



STATE BOARD OF EQUALIZATION

May 19, 1967

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Dear Mr. ---:

This is in reply to your letter of May 4, which has been referred to me for reply.

If equipment is rented subject to the requirement that the lessee must contract with the lessor for a parts warranty or maintenance services or must make payments to the lessor for those services, those payments must be included in the measure of rental payments.

On the other hand, if payments to the lessor for those services are optional with the lessee, those payments need not be included in the measure of rental payments whether or not they are paid before or after the period of the service or warranty.

If it is optional with the lessee whether he buys a parts warranty or maintenance services from the lessor or from someone else or not at all, but the lessee then decides to engage the lessor for those services, then the reasonable charge for those services may be excluded from the measure of rental payments, if they are segregated on the customer's billing.

Very truly yours,

Philip R. Dougherty  
Associate Tax Counsel

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