



STATE BOARD OF EQUALIZATION

November 12, 1964

REDACTED TEXT

Attention: REDACTED TEXT
Secretary – Controller

Gentlemen:

This is in reply to your letter of October 15, 1964, requesting information concerning the application of California use tax with respect to certain “allowances” which you give to your customers when purchasing replacement engines and components for previously purchased equipment.

If the allowance is in the nature of a trade-in allowance, the amount thereof cannot be excluded from the measure of your use tax liability. The tax applies to “Sales price” which the law defines as the total amount of the consideration paid by the customer whether in the form of cash, property, or anything else of value. The only type of “allowance” that may legally be excluded from the measure of the tax is an allowance for defective merchandise. Thus, if the original merchandise proves defective, any reduction in the sales price made on account of the defects is a valid deduction.

Sometimes there is both a trade-in allowance and a defective merchandise allowance, and the retailer must make a segregation and deduct only the allowance for defects and not for the merchandise traded in.

Enclosed are copies of sales and use tax ruling 65, Merchandise Traded In, and 66, Defective Merchandise. While not, apparently, applicable to the fact stated in your letter, we are, however, also enclosing ruling 67, Replacement Parts.

Very truly yours,

E. H. Stetson
Tax Counsel

EHS:md
Enclosures

cc: Out-of-State – District Administrator
San Francisco – District Administrator
Hollywood – Subdistrict Administrator