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This Week in State Tax (TWIST)



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California: FTB rules certain sales delivered to out-of-state third-party warehouses and subject to warehousing activities are not sourced to California

The California Franchise Tax Board (FTB) recently ruled that sales of tangible personal property that is received by third-party distributors outside California and undergoes certain "warehousing activities" before resale are assigned outside the state. The taxpayer hired third-party carriers to ship products, either directly or from an intermediate storage warehouse, after an order was placed, to "Hub Warehouses" established by third-party distributors. Title, possession, risk of loss, custody, and control of the products transferred from the taxpayer to the distributors at or before their arrival at the Hub Warehouses. Subsequently, the distributors unloaded, sorted, stored, created new pallets combining the taxpayer's products with other manufacturers' products, labeled the pallets, replaced damaged packages, and shipped the products to other distributors or retailers. The taxpayer was not involved in the handling or distribution of the products subsequent to shipment to the Hub Warehouse. Neither did it know their destinations upon resale.

The FTB concluded that, for taxable years beginning on or after January 1, 2024, sales delivered to Hub Warehouses outside California and subjected to the identified warehousing activities are sourced outside California, regardless of whether the products were subsequently shipped to distributors or retailers in California. In the FTB's view, the sales terminate when the third-party distributors take possession at the Hub Warehouses outside California because the taxpayer has no further involvement in the warehousing, preparation for resale, or subsequent distribution of the product. The distributors' warehousing activities were also "much more substantive than mere temporary storage" for further shipment. Further, the subsequent shipment of products to distributors or retailers in or outside California does not affect the taxpayer's assignment of the sales.

Contact Candace Axline and Geoffrey Way with questions about Chief Counsel Ruling 2026-01.

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