STATE BOARD OF EQUALIZATION
1020 N STREET, SACRAMENTO, CALIFORNIA
(P.O. BOX 942879, SACRAMENTO, CALIFORNIA 94279-0001)
(916) 445-5550

March 21, 1977

Mr. E. B. D---
R---, Inc.
XXX --- Lane
---, CA XXXXX

Dear Mr. D---:

SZ --- XX XXXXXX
Materials Handling Division

We have received the materials left with us after our discussion on March 8, 1977.

We understand that R--- designs, engineers, manufactures, and installs conveyor systems in manufacturing plants, warehouses, air terminals, and other places where the rapid and efficient movement of goods or property is required. Your brochures state that your equipment will handle everything from packages of razor blades to 100,000 pound coils of steel wire. Particular installations which are illustrated include a winery, a dairy, and a --- distribution center, and a B--- Stores service building. In our discussion you stated that the systems are designed for a particular customer and its facilities. The conveyors are installed by attaching them to legs which have been attached to the floor of the structure. In some of the larger installations the conveyors may be attached to poles or metal beams which are welded or bolted to the structure, and several conveyors may be placed one above the other. The support beams may also support catwalks or platforms for workers and equipment. In some instances the conveyor system as well as the catwalks are suspended form the structural steel roof or structural supports. While the conveyor system may be disassembled and removed from a building, it is not economical to install it, or portions of it, in other locations. Accordingly, conveyors, when removed are scrapped.

Engineering and design includes at least two functions. First, the system itself must be designed. This includes determining what units are to be installed, where, and how they are to be interconnected to meet the requirements of the customer. Where possible, standard units are used. However, a number of units must be designed and manufactured for the particular installation. You advised us that in one airport baggage handling installation only about 10 percent of the units were

standard, 90 percent of the units were of special design and manufacture. In one warehouse installation about 40 percent of the units were standard and 60 percent special.

The conveyor units themselves appear to be of three types: wheels on axles in a frame, rollers in a frame, or belts moving over rollers in a frame. The conveyor may be operated by gravity flow or by motors or both. Control of the movement may be manual, electrical, or by computer. Electrical or computer controls are installed by a subcontractor for you. The units may be straight or curved to allow goods to move around corners or to other conveying units.

Units are manufactured with the moving units (wheels or rollers) in the frame. Supports, whether legs or beams, are manufactured separately and delivered to the jobsite separately. The supports are attached to the floor of the building or to the structure by bolts, welds, or both, and the frames attached to the supports. The belts are added if the installation calls for belt conveyors.

As we advised you, we think the conveyor systems described above are fixtures. The supports, legs, beams, etc., which are attached to the structure before the conveyors units are attached to them are materials. Catwalks and platforms attached to the supports also are materials.

The measure of tax will be computed under Regulation 1521(b)(2) as follows:

1. Materials – sales price of the materials to R---.

2. Fixtures – cost price as provided in Regulation 1521(b)(2)(B)2b.

(a) Standard – I understand that these items are sold to other contractors ready for installation. Accordingly, under Regulation 1521(b)(2)(B)2b the measure of tax for the standard fixtures is the price at which these fixtures in similar quantities ready for installation would be sold to other contractors.

(b) Special – These are not sold to other contractors. Accordingly, the measure of tax for these fixtures is the amount stated in price lists, bid sheets, or other records of R--- and includes the price charged for the engineering an design of these fixtures.

If the cost price cannot be determined in the manner set forth above, it shall be determined as provided in the last paragraph of Regulation 1521(b)(2)(B)2b.

The measure of tax will include the charge for labor of installing motors on the motor driven units. It will not include the labor charge for physically installing the conveyor units at the jobsite. The charge for determining what units are required for the system and the arrangement of the units within the building appear to be more closely related to installation than to equipment design. Accordingly, charges for these will not be included in the measure of tax.

If you have any questions about this problem, please feel free to write to us.

We have received the information concerning the conveyor system to be installed at --- --- Airport. We shall give you our thoughts as to the application of tax to that installation after we have reviewed that information.

Very truly yours,

John H. Murray
Tax Counsel

JHM/at

cc: Mr. F--- H---
Manager – Tax Administration
R---, Inc.
XXXX West --- Avenue
---, Wisconsin XXXXX