

**M e m o r a n d u m****190.2511**

To: District Principal Auditors

Date: July 13, 1982

From: Headquarters – Principal Tax Auditor

Subject: Out-of-State Contractors – Sales of Tax-Paid Short Ends

Sales and Use Tax Regulation 1521(b)(6)(C) allows contractors to claim a “tax-paid purchase resold” deduction on short ends or other tax-paid pieces which are sold and not used other than in severing them from larger units. The deduction shall not exceed the selling price of these items. If the short end or scrap is not resold, no tax-paid purchases resold deduction is allowable; the value of the material used is the cost of the larger unit purchased necessary to form the item required. If the short ends are sold, their sales price will be considered their cost for purposes of the tax-paid purchases resold deduction.

A recent case, heard before the Board, involved an out-of-state contractor who purchased and fabricated materials out of state and claimed a credit for short ends, which did not enter the state.

Following is the effect of the Board’s decision:

- (a) as to short ends which are sold, the credit for the short ends is their selling price.
- (b) as to short ends incorporated into another job, the cost of the original job should be reduced by the prorated cost of those short ends.
- (c) As to short ends or scrap not sold or used on another contract, there is no credit.

This decision of the Board should be applied to both in-state and out-of-state construction contractors.

DFB:j

cc: Mr. J. D. Dotson                      Mr. P.M. Fiorino  
Mr. R. Nunes                              Mr. G. J. Jugum  
Mr. R. L. Lively                          Mr. J. H. Murray  
Mr. D. E. Carey                          Headquarters Audit Supervisors  
Mr. R. H. Anderson

# Memorandum

190.2511

To: Mr. Glenn Bystrom

Date: May 14, 1996

From: Gary Jugum

Subject: Non-Attorney Opinions

I have reviewed D. R. Brady's memorandum of July 13, 1982 to District Principal Auditors.

We are in agreement with his conclusion, as follows:

**Out-of-State Contractor-Short Ends.** The following interpretations apply to out-of-state contractors who purchase and fabricate materials out-of-state and install the property in California, but the short ends or scrap resulting from the fabrication process do not enter the state.

- (1) As to short ends which are sold, a reduction in the purchase price of materials subject to use tax is allowed for the price at which the contractor sells the short ends.
- (2) As to short ends incorporated into another job out-of-state, a reduction in the purchase price of materials subject to use tax is allowed by the prorated cost of the short ends.
- (3) As to short ends not sold or used on another job, no reduction in the purchase price of materials subject to use tax is allowed. 7/13/82

Gary Jugum