Deloitte.

Deloitte Tax LLP
November 18, 2026



MULTISTATE INCOME/FRANCHISE TAX

California FTB ruling assigns sales delivered to distributor hubs outside California

Tax Alert

Overview

On October 22, 2026, the California Franchise Tax Board (FTB) issued Chief Counsel Ruling 2026-01 (the "Ruling") concluding that the taxpayer's sales to third-party distributors are assigned outside California when the products are delivered to out-of-state hub warehouses and subjected to the warehousing activities described in the Ruling. The distributors' subsequent shipment of products to California does not affect the assignment of the sale. The FTB concluded that shipment terminates at the hub warehouses, where the distributors take possession and store, sort, repackage, and label the products for resale.

The Ruling addresses the assignment of sales of tangible personal property for California sales factor purposes under California Revenue and Taxation Code (CRTC) section 25135. The holding addresses taxable years beginning on or after January 1, 2024. This Tax Alert summarizes the Ruling. By its terms, the Ruling applies only to the named taxpayer and is based on and limited to the facts submitted.

Background

The taxpayer consists of the manufacturing and selling affiliates of a corporate group that files a California combined report under CRTC section 25105(a). The taxpayer does not sell directly to California retailers. Instead, it sells to third-party distributors in the United States, which resell the products to other distributors or retailers in and outside California.

Under a new distribution model for some products, the taxpayer hires third-party carriers to transport products from the place of manufacture to warehouses, where they remain until ordered by a distributor. These warehouses are located in the same states as the third-party distributors' large facilities, which the Ruling calls "Hub Warehouses." After receiving an order, the taxpayer has third-party carriers ship the products to a Hub Warehouse. It also ships some products directly from the place of manufacture or import to Hub Warehouses.

The taxpayer invoices the distributors at or before shipment. Title, possession, risk of loss, custody, and control transfer to the distributors at or before arrival at the Hub Warehouses. From that point, the taxpayer is not involved in any aspect of further shipment, warehousing, product handling, or distribution of the products, and does not know the subsequent destination of the products upon resale. Although the distributors provide the taxpayer with certain limited information after delivery, the published Ruling redacts those details.

At the Hub Warehouses, the distributors unload, sort, and store the products. They assemble new pallets, sometimes combining the taxpayer's products with other manufacturers' products, package and label the pallets for shipment, and repackage damaged packages. The distributors are responsible for all aspects of subsequent

shipping, including security. The taxpayer also continues to sell some products directly to distributors located in California. Those distributors resell and ship some products to other distributors or retailers in and outside California.

California's destination rule for sales of tangible personal property

Under CRTC section 25135(a)(1), sales of tangible personal property are assigned to California if the property is delivered or shipped to a purchaser, other than the United States government, within California, regardless of the f.o.b. point or other conditions of the sale. California Code of Regulations, title 18 ("Regulation"), section 25135(a)(3) provides that property is delivered or shipped to a purchaser within California if the shipment terminates in California, even if the purchaser subsequently transfers the property to another state.

In *McDonnell Douglas Corp. v. Franchise Tax Board*, the California Court of Appeal affirmed the trial court's application of a destination rule rather than a place-of-delivery rule. The purchasers' employees took possession of aircraft in California and arranged transportation out of the state. The Court of Appeal held that the phrase "within this state" modifies "purchaser," not "delivered or shipped." Because the aircraft were destined for use in another state, the purchasers were not within California, and the sales were assigned to the destination state.

In *Appeal of Mazda Motors of America (Central), Inc.* ("*Mazda Motors*"), the State Board of Equalization (SBE) distinguished *McDonnell Douglas*. Vehicles imported through California ports were stored at port facilities, where accessories were added before shipment to other states. The SBE held that these activities caused shipment to terminate in California. The *McDonnell Douglas* purchasers merely picked up the products in California and immediately transported them out of state. By contrast, the storage and accessory installation in *Mazda Motors* were more substantive than temporary storage for further shipment.

In response to *McDonnell Douglas* and *Mazda Motors*, the FTB issued FTB Legal Ruling 1995-3 ("Legal Ruling 95-3"). It explains that if a purchaser takes possession in a state for a purpose other than transportation to another state, the purchaser is considered "within the state" for purposes of CRTC section 25135. It also notes that a California sale under CRTC section 25135(a) requires both delivery or shipment within California and receipt by a purchaser within California. As relevant, Legal Ruling 95-3 provides the following guidance for assigning sales of tangible personal property that are still in the stream of commerce:

- A sale is not assigned to a state where the purchaser takes possession for the mere purpose of immediate transportation to another state.
- A sale is assigned to the state where the purchaser takes possession for a purpose other than transportation to another state, such as warehousing, repackaging, or adding accessories.
- Once the shipment and sale terminate in a state, the purchaser's subsequent transportation of the property to another state does not affect the assignment of the sale.

FTB concluded that the shipment and sale terminate at Hub Warehouses

The FTB concluded that the taxpayer's sales are assigned outside California because the shipment and sale terminate when the distributors take possession at the out-of-state Hub Warehouses and perform the activities described in the Ruling. The distributors' subsequent shipment of the products to California does not affect the assignment of the sale for the taxpayer.

The FTB applies Situation 3 of Legal Ruling 95-3

The FTB identified Situation 3 of Legal Ruling 95-3 as the closest analogy. In that situation, a purchaser takes title to and physically receives machinery in California, then uses its own truck to transport the machinery to its place of business in State A. A few days later, the purchaser transports the machinery to another of its places of business in State B. Legal Ruling 95-3 concludes that shipment terminates in State A, where the purchaser takes possession at its place of business. The subsequent transportation to State B does not affect the assignment of the sale.

The FTB applied that reasoning to the taxpayer's deliveries to the Hub Warehouses. The distributors take possession there and perform the warehousing activities necessary to prepare the products for resale. After delivery, the taxpayer has no involvement in further shipment, warehousing, product handling, or distribution and does not know the products' destination upon resale. Accordingly, the distributors' subsequent transportation of the products to other distributors or retailers in or outside California does not affect the assignment of the taxpayer's sales.

The warehouse activities parallel those in Mazda Motors

The FTB also found parallels in *Mazda Motors*. As in that case, where the distributors took title to and control of the vehicles upon delivery at California ports and paid the subsequent shipping costs, the distributors in the Ruling took title, possession, and control of the products at or before delivery to the Hub Warehouses.

The FTB concluded that the distributors' activities at the Hub Warehouses, including de-palletizing products, breaking down existing packaging, sorting and combining products with other goods, repackaging damaged products, assembling and labeling pallets, and storing the goods for at least several days, are "much more substantive than mere temporary storage . . . for purposes of further shipment elsewhere in the stream of interstate commerce." The FTB found these activities were analogous to the storage, accessory installation, and repairs performed at the California warehouses in *Mazda Motors,* which caused shipment to terminate in California. For similar reasons, the FTB concluded that shipment of the taxpayer's products terminates outside California at the Hub Warehouses.

Scope of the Ruling

The holding addresses sales delivered to third-party distributors at out-of-state Hub Warehouses and subjected to the warehousing activities described in the Ruling. Although the facts also describe the taxpayer's continuing direct sales to distributors located in California, the Ruling does not resolve the assignment of those sales.

By its terms, the Ruling applies only to the named taxpayer and is based on and limited to the facts submitted. The Ruling states that changes in relevant legislation, judicial or administrative case law, applicable federal interpretations, or material facts or circumstances may affect its continued applicability.

Considerations

Under Legal Ruling 95-3 and Regulation section 25135(a)(3), the assignment of a sale turns on where the purchaser takes possession and any subsequent retransportation or other activities. Taking possession in one state for immediate transportation to another state does not terminate shipment, whereas taking possession for warehousing, repackaging, or similar activities does. The Ruling is generally consistent with Situation 3 of Legal Ruling 95-3 and also cites *Mazda Motors* as additional support for its analysis.

An important factual consideration is that the Ruling involves sales to distributors that subsequently resell the products to other distributors or retailers. Neither the Ruling nor the authorities on which it relies directly addresses

the significance of that subsequent sale in determining whether the original seller's shipment has terminated. The Ruling therefore does not address whether the analysis would differ where the purchaser is the ultimate recipient and, without warehousing, repackaging, modification, or other intervening activities, immediately transports the products from a California distribution facility to its own locations in California and other states. Whether a subsequent sale occurs may therefore be a relevant consideration in applying these authorities to other fact patterns.

Importantly, the Ruling does not resolve all questions regarding ultimate destination. Its conclusions are based on specific facts presented, including when title and risk of loss passed and the seller's lack of involvement after delivery, and apply only to the named taxpayer. Accordingly, taxpayers with similar arrangements should consider where title, possession, and risk of loss pass; whether products are immediately transported through a distribution facility or instead held or otherwise handled there; what activities the distributors perform at the hubs; and what the seller knows about downstream shipments. Taxpayers should consult their tax advisors regarding their specific facts and circumstances and the potential impact the Ruling may have on their California tax liabilities.

Get in touch

Jairaj Guleria
Valerie Dickerson
Ben Elliott
Darren Sweetwood
Lili Sowlati
Jimmy Valenzuela

As used in this document, "Deloitte" means Deloitte Tax LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of our legal structure. Certain services may not be available to attest clients under the rules and regulations of public accounting.

This alert contains general information only and Deloitte is not, by means of this alert, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This alert is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this alert. The services described herein are illustrative in nature and are intended to demonstrate our experience and capabilities in these areas; however, due to independence restrictions that may apply to audit clients (including affiliates) of Deloitte & Touche LLP, we may be unable to provide certain services based on individual facts and circumstances.

© 2026 Deloitte Development LLC. All rights reserved.