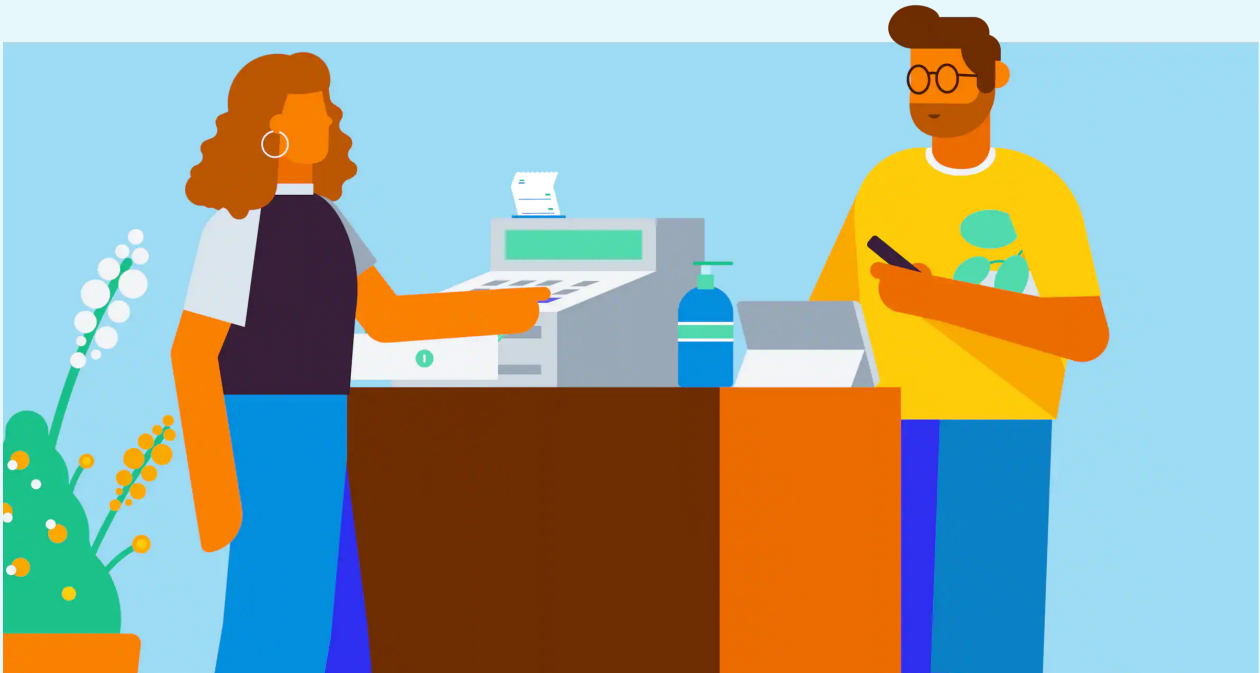
Beyond sales tax

Xero doesn't just make compliance easier – it makes running a small business less stressful, too. You can speed up and automate key business processes, such as invoicing, bank reconciliation, and financial reporting.

Set up automatic invoice reminders and [add digital payment options](#) to invoices to encourage faster payments. Or, use the bank reconciliation predictions feature to make matching transactions easier and less time-consuming.

Choose from an array of pre-set financial reports to see how your business is performing, or customize your own reports for the metrics that matter most. Xero uses live accounting data to compile reports, so your projections and reports are always based on the most recent information.





Make sales tax simple

California sales tax law is complex – taking the time to understand the rules and find the right rates can save you time and money in the future. Especially with the risk of penalties and fines for non-compliance.

Modern accounting and tax software can lift the administrative burden, while ensuring accuracy. Software like Xero and Avalara stays aligned with the latest tax rules, so you can be sure the software supports sales tax compliance for your business. For personalized advice, it's always best to consult with a tax professional who can support you.

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<https://www.xero.com/us/guides/how-to-calculate-sales-tax/>



[Try Xero for sales tax today](#)

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