



CDTFA
CALIFORNIA DEPARTMENT OF
TAX AND FEE ADMINISTRATION

Grocery Stores

Preface

This publication is designed for owners, managers, and other operators of grocery stores and provides basic information on the application of the California Sales and Use Tax Law to grocery store sales and purchases.

For purposes of this publication, a grocery store is an establishment having as its principal line of business the sale of food products and related items. The term includes separate grocery departments in department stores but does not include delicatessens, country or general stores, and establishments that handle groceries as a sideline.

If you have questions that are not answered in this publication, please visit our *Tax Guide for Grocery Stores* at www.cdtfa.ca.gov/industry/grocery.htm or call our Customer Service Center at 1-800-400-7115 (TTY:711). Customer service representatives are available to assist you Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays. This publication complements [publication 73](#), *Your California Seller's Permit*, which includes general information about obtaining a permit; using a resale certificate; collecting and reporting sales and use taxes; buying, selling, or discontinuing a business; and keeping records. Please also refer to the [For More Information](#) section for California Department of Tax and Fee Administration (CDTFA) information and the complete list of regulations, guides, 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:

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Please note: This publication summarizes the law and applicable regulations in effect when the publication was written, as noted on the back 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 law is controlling.

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General Application of Tax

It is important to understand how tax applies to your sales of food, merchandise, and other physical products. This chapter is designed to answer questions commonly asked by grocers. Please visit our online Tax Guide for Grocery Stores at www.cdtfa.ca.gov/industry/grocery.htm or the [For More Information](#) section for the complete list of regulations and publications referenced in this publication.

Some examples of taxable and nontaxable sales

Taxable sales

Sales tax generally applies to sales of:

- Alcoholic beverages
- Books and publications
- Cameras and film
- Carbonated and effervescent water
- Carbonated soft drinks and mixes
- Clothing
- Cosmetics
- Dietary supplements
- Drug sundries, toys, hardware, and household goods
- Fixtures and equipment used in an activity requiring the holding of a seller's permit, if sold at retail
- Food sold for consumption on your premises (see [Food service operations](#))
- Hot prepared food products (see [Hot prepared food products](#))
- Ice
- Kombucha tea (if alcohol content is 0.5 percent or greater by volume)
- Medicated gum (for example, Nicorette and Aspergum)
- Newspapers and periodicals
- Nursery stock
- Over-the-counter medicines (such as aspirin, cough syrup, cough drops, and throat lozenges)
- Pet food and supplies
- Soaps or detergents
- Sporting goods
- Tobacco products*



**Retail sellers of cigarettes and tobacco products must have a separate California Cigarette and Tobacco Products Retailer's License for each retail location. This is true even if you have a seller's permit or other permits or licenses issued by us. For more information, see [publication 78](#), Sales of Cigarettes and Tobacco Products in California.*

Nontaxable sales

Sales tax generally does not apply to sales of:

- Baby formulas (such as Isomil)
- Cooking wine
- Energy bars (such as PowerBars)

- Food products—This includes baby food, artificial sweeteners, candy, gum, ice cream, ice cream novelties, popsicles, fruit and vegetable juices, olives, onions, and maraschino cherries. Food products also include beverages and cocktail mixes that are neither alcoholic nor carbonated. The exemption applies whether sold in liquid or frozen form.
- Granola bars
- Kombucha tea (if less than 0.5 percent alcohol by volume and naturally effervescent)
- Sparkling cider
- Noncarbonated sports drinks (including Gatorade, Powerade, and All Sport)
- Pedialyte
- Telephone cards (see [Prepaid telephone debit cards and prepaid wireless cards](#))
- Water—Bottled noncarbonated, non-effervescent drinking water

Food product sales

Although sales of food products for human consumption (food that people eat) are generally exempt from tax, there are many sales of food products that are taxable. For example, you must report tax on sales of food products sold for consumption on your premises when eating facilities are provided. Because certain sales of food products are taxable, it is important to understand when tax applies.

If an item does not qualify as a food product, or if it is not sold for human consumption, it is generally subject to tax.

For example, the following items *do not qualify* as food products and, as a result, are subject to tax:

- Alcoholic beverages
- Carbonated beverages, including semi-frozen beverages containing carbonation, such as slushies (see [Carbonated fruit juices](#))
- Coloring extracts
- Dietary supplements
- Ice
- Over-the-counter medicines
- Tobacco products



Likewise, a food product sold for consumption by a dog, cat, bird, and other domestic pets, or for use as fish bait, is taxable because it is not sold as a food for people to eat.

Carbonated fruit juices

Carbonated products that qualify as 100 percent natural fruit juice are not subject to tax. If the fruit juice includes a preservative, such as sodium benzoate, or any other additive, it is not considered a natural fruit juice and is taxable.

Vitamin-enhanced water

Noncarbonated, vitamin-enhanced water beverages and sports drinks that come in packages similar in size and volume to nonenhanced bottled water are generally considered food products. Your sales of these products on a to-go basis are generally not subject to tax. Noncarbonated bottled water is specifically considered a food item. The specially mixing or compounding of nutritional elements, such as vitamins, in an item traditionally accepted as food, such as vitamin-enriched bread, does not alone render the product taxable nor does including the word “vitamin” in a food product name, description, or product advertising. For more information, see [Regulation 1602, Food Products](#).

Combination packages

Combination packages may include food or a combination of food and nonfood items. If you create gift packages (for example, gift baskets) that contain only food, such as cheese, crackers, or fruit, the sale of these gift packages is generally exempt from tax. If you decide to include a nonfood product in a gift basket, it is necessary to determine the taxable portion of the combination package. A container is generally considered the package and any packaging material that holds the product being sold.

If you maintain records that verify the cost of the individual items

You *must* continue to separate the retail value of the nonfood products when:

1. You have records that verify the cost of the individual items in the package and
2. The retail price of the nonfood product is more than ten percent of the retail value of the entire package, not including the container.

The tax is based on the retail sales price of the nonfood products not including the value of the container. For example, you *have records* to establish the cost of the individual items of a combination package, and your sale includes the following components:

Meat and cheese, retail value (exempt food products)	\$22.00
Serving utensil, retail value (nonfood product)	<u>5.00*</u>
Total retail value of contents	\$27.00
Tray (container) retail value	<u>3.00</u>
Total	\$30.00
Sales tax (\$5.00* x 8.25%)	<u>.41</u>
Total selling price of combination package	<u>\$30.41</u>

*Total retail value of the nonfood products

In this example, the retail value of the nonfood item, \$5.00, is greater than 10 percent of the retail value of the entire package, not including the container (tray) (\$27.00 x 10% = \$2.70). Additionally, the retail value of the container is less than 50 percent of the retail value of the entire package. Since you have records to establish the cost of the individual items of the combination package, the tax is measured by the retail sales price of the nonfood products not including the value of the tray (\$5.00 x appropriate tax rate).

If you do not have records to verify the cost of the individual items

Tax may be measured by the retail sales price of the entire package, including the value of the container if:

1. The retail value of the nonfood product *exceeds ten percent* of the retail price of the entire package, not including the container, and
2. You *do not have records to establish the cost* of the individual items of the combination package.

This would also apply if you were selling prepackaged gift baskets, since you do not have records for the cost of the individual items in the package. For example, if you do not have records to establish the cost of the individual items of a combination package and your sale includes the following components:

Meat and cheese, retail value (exempt food products)	\$22.00
Serving utensil, retail value (nonfood product)	<u>5.00</u>
Total retail value of contents	\$27.00
Tray (container) retail value	<u>3.00</u>
Total	\$30.00
Sales tax (\$30.00 x 8.25%)	<u>2.48</u>
Total selling price of combination package	<u>\$32.48</u>

In this example, the retail value of the nonfood item, \$5.00, is greater than ten percent of the retail value of the entire package, not including the container ($\$27.00 \times 10\% = \2.70). However, since you do not have records to establish the cost of the individual items of the combination package, the tax is measured by the retail sales price of the entire package, including the value of the tray ($\$30.00 \times$ appropriate tax rate).

If you do or do not have records to verify the cost of the individual items

The sales price of the package is nontaxable if:

1. The retail value of the nonfood products is ten percent or less than the total value of the contents (not including the container), and
2. The container’s retail value is 50 percent or less of the entire package value.

For example, your sale includes the following components:

Cheeses, retail value (exempt food products)	\$45.00
Small knife, retail value (nonfood product)	<u>5.00</u>
Total retail value of contents	\$50.00
Container, retail value	<u>10.00</u>
Total selling price of combination package	<u>\$60.00</u>

The nontaxable combination package meets both conditions explained in the example above. The value of the nonfood items, \$5.00, is 10 percent of the \$50.00 total value of the contents ($\$50.00 \times 10\% = \5.00). The value of the container, \$10.00, is less than 50 percent of the retail value of the entire package ($\$60.00 \times 50\% = \30.00). Your sale qualifies as a nontaxable sale.

Please note: In these examples, we show tax calculated at a rate of 8.25 percent; however, you should use the tax rate in effect at your business location. For current tax rates, see [California City & County Sales & Use Tax Rates](#), available on our website or by calling our Customer Service Center. If you would like more information, see [Regulation 1602, Food Products](#).

Nonedible cake decorations

If you sell a cake or other bakery goods that include nonedible decorations, you must report tax on the retail-selling price of the decorations if they represent 50 percent or more of the total retail value of the cake or bakery item. You must segregate the charge for the decorations from the charge for the cake or bakery item, and you must calculate the tax based on the retail value of the decorations.

You may already separately state the retail value of decorations on the invoice. If you do, and if the decorations are nonedible, you must report tax based on the retail value of the decorations—whether or not they represent at least 50 percent of the total retail value of the cake or bakery item.

Food or dietary supplements or adjuncts (additives)

Sales tax generally applies to preparations in liquid, powdered, granular, tablet, capsule, lozenge, and pill form sold as food supplements, dietary supplements, food additives, or dietary additives. Supplements or additives are not included in the definition of exempt food products. If an item is sold in one of these specified forms, the following methods may be used to determine its taxability:

- If an item is described on its label or package as a food supplement, food adjunct, dietary supplement, or dietary *additive*, its sale would be subject to sales tax.
- If an item is prescribed or designed to remedy specific dietary deficiencies or to increase or decrease generally those areas of human nutrition dealing with vitamins, proteins, minerals, or calories, its sale would be subject to sales tax.

- If an item is in one of the specified forms above, it may be taxable if it is generally recognized as a dietary supplement regardless of how it is described on its package and regardless of its package's emphasis or lack thereof on vitamin, protein, mineral, or calorie content. Examples include cod liver oil, wheat germ oil, and halibut liver oil.

Revisions to [Regulation 1602](#), *Food Products*, and [Regulation 1591](#), *Medicines and Medical Devices*, clarify that dietary supplements can, in limited circumstances, be considered "medicines." This applies when supplements (provided by a physician to their own patient) are part of a medically supervised weight loss program to treat obesity.

Dietary supplements provided by physicians

Generally, if a supplement does not qualify as a complete dietary food under Regulation 1602, it is taxable. However, the sale will not be taxable if a physician prescribes such a supplement to their own patient as part of a medically supervised weight loss program to treat obesity.

Herbal products

A product's labeling does not determine that it is a medicine and does not disqualify it from the food products exemption. If a product does not meet the definition of medicine, as provided in Regulation 1591, it may still be considered a food product for human consumption. This is true even if medicinal claims are made on the product's label or product brochures.

If an herb is sold in cut-leaf form, the herb cannot be considered a supplement or additive, regardless of what is written on the label because cut leaf is not in one of the forms listed in Regulation 1602. Only a dried herb that is ground or crushed into fine particles should be considered a powder. For such an herb to be considered to be sold as a supplement or additive, it must be either:

- Labeled as a supplement or adjunct, or
- Prescribed or designed to meet specific dietary deficiencies or increase or decrease vitamin, protein, mineral, or caloric intake.

If the herb is not described on its package or label as a food supplement, food additive, dietary supplement, or dietary additive, the herb is a food product, which is exempt from tax.

Hot prepared food products

Sales of hot prepared food products are subject to sales tax regardless of whether they are sold for consumption on the premises or sold to go.

A food product is considered a hot prepared food product if it is heated above room temperature. Hot food is considered a hot prepared food product—even if it has cooled by the time of sale—since it was intended to be sold as a hot food.

Examples of hot prepared food products include hot pizza, hot barbecued chicken, hot spareribs, hot popcorn, and hot nuts. (If you sell nuts from an enclosed display case which is heated with an ordinary light globe, they are considered hot food products and are subject to sales tax.) Hot bouillon, consommé, and soup are also considered hot prepared food products and their sale is subject to tax. However, tax does not apply to the sale of hot bakery items, hot coffee, and other hot beverages if they are sold individually and to go.

Hot prepared food products also include a combination of hot and cold food items where a single price has been established for the combination. Examples include:

- coleslaw, rolls, and hot chicken sold for a single price
- a doughnut and coffee sold for a single price

To-go sales of meal packages that do not include hot items

If you sell a combination meal to go that includes cold food and a carbonated beverage, the portion of the selling price that represents the carbonated beverage is subject to tax. If the combination package includes cold food and a beverage other than a carbonated beverage, the sale of the package is not taxable.

Example: You sell a combination of a cold sandwich, chips, and iced tea for a single price to go—the sale is not taxable. You sell the same package with a carbonated soda—the portion of the selling price representing the charge for the soda is taxable.

Food service operations

Food sold for consumption at tables, chairs, or other facilities, that you provide

If your store has a snack bar, soda fountain, cafeteria, or similar operation, you must report sales tax for sandwiches, ice cream, and other foods if those foods are sold in a form for consumption at tables, chairs, or counters or from trays, glasses, dishes, or other tableware that you provide. For example, if you provide either a stand-up or sit-down counter in the delicatessen section, tax applies to food sold for consumption at the counter.

To-go sales

In general, sales of cold food to go are not subject to tax. If you claim an exemption from tax for cold food sold to go, you must show that no facilities are provided where the food can be consumed immediately. If facilities are provided, you must segregate your nontaxable sales receipts from the taxable “dine-in” sales receipts. Your receipts could include tapes from a separate cash register key, copies of sales slips, or some similar record that can be verified by audit.

- You can elect to charge tax on to-go sales of cold food if more than 80 percent of your store’s sales are from the sale of food products and more than 80 percent of your store’s sales are taxable dine-in or hot food sales.

Catering

You are considered a caterer for tax purposes if you serve meals, food, and drinks on your customers’ premises. If you make sales as a caterer, see [publication 22, Dining and Beverage Industry](#). Please also refer to the [For More Information](#) section.

If you deliver food and you do not use your employees or your own tableware to serve food, you are considered a food seller rather than a caterer. As a food seller, tax applies to your sales as described in this publication.

Miscellaneous charges and transactions

The following information applies to a variety of sales and charges that occur at grocery stores.

Newspapers and periodicals

Sales of newspapers and periodicals are taxable, except for periodicals sold by subscription. Retailers who sell newspapers and periodicals in their stores should include these items with their reported taxable sales. Sales of catalogs, maps, and books are also taxable.

Film processing

Tax generally applies to all charges involved in processing film, including charges for:

- Enlarging photos
- Placing photographic images on a CD, DVD, or disk
- Printing photos from a digital storage medium



Tax generally also applies to charges for coloring and tinting new pictures. However, *itemized* charges for developing negatives from *your customers'* exposed film are generally not taxable. This is to be distinguished from charges for developing film by the reverse process method, which is subject to tax. The reverse process method consists of developing the film to a negative and reversing it into a positive, usually in the form of a slide or a home movie film. For additional information, see [publication 68, Photographers, Photo Finishers, and Film Processing Laboratories](#).

Carpet cleaners

Your carpet cleaning equipment rental receipts are sometimes taxable, and you may be required to report and pay tax on all or a portion of the receipts. It will depend on whether you paid sales tax or use tax on your purchase of the carpet cleaning equipment.

If you did not pay tax on the carpet cleaning equipment:

- You must report and pay tax on all rental receipts, including charges for soaps and cleansers.

*If you paid tax to your supplier or reported use tax on your tax return:**

- If you charge your customer a lump-sum amount for the rental (including equipment, soaps, and cleansers), you are not required to report and pay tax. However, you are considered the consumer of the soaps and cleansers and are liable for tax on your purchase of those items.
- If you charge a separate amount for the equipment and a separate amount for the soaps and cleansers, you are not liable for tax on the rental receipts for the equipment but are liable for tax on your soaps and cleansers receipts. Under this example, you can purchase the soaps and cleansers with a resale certificate.

** If you report use tax on your return, your purchase must be reported by the due date for the reporting period during which you first place the equipment in rental service.*

Lottery

Lottery receipts are not part of a retailer's gross receipts for tax purposes and should not be included on your sales and use tax return. Appropriate recordkeeping procedures should be established to segregate lottery receipts from sales. If you do not maintain adequate documentation of exempt lottery receipts, such sales could be confused with taxable sales.

Prepaid telephone debit cards and prepaid wireless cards

In general, sales of prepaid telephone debit cards are not taxable (see *Exception* below) since we consider you to be selling a future telephone service rather than selling physical products.

However, sales of telephone cards that include prepaid wireless airtime are subject to the Emergency Telephone Users (911 and 988) Surcharge when sold in a retail transaction in California. For more information about this program, see our online [Tax Guide for Sellers of Prepaid Mobile Telephony Services \(MTS\) and Telecommunications Service Suppliers](#).

Exception: If you sell a prepaid telephone card for its value as a collectible item rather than for future telephone service, the sale is subject to tax. For example, if you sell an expired card with a picture of a famous person or classic automobile, you are selling a collectible item and the sale is subject to sales or use tax.

Diapers and menstrual hygiene products

Beginning January 1, 2020, the sale and use of specified diapers and menstrual hygiene products are exempt from tax.

Specified diapers and menstrual hygiene products only include:

- Diapers that are designed, manufactured, processed, fabricated, or packaged for use by infants, toddlers, and children, and
- Tampons or sanitary napkins primarily designed and labeled for menstrual hygiene use, menstrual sponges, and menstrual cups.

You should continue to include your sales of these items in the reported total gross sales section on your sales and use tax return and claim the deduction as “diapers” or “menstrual hygiene products” for your sales on and after January 1, 2020.

Sales or purchases of breast pumps and related supplies

Beginning April 1, 2024, through March 31, 2029, the sale or purchase of breast pumps and related supplies are exempt from tax. Revenue and Taxation Code [section 6370.2](#) defines the qualifying products:

- A breast pump is an electrically or manually controlled pump device designed and marketed to be used to express milk from a human breast during lactation and includes the electrically or manually controlled pump device and any battery, alternating current (AC) adapter, or other power supply unit packaged and sold with the pump device at the time of sale to power the pump device.
- Breast pump collection and storage supplies are those items designed or marketed to be used in conjunction with a breast pump to collect milk expressed from a human breast and store collected milk until it is ready for consumption, and include, but are not limited to:
 1. Breast shields and breast shield connectors.
 2. Breast pump tubes and tubing adapters.
 3. Breast pump valves and membranes.
 4. Backflow protectors and backflow protector adaptors.
 5. Bottles and bottle caps specific to the operation of the breast pump.
 6. Breast milk storage bags.
 7. Other items that may be useful to initiate, support, or sustain breastfeeding using a breast pump during lactation that may be sold separately but are generally sold as part of a breast pump kit.
- A breast pump kit includes a breast pump and one or more of the following items:
 1. Breast pump collection and storage supplies.
 2. Other items that may be useful to initiate, support, or sustain breastfeeding using a breast pump during lactation, so long as the other items sold with the breast pump kit at the time of the sale are less than 10 percent of the total sales price of the breast pump kit.
- Breast pads.

Please note that “breast pump collection and storage supplies” does not include the following items if not sold as part of a breast pump kit prepackaged by the breast pump manufacturer or distributor:

1. Bottles and bottle caps not specific to the operation of the breast pump.
2. Breast pump travel bags and other similar carrying accessories, including ice packs, labels, and other similar products.
3. Breast pump cleaning supplies.
4. Nursing bras, bra pads, breast shells, and other similar products.
5. Creams, ointments, and other similar products that relieve breastfeeding-related symptoms or conditions of the breasts or nipples.

If you sell qualifying breast pumps and related supplies, you should continue to report your sales of these qualifying items in your reported total gross sales on your sales and use tax return. You may then claim the deduction for these qualifying sales on your return. Under *Nontaxable sales (deductions)*, *Other Nontaxable Sales*, select *Other* and input “breast pumps” or “breast pump-related supplies” under *Description*.

California Redemption Value (CRV) (recycling fee)

California Redemption Value (CRV) Table	
These beverages are subject to the CRV.*	These beverages are not subject to the CRV, regardless of the container type.
Water (carbonated and noncarbonated)	Milk
Coffee and tea drinks	Medical food (such as amino acid-free food)
Soft drinks, sports drinks, and fruit drinks (carbonated and noncarbonated)	Infant formula
Beer and other malt beverages	
Wine (including nonalcoholic and sparkling), distilled spirits, wine coolers, or distilled spirit coolers (CRV fee applies even when sold in boxes, bladders, pouches, or similar containers, regardless of container material type.)**	
All fruit and vegetable juice bottles and cans, regardless of the container size**	

* CRV applies to beverages listed in this column when they are sold in glass, plastic, aluminum, and certain other metal containers. The beverages must be in liquid, ready-to-drink form and intended for people to drink. Effective January 1, 2024, CRV also applies to additional container types for sales of wine, wine coolers, distilled spirits, and distilled spirit coolers.

** Prior to January 1, 2024, specified alcoholic beverages, vegetable juice in containers of more than 16 ounces, and 100 percent fruit juice in containers of 46 ounces or more were not subject to the CRV (See [SB 1013 \[Stats. 2022, ch. 610\]](#)). Please visit the [CalRecycle](#) webpage for more information.

Tax sometimes applies to your CRV charges for nonrefillable containers. If sales tax applies to the sale of the beverage, the CRV charge is taxable. If sales tax does not apply to the sale of the beverage, the CRV charge is not taxable.

If sales tax does apply, the amount due is based on the amount received for the beverage or container and the amount charged for the CRV.

If you give the beverage away and charge only the CRV fee, tax still applies to the CRV if the sale of the beverage would have been taxable.

Sales of noncarbonated drinks are generally not taxable, but their containers may be subject to the CRV. On the other hand, sales of carbonated and alcoholic beverages are generally taxable, and the CRV fee that is charged for their containers is taxable.

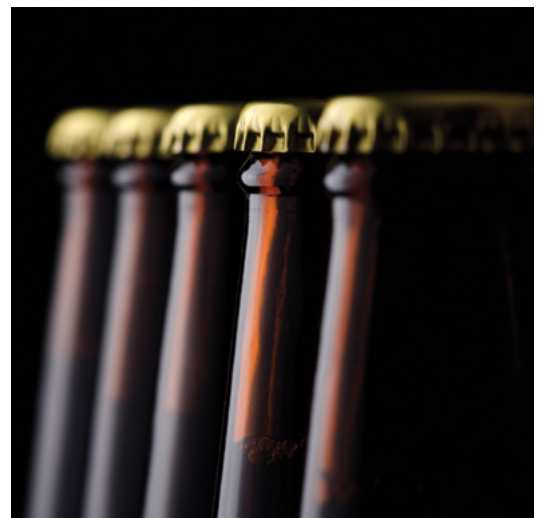
Examples of beverage sales subject to tax:

- Alcoholic beverages, including wine and distilled spirit coolers
- Carbonated mineral and soda waters
- Carbonated soft drinks in liquid form

Examples of beverage sales not subject to tax:

- Noncarbonated, 100 percent natural fruit juice
- Noncarbonated, non-effervescent bottled water

The CRV program is administered by the Department of Resources Recycling and Recovery (CalRecycle). If you have questions regarding the fee or how to apply it, please contact CalRecycle at www.calrecycle.ca.gov/bevcontainer.



Point-of-sale fees (fees for use of debit cards)

Tax does not apply to debit card fees if all the following conditions apply:

- The fee is separately stated,
- The customer would not incur the charge if they did not use the card,
- The fee is not calculated as a percentage of the purchase amount, and
- The fee is reasonably related to the cost of the transaction.

EBT card—CalFresh benefits

CalFresh is known federally as the Supplemental Nutrition Assistance Program (SNAP) and provides benefits to qualified individuals who meet federal income eligibility rules. Electronic Benefits Transfer (EBT) cards containing CalFresh benefits are issued to qualified individuals by their respective [county's human or social services department](#). CalFresh benefits may be used by qualified individuals to purchase [eligible food items](#) at authorized retail food stores. Sales of eligible food items purchased with CalFresh benefits are exempt from tax, even if the sale of the food item is normally taxable. For example, the sales of carbonated beverages, ice, and food coloring are exempt from tax when purchased with CalFresh benefits.

If your customer has CalFresh benefit redemptions that exceed the total amount of eligible taxable food items, the remainder should be applied only to nontaxable food items. Tax applies to all sales of taxable items that are not eligible to be purchased with CalFresh benefits.

Under SNAP, we consider items purchased with CalFresh benefits as sales to the United States government, and those items are therefore exempt from tax in California. However, items purchased with CalWORKs cash aid benefits are not considered sales to the United States government and are subject to tax, unless another exemption applies.

You are allowed to take a sales and use tax deduction for CalFresh benefits redeemed. You may report the deduction of CalFresh benefit sales on an actual basis (itemization of sales including CalFresh benefit sales) if you separately account for those sales. Alternatively, there are two approved methods for computing the allowable deduction instead of separately accounting for CalFresh benefit sales:

Method 1

You may take a deduction on your sales and use tax return of two percent of the total amount of CalFresh benefits redeemed during the period for which the return is filed.

Method 2

You may take a deduction of a greater percentage if the total of taxable items purchased with CalFresh benefits divided by the total of taxable items purchased with CalFresh benefits plus exempt food purchases is greater than two percent. See example below:

Eligible taxable food items purchased with CalFresh Benefits	\$5,000 (a)
Exempt food products	\$130,000 (b)
Total	<u>\$135,000 (c)</u>

Allowable percentage for CalFresh benefits deduction: (a) \$5,000 ÷ (c) \$135,000 = 3.7%

Customers may not use CalFresh benefits to buy items such as alcoholic beverages, tobacco products, pet food, soaps, paper products, vitamins, food that will be eaten in the store, or hot foods. If you are using Method 2, please make sure that these items are not included in your total of items that are normally taxable and may be purchased with CalFresh benefits.

Discounts, coupons, rebates, and incentive programs

If you participate in rebate or incentive programs offered by manufacturers, vendors, or other third parties to promote sales of specific products, you should be aware of how tax applies to the payments you receive.

Typically, third parties offer incentive programs where you are required to offer discounts to your customers on specific products, and the third party compensates you directly for the price reduction. There are also programs in which you reduce the sales prices in exchange for discounts on what you pay for the products.

When is the rebate or incentive payment taxable?

Payments received through a third-party rebate or incentive program are part of your total taxable sales when all three of the following conditions exist:

1. The third party *requires* you to reduce the sales prices of particular products in order to receive payments for the discounted amount from them.
2. Conditions for receipt of payment are *certain*, and not dependent on other factors outside your control. (The term “certain” means conditions in the agreement that you have control over. For example, you will receive payment from the third party if you place product signs in your store.) An example of a factor outside your control would be that you receive payment only if you meet a sales quota for the discounted products within a specific time period.
3. The payment is for a *like* amount on a transaction-by-transaction basis. (Payment must be tied to the specific sale of the particular product in the agreement.) The third party reimburses you for the specified price reduction in the agreement.

If all these conditions are met as part of the incentive program, the third-party payment is part of your taxable gross receipts. When reporting your sales, you must include the total amount you receive from your sales of the particular products—including the amount paid by the customer and the amount that will be paid by the third party as reimbursement for the price reduction.

Here are two examples where the value of a buy-down rebate program and a manufacturer coupon are part of your gross receipts (or sales price if subject to use tax) from the sale of the product:

- You purchase bottle openers directly from the manufacturer and you enter into a buy-down rebate program with them. Assume you normally sell the bottle openers for \$5.00, but under a buy-down rebate plan, agree to sell the bottle openers for \$4.50 and receive \$0.50 from the manufacturer. The tax amount due is based on your gross receipts for the sale—which includes both the rebate amount and the amount paid by your customer; therefore, you owe tax based on the \$5.00 you receive for the entire sale.
- A customer clips a coupon out of a newspaper and presents it to you at the time of sale to receive a discounted price on the product purchased. The coupon indicates “manufacturer coupon.” Since the manufacturer will compensate you for the price reduction amount and the customer presents a manufacturer coupon to you, the coupon’s value is included in your gross receipts. Tax is based on the full retail selling price of the product, which is the amount paid by your customer and the amount of the manufacturer’s coupon.

Promotional programs offered by third parties

When you participate in a promotional program, the payments you receive from a person other than your customer are presumed taxable until you can prove the payments’ nontaxable status with documentation. See [Regulation 1671.1, Discounts, Coupons, Rebates, and Other Incentives](#), for additional examples of documentation that would accomplish this.

When you collect sales tax, or if you are required to collect use tax, you must let the customer know the amount on which they are paying tax. This includes the amount of any taxable discounts, rebates, or incentives offered or paid to you by third parties. Even though the customer buys an item at a discounted price, you collect tax for the full retail (prediscounted) price. You may itemize this amount on the customer's receipt, sales invoice, or other proof of sale.

When applicable, you may also post a notice in a location visible to your customer, or in advertisements, flyers, or brochures sent to customers. The notice should indicate that tax will be added to the sales price of all items and that the tax includes the amount of any taxable discounts or rebates.

Discount club cards

If you offer price discounts to customers through discount club cards, the discount amount is not subject to tax. The price reductions associated with the club card are not part of your total taxable sales if you are not receiving compensation from a third party. Amounts paid by a third party (such as a manufacturer) to reimburse you for the club card discount are subject to tax. Some stores also offer "club rewards"—such as discount coupons or "reward bucks"—based on a customer's purchases during a particular time period. These reward discounts are not taxable because they are considered retailer cash discounts.

For more information and examples, see [Regulation 1671.1](#), *Discounts, Coupons, Rebates, and Other Incentives*, and [publication 113](#), *Coupons, Discounts and Rebates*.

Vending machines

Commissions received from vending machine operators who have placed vending machines on your premises are not taxable.

Some grocers, however, sell their own merchandise through vending machines. [Regulation 1574](#), *Vending Machine Operators*, and [publication 118](#), *Vending Machine Food Sales*, explain how sales tax applies to vending machines.

Self-consumed merchandise

Taxable merchandise that you purchase without tax for resale and divert to some other use is subject to use tax measured by its purchase price. Examples of such use include cigarettes, soap, and other taxable items taken home by an owner; given to friends, associates, or employees; or donated to certain organizations. The cost of such merchandise should be reported under *Purchases subject to use tax* on your tax return.

You are not required to report use tax if you donate property from your resale inventory to a qualified organization, as defined in [Regulation 1669](#), *Demonstration, Display and Use of Property Held for Resale—General*. Donations to organizations that do not qualify under this regulation are taxable.

Paper bags and other wrapping and packaging supplies used to wrap merchandise you sell may be purchased for resale, without payment of tax. But purchases of all other supplies, such as price tags and store equipment, are taxable. Normally, these items are purchased from local suppliers who charge sales tax and report the tax. If equipment or supplies are purchased from out-of-state with no tax added, the purchase should be reported on your tax return, under *Purchases subject to use tax*.

Sales of capital assets

Tax applies to sales of capital assets used in your business—such as showcases, gondolas, and cash registers. This holds true whether the assets are sold intermittently or are included with the sale of your business.

Reporting Tax: Special Considerations for Grocery Stores

The information in this chapter is designed to help you compute some of the figures needed for your sales and use tax return. If you need additional information about completing a return, please refer to the [return instructions](#) or download a copy of [publication 73](#), Your California Seller's Permit. You can also call our Customer Service Center for assistance.



Total sales

Total sales entered on your tax return should include your gross receipts from all sales made during the period covered by the return. Gross receipts include sales of exempt merchandise as well as taxable merchandise.

They also include charge sales and credit card sales.

Credit card sales should be reported as if no credit cards were involved. Your sales should not be reduced by the amount of any service charges made by a credit card organization. Since there was no reduction in the amount of the sale to your customers, no deduction is allowable.

Methods for computing exempt food sales and taxable sales

In preparing tax returns, you may use any method of determining the amount of your sales of exempt food items and taxable items so long as the method accurately discloses the correct amount of tax due. Regardless of the method used, you must be prepared to demonstrate, by records which can be verified by audit, that the method used accurately discloses the correct amount of tax due.

This chapter includes descriptions of the following methods:

- Electronic scanning systems
- Purchase-ratio method (grocer's formula)
- Modified purchase-ratio method
- Cost plus markup method—Taxable merchandise
- Retail inventory method

Electronic scanning systems

You may use electronic scanning systems to separate taxable sales from nontaxable sales. These systems record and compile taxable and nontaxable sales, sales tax, and related data from information imprinted on a Universal Product Code (UPC).

You must ensure that the proper controls are maintained to monitor and verify the accuracy of your scanning results and the reporting on your tax returns. Your nearest CDTFA office will be able to provide you with information about the type of documentation that you should generate from your scanning system to maintain. You are required to keep all records relating to sales and purchases for four years from the date of the sale or purchase.

Recordkeeping requirements for grocers using electronic scanning systems

In addition to the normal books of account, the following records should also be developed and retained by all grocers using electronic scanners:

Master listings

Whether you operate an independent store or a chain store operation, you should maintain a master listing of all the taxable and nontaxable products you sell. If you sell products that are not included in the master list (products without a UPC such as salad bars, seasonal items, and deli items), you should keep a separate accounting for these products. Regardless of the type of storage (paper, tape, drive, or disk) used to maintain the list, it should generally include all the following product information:

1. The Universal Product Codes
2. The product's taxable or nontaxable status
3. An identifying description of the product
4. The package or size of the product
5. The stores that carry the product
6. Department numbers
7. A warehouse or vendor item number



Product coding reports

It is critical to verify that products are coded accurately and to keep a sufficient record of changes made to your product codes. New or improved products are continually introduced and decisions to add or discontinue products can be made daily. As a result, your master list can change every day. Therefore, a history of product changes is required to support your claimed sales of exempt food products (using electronic scanners).

We require retailers to prepare and save a minimum of one Product Coding Report (PCR) for each return reporting period. This report should include all additions or new products, deletions of old products, and coding changes of existing products that have occurred since the preparation of the prior period's report.

Saving the PCR for each reporting period will assist you in identifying and correcting any possible coding errors within the same reporting period in which they occurred. Otherwise, you may be subject to interest and penalty adjustments for any coding errors not disclosed until later reporting periods.

Product movement report

No matter what the size of your grocery business, you should create and maintain a product movement report or similar type of inventory tracking report that covers the same period as your PCR. This report should include the same product information contained in the master listing. If you identify product coding errors, this report should assist you in determining the quantity and price of products sold during the reporting period and allow you to compute the additional sales tax due.

This report should provide you a satisfactory method to verify what products were miscoded, when the incorrect coding was corrected, the price of the product, and how much of the product was sold during the period in question. If you discover that you have collected too much sales tax, please refer to [Regulation 1700, Reimbursement for Sales Tax](#).

General outline of reports, records, and procedures used when reporting with electronic scanners

As a grocer, you are required to keep a general outline of your electronic scanner reporting methods. The outline should include the following areas:

1. The type and form of records and reports generated.
2. A description of who is responsible for testing, maintaining, and correcting the scanning system. It is necessary to identify the person with the authority to enter and alter information contained in the master list, such as price, product, and codes.
3. How the scanner system accounts for such items as food stamps, manufacturers' coupons, bottle deposits, and over rings.
4. If there is a department or store handling sales, in whole or in part, without using scanners, it is necessary to keep records that account for those sales.

Grocers are required to segregate a representative sample of taxable and nontaxable merchandise purchases, if requested for audit purposes.

Purchase-ratio method (grocer's formula)

Under this method, you calculate your exempt food sales by using a formula that compares your *purchases* of food products and all grocery items. The formula, which adjusts for sales tax reimbursements, provides a percentage figure that is applied to total grocery sales to determine exempt food sales. The example shown below illustrates the use of the purchase-ratio method and shows how nongrocery taxable purchases and sales are included in the calculations.

If you use this method, you must accurately segregate your purchases into the following categories: exempt food products, taxable grocery items, and nongrocery taxable items.

You will find information about these line entries below the example:

- *Line 1—Taxable grocery purchases*
- *Line 4—Exempt food product purchases*
- *Lines 1 and 4—Adjustments for allowances and discounts*

Purchase-ratio method example

The following example shows how nongrocery taxable purchases and sales are included in the calculations.

1. Taxable grocery purchases	\$40,000
2. Add sales tax adjustment (8.25%* x Item 1)	+ 3,300
3. Adjusted taxable grocery purchases (Item 1 + Item 2)	\$43,300
4. Exempt food products purchases	+ 130,000
5. Total grocery purchases including sales tax (Item 3 + Item 4)	\$173,300
6. Exempt food products ratio (Item 4 ÷ Item 5)	75.01%
7. Total sales including sales tax	\$254,088

8. Nongrocery taxable sales including sales tax (if such sales are not accurately segregated, mark up nongrocery taxable cost of goods sold to compute sales and add 8.25%* sales tax to total)**	- 31,500
9. Grocery sales including sales tax (Item 7 - Item 8)	\$222,588
10. Exempt food products sales (Item 6 x Item 9)	- 166,963
11. Sales of taxable items including sales tax (Item 7 - Item 10)	87,125
12. Subtract taxable items purchased with food stamps (2% of total food stamps redeemed for period, for example, 2% x \$100,000)	- 2,000
13. Taxable measure including sales tax (Item 11 - Item 12)	\$85,125
14. Sales tax included (.0825/1.0825* x Item 13)	- 6,488
15. Measure of tax (Item 13 - Item 14)	\$78,637
16. Computed sales tax payable (8.25%* x Item 15)	<u>\$6,488</u>

* Use the applicable tax rate. We have used a tax rate of 8.25 percent for illustration purposes.

** Adjust for shrinkage if applicable—not to exceed three percent except as specified in [Regulation 1602.5](#), Reporting Methods for Grocers. Adjustment should also be made for significant inventory fluctuations.

Line 1—Taxable grocery purchases

- a. The following is a partial list of purchases that should be included in taxable grocery purchases:
- Beer purchases
 - California Redemption Value (CRV) fees on beer, wine coolers, and carbonated beverages
 - Carbonated beverage purchases
 - Cigarette purchases
 - Wine purchases
 - All other taxable grocery purchases (see [Appendix A](#) for an expanded list of taxable grocery items)
- b. Do not include the following as part of taxable grocery purchases:
- California Redemption Value (CRV) fees on nontaxable beverages
 - Distilled spirits purchases
 - Farm feed purchases
 - Farm fertilizer purchases
 - Gasoline purchases
 - Hot prepared food ingredients
 - Manufacturing costs*
 - Nongrocery taxable purchases (see [Appendix B](#) for an expanded list)
 - Paper and plastic bags used as containers for items sold by grocers
 - Processing costs*
 - Restaurant purchases
 - Snack bar purchases
 - Transportation costs*
 - Vending machine dispensed purchases
 - Warehousing costs*

* If these operations are self-performed, the costs must be excluded from grocery purchases for purchase-ratio purposes; however, if you use a modified purchase-ratio method, these costs may be included among grocery purchases, subject to our approval.

- c. Do not include exempt food products in taxable grocery purchases. See the discussion of Line 4 below for more information on exempt food products.
- d. If you have received a volume rebate, promotional allowance, or discount for your purchases, you must ensure that the purchase price you use reflects the reduced cost. For more information, see *Lines 1 and 4—Adjustments for allowances and discounts*.

Line 4—Exempt food product purchases

- a. The following is a partial list of exempt food products:
 - Bakery ingredient purchases
 - Deli purchases
 - Meat purchases (do not adjust for meat scraps)
 - Produce purchases
 - All other exempt food product purchases
- b. If you have received a volume rebate, promotional allowance, or discount for your purchases, you must ensure that the purchase price you use reflects the reduced cost. For more information, see *Lines 1 and 4—Adjustments for allowances and discounts*.

Lines 1 and 4—Adjustments for allowances and discounts

Cash discounts, volume rebates, quantity discounts, and promotional allowances represent reductions of cost, and should be used to reduce the purchase price of taxable grocery purchases and exempt food products for ratio purposes. These items are defined below:

Cash Discount: As used for this reporting method, cash discount means a reduction from invoice price given to the grocer for prompt payment.



Volume Rebate or Quantity Discount: As used for this reporting method, volume rebate or quantity discount means an allowance or reduction of the price for volume purchases based on the number of units purchased or sold. Such rebates or discounts normally are obtained without any specific contractual obligation upon the part of the grocer to advertise or otherwise promote sales of the products purchased. The term generally does not include patronage dividends (profit percentages) distributed to members by nonprofit cooperatives or rebates that constitute a distribution of profits to members or stockholders.

Promotional Allowance: As used for this reporting method, promotional allowance means a reduction of the price to the grocer—based on the number of units sold or purchased during a promotional period. The allowance is directly related to units sold or purchased although some additional promotional expenses may be incurred by the grocer. Normally, the product would be featured in the grocer's advertising though the grocer may or may not be contractually obligated to do so. The retail price of the product may or may not be lowered during a promotional period.

Promotional allowances do not include:

- Display or other merchandising plan allowances.
- Payments based on agreements to provide shelf space for a price not related to volume of purchases.
- Cooperative advertising allowances that are based on a national line rate for advertising and are not directly related to volume of purchases and sales. Cooperative advertising allowances are intended to reimburse grocers for a portion of their advertising costs for a particular product.

Line 8—Nongrocery taxable sales

Sales and purchases of nongrocery taxable items such as distilled spirits, drug sundries, and hardware must be accounted for in the ratio computation. If such sales are not accurately segregated in your records, then nongrocery taxable cost of goods sold should be marked up by applicable markup rates, plus sales tax, to determine such sales.

An adjustment for shrinkage may be taken into consideration in the sales computation, if applicable.

This adjustment may not exceed three percent of the cost of nongrocery taxable items when the purchase-ratio method is used, except as specified in section (d) of [Regulation 1602.5](#), *Reporting Methods for Grocers*.

Modified purchase-ratio method

If you do not follow the procedure outlined on the previous pages, but report on a different purchase-ratio basis, you are using a modified version of the purchase-ratio method. For example, if you include self-performed processing, manufacturing, warehousing, or transportation costs in the purchase-ratio formula, you are using a modified version.

If you use a modified version, you must establish that the modified version does not result in an overstatement of the food products exemption. The adequacy of the modified method may be demonstrated by extending taxable purchases, adjusted for inventories, to retail for a representative period or computing taxable sales by marking up taxable purchases, adjusted for inventories, for a representative period. Grocers must retain adequate records that may be verified by audit, documenting the modified purchase-ratio method used. For more information regarding "Extending Taxable Merchandise to Retail Method," see [Audit Manual 0905.15](#).

Cost plus markup method—Taxable merchandise

In this method, applicable markups are added to your cost of taxable merchandise, adjusted for inventories, to determine taxable sales, for the reporting period. Adjustments are made for markups, markdowns, quantity sales, and case sales. A shrinkage adjustment of up to one percent of the cost of taxable merchandise is also allowable if losses are incurred.

Markup factor percentages (cost plus the markup) must be determined by conducting a shelf test of representative purchases covering a minimum purchasing cycle of one month within a three-year period, segregated by commodity groupings (for example, beer, wine, paper products, and pet food). Commodity markup factor percentages are applied to cost of sales of the respective commodities for the reporting period to determine taxable sales for each commodity.

As an alternative procedure, the overall average markup factor for all taxable commodity groupings may be used to determine total taxable sales for the reporting period. This factor is applied to the overall cost of taxable sales for the reporting period. It should be noted that shelf tests (to determine commodity markup factors) use purchases covering a complete purchasing cycle, typically one month. The markup factors determined from the shelf tests are then applied to respective commodity costs in a one-year base period to compute the overall average markup factor.

Cost plus markup example

Computation of Taxable Sales to be Reported (3rd quarter 20XX)

Recorded cost of taxable sales	\$403,815
Less 1% allowance for shrinkage	- 4,038
Adjusted cost of taxable sales	<u>\$399,777</u>
Overall taxable markup factor (31.59% ¹ + 100%)	x 131.59%
Computed taxable sales (131.59% x \$399,777)	<u>\$526,067</u>
Computed sales tax payable (8.25% ² x \$526,067)	<u>\$43,401</u>

¹ See the example below for an illustration of how the markup calculation was done.

² Use the applicable tax rate. A tax rate of 8.25 percent was used for illustration purposes.

Computation of Overall Taxable Markup (Test Year: 20XX)

	A Recorded Cost of Sales	B Markup Factor ¹ (MU+100%)	C Computed Taxable Sales (AxB=C)
Commodity			
Grocery Taxables			
Beer	\$105,078	132.49% ²	\$139,218
Wine	32,438	147.19%	47,745
Carbonated beverages	223,815	135.50%	303,269
Tobacco and related products	100,781	112.63%	113,510
Paper products	131,931	127.55% ²	168,278
Pet food	142,316	123.87%	176,287
Soap and detergents	125,712	110.95%	139,477
Laundry supplies	26,101	123.87% ²	32,331
Household cleaners, waxes, and insecticides	23,087	127.05%	29,332
Brooms, mops, brushes, and sponges	7,522	139.26%	10,475
Outdoor living needs (charcoal briquettes, starter fluid, for example)	+ 6,519	124.40%	+ 8,110
Total Taxable Grocery	\$ 925,300		\$1,168,032
Total Taxable Nongrocery	+ 358,626	145.40%	+ 521,442
Total Taxable Sales	\$1,283,926		\$1,689,474
Cost of Computed Taxable Sales			- \$1,283,926
Gross Profit			\$405,548
Overall Markup (\$405,548 ÷ \$1,283,926)			31.59%

¹ All markups have been adjusted for any markups or markdowns and quantity price adjustments (for example, cigarettes sold by the carton).

² The shelf test used to compute the markup on this commodity is illustrated below.

Shelf Test Period: April 20XX

Shelf Test on Beer				
Date	Invoice Number	Vendor	Cost	Retail Ex-tax*
4-2-XX	629452	Lane Distributing Co.	\$559.64	\$737.20
4-2-XX	39819	National Brewers	222.72	297.20
4-4-XX	45293B	City Distributors	553.78	737.52
4-7-XX	098757	Smythe Brewing Co.	475.66	620.11
4-7-XX	75923	Bunkers Brewers Inc.	+ 173.10	+ 237.79
Totals			\$1,984.90	\$2,629.82
Cost				- \$1,984.90
Gross Profit				\$644.92
Markup (\$644.92 ÷ \$1,984.90)				32.49%

* Purchased without the payment of tax.

Shelf Test on Paper Products					
Date	Invoice Number	Vendor	General Description	Cost	Retail Ex-tax
4-3-XX	123276	Monsanto-Pacific, Inc.	Paper towels	\$962.59	\$1,152.80
4-3-XX	B30031	Value-Line Products	Paper plates, napkins	514.29	696.50
4-5-XX	191156	Lunch-a-Bunch	Bags	396.31	504.35
4-8-XX	42445A	Fawcett and Son	Tissues	1,204.14	1,584.45
4-8-XX	19416	M. I. Green Paper Co.	Aluminum foil	+ 481.52	+ 601.14
Totals				\$3,558.85	\$4,539.24
Cost					- \$3,558.85
Gross Profit					\$980.39
Markup (\$980.39 ÷ \$3,558.85)					27.55%

Shelf Test on Laundry Supplies

Date	Invoice Number	Vendor	General Description	Cost	Retail Ex-tax
4-3-XX	314652	Silver Seal Products	Bleach	\$192.23	\$224.96
4-4-XX	B92845	Lewis and Final	Ammonia	262.01	330.29
4-7-XX	1-22958	Columbia Laundry Prod.	Starch	268.92	324.42
4-8-XX	496372	Arnile and Co.	Water softener	180.47	234.87
4-8-XX	A19485	Goldfard and Hubbard	Cleaners	+ 190.52	+ 240.75
Totals				\$1,094.15	\$1,355.29
Cost					- \$1,094.15
Gross Profit					\$261.14
Markup (\$261.14 ÷ \$1,094.15)					23.87%

Retail inventory method

This method is generally appropriate for use only by larger grocery stores as they typically have suitable automatic data processing equipment capabilities.

It is a method in which control records for inventories and purchases are maintained at retail values. As purchase invoices are received, the merchandise is segregated according to exempt food products and taxable items priced and recorded at the retail value. The total retail amounts for the reporting period, adjusted for inventories at retail and segregated according to exempt food products and taxable items, represent anticipated exempt and taxable sales for the reporting period. Adjustments are made for markups, markdowns, quantity sales, and case sales.



A shrinkage adjustment of up to one percent of taxable items is also allowable if losses are incurred.

Additional information on the retail inventory method is included in [Regulation 1602.5, Reporting Methods for Grocers](#).

Other methods to avoid

Sales tax ring-up

Sales tax ring-ups at the cash register are converted to the equivalent taxable measure to determine taxable sales for the reporting period. Using this method is generally not satisfactory because:

- Checkout clerks may not be well informed on the taxability of all items sold.
- Checkout clerks often work under pressure, which can lead to errors in classifying items or errors in the amount of tax reimbursement added.
- It is sometimes trade practice to sell certain merchandise, such as cigarettes and tobacco, at a tax-included price.

Since this method is susceptible to errors, we do not recommend it for use as a reporting method.

Taxable sale ring-up

This is similar to the sales tax ring-up method, except that under this method the taxable sales amounts are recorded on a separate key of the cash register and compiled to determine taxable sales for the reporting period. As with the sales tax ring-up, this method is susceptible to errors and we do not recommend it as a reporting method.

Estimates

The following methods for reporting tax liability based on estimates are not recommended:

- Estimates based on tax reported in a prior period.
- Estimates based on a ratio of taxable sales to total sales in a prior period.
- Estimates based on the application of unsubstantiated markups or based on other methods that we have not approved.

Deductions

Deductions should be taken for the gross receipts from your sales of exempt merchandise. The common deduction taken for exempt merchandise sold in grocery stores is *Nontaxable sales of food products*. To support your deduction for exempt sales of food products, all purchases of food products should be segregated in your records from taxable items.

When claiming a deduction, verify that the amount claimed does in fact represent exempt sales. You should also verify the amount claimed is included on line one, *Total Sales*, and of course retain documentation supporting the deduction.

Losses

Shrinkage (unaccounted for losses)

When grocers incur losses such as spoilage, breakage, and pilferage, they may, for reporting purposes, adjust up to one percent of the cost of taxable merchandise when using the retail inventory or markup method. An adjustment of up to three percent of the cost of your nongrocery taxable items may be taken when using the *purchase-ratio method* of reporting.

An adjustment for shrinkage is not allowed in all cases; its use is limited to reporting methods involving a markup or an extension of purchases to retail. For example, under the purchase-ratio method of reporting, an adjustment for shrinkage would not be appropriate if your sales of nongrocery taxable items are based on actual sales, rather than based on a markup or extension of nongrocery taxable purchases to retail, since shrinkage would already be reflected in recorded gross receipts.

Robbery, theft, and shoplifting

Losses in excess of that allowed for shrinkage must be supported by some form of specific proof of loss. Proof may be in the form of a report from a private agency employed to track down losses, a police report, insurance claim, or other documentary evidence. As with shrinkage, deductions for robbery, theft, and shoplifting would not be appropriate if you report taxable sales based on actual sales.

Robberies of cash are not deductible for sales tax purposes because tax is measured by sales. You still have the responsibility to pay tax on taxable sales in the usual manner despite a loss of your proceeds of sales.

Bad debts

If a check that you accepted as payment for merchandise is returned unpaid by the bank, is found to be uncollectible, and is charged off for income tax purposes, you can claim a bad debt deduction for the amount of the taxable items included in the original sale. If the original sale included both taxable and exempt items, you may determine the amount of the taxable items by applying the ratio of your total taxable sales to your total sales for that reporting period.

When a check is cashed for an amount more than the total sale, the excess portion over the sale amount is not deductible as a bad debt. In such situations, the amount of the sale should be noted on the check.

Frequently, the money for a bad debt or a bad check is later collected from a customer. If collection is made after a deduction has been claimed, the portion previously claimed as a deduction must be reported as additional taxable sales.

No deduction is allowable for expenses you may incur attempting to collect the bad account, and no deduction is allowable for that portion of a debt recovered that is retained by or paid to a third party as compensation for collecting the account.

If the tax rate has changed since the time of the sale, the amount of the bad debt deduction must be adjusted to conform to the tax rate in effect at the time the deduction is taken. Please refer to [Regulation 1642](#), *Bad Debts*.

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 keeping 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 an audit's results or another determination (billing) or you file a claim for refund, you should keep your records while that matter is pending.

If you have a point-of-sale system that overwrites data after fewer than four years, you should transfer, maintain, and have available all data that would have been overwritten or otherwise removed from the system for the required time periods.



For more information, you may obtain a copy of [publication 116](#), *Sales and Use Tax Records*, or [Regulation 1698](#), *Records*, from our [website](#) or call our Customer Service Center.

Sales suppression software programs and devices

It is a crime to knowingly sell, purchase, install, transfer, or possess software programs or devices that are used to hide or remove sales and to falsify records.

Using these devices gives an unfair competitive advantage over business owners who comply with the law and pay their fair share of taxes and fees. Violators could face up to three years in county jail, fines of up to \$10,000, and will be required to pay all illegally withheld taxes, plus penalties and applicable interest and fees.

For More Information

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

CUSTOMER SERVICE CENTER 1-800-400-7115 (TTY: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.

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 fill out our *General, Non-Confidential Tax Questions Form* at www.cdtfa.ca.gov/email to submit 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), 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

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

Regulations

- 1602 *Food Products*
- 1602.5 *Reporting Methods for Grocers*
- 1603 *Taxable Sales of Food Products*
- 1669 *Demonstration, Display, and Use of Property Held for Resale—General*
- 1698 *Records*
- 1700 *Reimbursement for Sales Tax*

Publications

- 17 *Appeals Procedures: Sales and Use Taxes and Special Taxes and Fees*
- 22 *Dining and Beverage Industry*
- 24 *Liquor Stores*
- 27 *Drug Stores*
- 44 *District Taxes (Sales and Use Taxes)*
- 51 *Resource Guide to Tax Products and Services for Small Businesses*
- 58A *How to Inspect and Correct Your Records*
- 61 *Sales and Use Taxes: Exemptions and Exclusions*
- 70 *Understanding Your Rights as a California Taxpayer*
- 73 *Your California Seller's Permit*
- 74 *Closing Out Your Account*
- 75 *Interest, Penalties, and Collection Cost Recovery Fee*
- 76 *Audits*
- 103 *Sales for Resale*
- 110 *California Use Tax Basics*
- 113 *Coupons, Discounts and Rebates*
- 116 *Sales and Use Tax Records*
- 118 *Vending Machine Food Sales*

Industry Guide

- Tax Guide for Grocery Stores*

Appendix: Classification of Products Sold by Grocers

The products listed in this chapter are divided into the following classifications:

A. Taxable Grocery Items

B. Nongrocery Taxable Items

If you have any questions regarding the taxability of a sale, please call our Customer Service Center.

A. Examples of taxable grocery items

Aluminum foil	Light bulbs and fuses
Ammonia	Lighter fluid
Antacid mints	Lozenges (medicated)
Antacids (Rolaids, for example)	Matches
Bags (lunch)	Mops, mop handles
Beer	Moth protection (all kinds)
Bird seed	Muffin papers
Bird treats (food)	Paper cups, plates, napkins, table covers
Bleach (laundry)	Paper towels, drinking straws
Bottle brushes	Pet food
Brooms	Plastic eating utensils
Candles	Plastic film (Saran Wrap, for example)
Canning jars and lids	Pot scrubbers
Carbonated beverages (generally)	Powder (cleaning)
Cat food	Rust stain remover
Charcoal briquettes, lighter fluid	Salt for making ice cream
Cigarettes	Sandwich bags
Cigars	Scouring pads
Cleaners and polishes (household)	Silver polish
Clothes pins	Soap and detergent
Coloring extracts	Sponges
Cough drops	Spray bottles (empty)
Deodorizers (air fresheners)	Starch (laundry)
Dietary supplements or adjuncts (additives)	Table covers (paper)
Dishcloths	Tile cleaner
Drain cleaners (Drano, for example)	Toilet tissue
Dye (clothes)	Toothpicks
Facial tissues (Kleenex, for example)	Upholstery cleaner
Floor wax and applicators	Water softener (laundry)
Fly swatters	Water softener salt
Fuel (cooking, heating)	Wax paper
Furniture polish	Wax remover
Garbage bags	Whisk brooms
Glass cleaner	Wine
Ice	
Insect spray, poison, bombs	

B. Examples of nongrocery taxable items

Accessories (auto)
Adhesive tape
Ammunition
Antacid liquids
Appliances (household, auto)
Auto cleaner, polish, waxes
Baby oil
Batteries (auto, flashlight)
Books
Bubble bath
Cameras
Chinaware
Cigarette lighters
Clothing
Cosmetics
Deodorizers (body)
Dishes
Distilled spirits
Drug sundries
Electrical supplies
Farm and garden tools
Fertilizers
Film
Firearms
Flashlights
Flower and garden seeds
Flowers
Fuel and lubricants (such as diesel fuel and grease)
Furniture
Garden tools and supplies
Glassware
Gloves
Hair dye
Hair styling products
Hardware
Medicated cleansers
Medicine for pets
Notebooks
Nursery stock
Pencils, pens, and ink
Pet supplies and equipment (not food)
Pots and pans
Powder (face or body)
Rawhide chew bones
Razors
Razor blades
Rubber bands
Pet litter
School supplies
Scotch tape
Shaving cream and lotion
Shampoo and rinse
Shoelaces and shoe polish
Silverware
Sporting goods
Stationery
Sunglasses
Suntan lotion and sunscreen
Thread
Tools
Toothpaste
Toys

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PUBLICATION 31 | NOVEMBER 2024

CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION
MAILING ADDRESS: PO BOX 942879 • SACRAMENTO, CA 94279-0001