



STATE BOARD OF EQUALIZATION

June 25, 1958

REDACTED TEXT

Attention: REDACTED TEXT
Manager, Tax Department

Gentlemen:

Mr. Harry Say and Mr. William Denny have discussed with me the subject of your letter of June 17, and have asked me to reply thereto.

In the example set out in your letter, a customer purchases a battery for \$20.00 plus sales tax of 60¢, total \$20.60. The battery is guaranteed for 24 months. At the end of twelve months, the battery fails. The customer is allowed \$10.00 as a defective merchandise allowance. A new battery is sold to the customer for \$10.00 plus tax of 30¢, making a total of \$10.30. The customer is requested to turn in his defective battery, which is worth from 50¢ to \$1.50 to you ask junk.

It appears, accordingly, that actually the allowance to the customer consists of two parts which total \$10.00. If the old batter has, for example, a value to you of \$1.00, it would seem appropriate to regard this as a trade-in allowance and to regard the balance of the total allowance as a defective merchandise allowance. Therefore, it is our view that you are entitled to take a defective merchandise allowance of \$9.00 in the example given.

In the alternative, the defective merchandise allowance could be regarded as \$10.00, provided the trade-in value of \$1.00 is added to the taxable gross receipts from the second sale.

Very truly yours,

E. H. Stetson
Tax Counsel

EHS:tl

cc: Los Angeles – Administrator