



# SPECIAL NOTICE

CALIFORNIA DEPARTMENT  
OF TAX AND FEE  
ADMINISTRATION  
450 N Street  
Sacramento, CA 95814

**GAVIN NEWSOM**  
Governor

**NICOLAS MADUROS**  
Director

CDTFA WEBSITE  
[www.cdtfa.ca.gov](http://www.cdtfa.ca.gov)

CUSTOMER SERVICE CENTER  
1-800-400-7115

TTY  
711

## Clarifying the Wholesale Cost Basis for Out-of-State Licensed Tobacco Products Distributors Effective October 1, 2019

In order to ensure that the wholesale cost is being correctly determined in certain transactions, the California Department of Tax and Fee Administration (CDTFA) is providing the following clarification as to the wholesale cost basis when an out-of-state California licensed tobacco products distributor sells tobacco products to wholesalers, retailers, or consumers located in California.

- When an out-of-state California licensed tobacco products distributor sells tobacco products delivered from outside California to a wholesaler, retailer, or consumer located in California, the licensed distributor must collect the excise tax from the California customer based on the California customer's wholesale cost.
  - The California customer's wholesale cost is the price charged by the out-of-state California licensed distributor to the California customer and should be calculated in accordance with [Regulation 4076](#), *Wholesale Cost of Tobacco Products*.
  - The California customer is the distributor for purposes of calculating the tobacco products excise tax owed by the out-of-state California licensed distributor.
- If an out-of-state California licensed tobacco products distributor is also a California licensed tobacco products manufacturer, the wholesale cost is the California customer's wholesale cost (for example, the cost to the customer).

### Example:

Distributor A, an out-of-state California licensed tobacco products distributor, sells cigars to Retailer A, a California licensed cigarette and tobacco products retailer located in California. Distributor A must collect the excise tax from Retailer A based on the wholesale cost of the cigars (tobacco products) to Retailer A. The wholesale cost is the invoiced sales price charged by Distributor A to Retailer A for the cigars, prior to any discounts or trade allowances. The excise tax required to be collected by Distributor A constitutes a debt owed by Distributor A to California.

In order to allow affected businesses time to ensure they are correctly determining the wholesale cost, the above listed guidance becomes effective October 1, 2019. Additionally, [Regulation 4011](#), *Distributors Not Engaged in Business in this State*, will be updated to more accurately reflect this information.

### For More Information

We encourage you to read our *Tax Guide for Cigarettes and Tobacco Products* at [www.cdtfa.ca.gov/industry/cigarette-and-tobacco-products.htm](http://www.cdtfa.ca.gov/industry/cigarette-and-tobacco-products.htm).

If you have additional questions regarding the excise tax requirements, please call our Customer Service Center at 1-800-400-7115 (CRS:711) Monday through Friday from 8:00 a.m. to 5:00 p.m. (Pacific time), except state holidays; from the main menu, select *Special Taxes and Fees*.