Many Herbalife products are taxable under the various states' sales tax laws. Herbalife's independent Distributors are responsible for their own sales tax liability and should ensure they are in compliance with all applicable sales tax laws. However, Herbalife has voluntarily registered in most states to pre-collect state sales tax on behalf of our independent Distributors and thus reduce their compliance requirements. This pre-collection of sales tax by Herbalife benefits the states by easing their administrative burden by allowing the state to process only one sales tax return versus tens of thousands.

The company pre-collects sales tax in 42 states and the District of Columbia on our independent distributor sales at the full suggested retail price for those products that are taxable. In all but two of those 42 states the company pre-collects sales tax at full suggested retail prices per an administrative agreement with the taxing authorities (collection in the other two states is based on the law). Of the remaining eight states, five states do not have a state sales tax, in one state sales tax is collected directly from the independent distributor at their net purchase price and two states tax businesses on a gross receipts basis.

The sales taxation of Herbalife's many products varies from state to state as each state has its own rules. The company pre-collects sales tax on every product in 16 states. California is the largest example of those states where we pre-collect sales tax on all product sales. In 12 states, such as New York and Texas, all inner nutrition products are considered exempt from sales tax. In 14 states, such as Minnesota, meal replacement products are exempt from sales tax but any of our products classified as nutritional supplements are subject to sales tax.

We pre-collect sales tax on most outer nutrition products. However, in some states certain outer nutrition products are not subject to sales tax. For example, in New York products containing SPF as a sunscreen are exempt.