FREE REFERENCE

California business taxes, explained for 2026

Small businesses in California register with the state revenue agency for income tax withholding and sales tax, and with the Employment Development Department (EDD) for unemployment tax. California has income tax rates from 1% to 13.3%, a 7.25% state sales tax and a $7,000 unemployment wage base for 2026.

QUICK FACTS

- **Income tax.** Income tax rates from 1% to 13.3% for 2026
- **Sales tax.** 7.25% state rate, about 9.03% combined with local
- **Unemployment.** Employers pay California unemployment tax on the first $7,000 of each worker's 2026 wages

What taxes does a small business pay in California?

Most California businesses deal with four: federal and state payroll taxes once they hire, sales tax if they sell taxable items, income tax on profit, and the state's annual report or franchise filing for an LLC or corporation, filed with the Secretary of State.

How do I register for payroll taxes in California?

Before your first payroll in California:

1. Get a federal EIN and enroll in EFTPS for federal deposits.
2. Open a California withholding account with the California revenue agency, so you can withhold and pay state income tax.
3. Register for unemployment insurance with the Employment Development Department (EDD). For 2026, the tax applies to the first $7,000 of each employee's wages, at a rate the state sets for new employers and then adjusts to your history.
4. Report each new hire to California's new hire registry, usually within 20 days.

Employees in California also pay state disability insurance (SDI) at 1.3% of wages.

Our state payroll registration guide explains each step, and our payroll service handles it for you.

General information, not tax advice for your situation.

Do I need a California sales tax permit?

If you sell taxable goods or services in California, yes. Register with the California revenue agency before your first taxable sale. Out-of-state sellers need one once they pass California's economic nexus threshold.

SALES TAX IN CALIFORNIA, MIDYEAR 2026	RATE
State rate	7.25%
Average local rate	1.78%
Average combined rate	9.03%
Highest local rate	5.25%

The state sets how often you file. Our sales tax permit guide covers what to have ready, and the sales tax calculator adds tax to a price.

How does California tax business owners?

Profit from a sole proprietorship, LLC, partnership or S-Corp passes through to the owners, who pay California income tax on it at the personal rates: income tax rates from 1% to 13.3%. California allows a standard deduction of $5,540 single and $11,080 joint and exemption credits of $153 single and $306 joint.

Estimate yours with the California income tax calculator.

Where are California's tax forms and refund status?

- California tax forms
- California revenue agency
- California refund status
- Employment Development Department (EDD)

Every state's links are on our state tax forms page.

Which calculators work for California?

- California paycheck calculator: take-home pay after every deduction
- California income tax calculator: your 2026 state income tax
- Payroll cost calculator: what a hire costs you, with California unemployment

Common questions

Do I need a sales tax permit in California?
Yes, if you sell taxable goods or services there. Register with the California revenue agency before your first taxable sale.

What is the California unemployment wage base for 2026?

$7,000. Employers pay California unemployment tax on that much of each employee's wages, at a rate the state assigns.

Does California have a state income tax?

Yes. California has income tax rates from 1% to 13.3% for 2026.

Who runs payroll taxes in California?

The California revenue agency handles income tax withholding, and the Employment Development Department (EDD) handles unemployment tax.

Want payroll handled?

We set it up, run it and file the returns. Book a free 30-minute call at eminenttax.com/contact or call (972) 347-4590.

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