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July 8, 1993

Ms. [M]
[W]
P. O. Box XXXX
--- ---, -- XXXXX

Re: S- -- XX-XXXXXX

Dear Ms. [M]:

This is in response to your letter dated May 4, 1993. You acquired video stores in California and requested information on the taxability of late fees and processing fees.

If a member rents a video for a standard two night rental of \$3.00, but returns it late, a late fee of \$1.50 per day is charged. If a person wishes to rent videos but is unable or unwilling to present a driver's license and major credit card, they may still become a member if they pay a one-time non-refundable processing fee of \$3.00.

It is our opinion that both fees must be included in the gross receipts reported for tax purposes. The late fee is in reality a rental fee for a continued use of the video. The processing fee which you charge in lieu of other identification and evidence of credit, is a part of the gross receipts that you receive for renting videos. The customer paying this fee does not receive anything except the rental of a video, which costs him a small amount more than if the other documentation were provided.

If you have other questions, please contact me.

Sincerely yours,

Donald L. Fillman
Tax Counsel

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