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**STATE BOARD OF EQUALIZATION**

December 15, 1965

Gentlemen:

This is in reply to your letter of November 9 in which you request our opinion on the application of the Sales and Use Tax Law to your leases of equipment.

As we understand the situation which confronts you, you presently have leased equipment which the lessee has an option to purchase. The purchase price is the retail price, less the rentals paid at the time of the lessee's exercise of his option. Upon exercise of the option, the lessee must also pay a charge for property taxes, insurance, repairs, and interest. Since these charges are mandatory to the effective exercise of the purchase right, they are part of the sales price of the equipment. Such charges must be included in the measure of the tax arising out of the sale.

The amendments to the law have been effective in changing to some extent classification of leases as leases in lieu of sale. Equipment which is substantially consumed during the bound period of the lease is no longer mandatorily considered to be leased in lieu of sale; unless it otherwise comes within the rule expressed by Ruling 61, it will be considered an ordinary lease. We are enclosing a copy of Ruling 61, which has been revised to reflect the amendments to the law.

We have reviewed the blank lease contract you sent with your letter. There is nothing on its face which requires it to be considered a lease in lieu of sale.

In order to assist you in understanding the changes in the law, we are sending you copies of Rulings 61, 62, 69, 70, 73, 74, 75, and 81. If you have any further questions after perusing the enclosed material, please do not hesitate to write to us again.

Very truly yours,

Philip R. Dougherty  
Assistant Counsel