

**STATE BOARD OF EQUALIZATION**

(916) 445-5550

June 21, 1990

Mr. J--- O. G---
C--- W--- C--- Company
XXX --- ---, Suite #XXX
--- ---, CA XXXXX

Re: SR -- XX-XXXXXX

Dear Mr. G---:

This is in response to your letter dated May 25, 1990 regarding the application of sales tax to your repairs of watches.

You state that you repair watch cases on a wholesale basis for jewelers both inside and outside California. You make one part yourself, a bezel. You state that your customers buy this part from you on a wholesale basis and that you charge them sales tax although you believe that they in turn will have to charge a second sales tax from their customers on a retail basis.

It is unclear whether you sell the bezels to your customers or if you repair watches for your customers by making and installing bezels onto watches. I will therefore analyze both situations.

Subdivision (e) of Sales and Use Tax Regulation 1553 explains the application of tax to watch and jewelry repairers. It states:

“Watch and jewelry repairmen are consumers of watch, clock and jewelry repair parts and materials such as crystals, findings, and chain links, used in repairing watches, clocks and jewelry. Tax applies with respect to the sale to them of such property. They are, however, retailers of wrist watch straps, metal bands, watches, clocks, chains, and other tangible personal property which they sell to consumers in the regular course of business, and tax applies to the gross receipts from such retail sales.”

In situations in which you repair a watch by replacing a bezel, you are a consumer of that bezel, with tax applying to your purchase of the bezel. If you make the bezel yourself, tax applies to your purchase of the materials you use to make the bezel. Tax applies to your use of the bezel, or the materials used to make the bezel, whether the person for whom you perform the repairs is inside or outside California. No sales or use tax would be applicable to your charge for repairing the watch since you are not selling tangible personal property but rather are providing the service of

repairing the watch. This applies whether you perform the repairs for the owner of the watch or for another jeweler who in turn charges the owner of the watch for repairs. In the later case, the jeweler would not charge the customer sales tax for its charges for repairs just as you would not charge tax on your charges for repairs.

I assume that when you sell bezels without performing the repairs that you sell either to a person who will perform the repairs, such as a jeweler, or to the owner of the watch. In either case, you are making a retail sale. You may not take a resale certificate from a jeweler who will perform repairs because the jeweler is the consumer of the bezel and is not regarded as reselling it. Of course, that repairer should not charge sales tax on his charges for the repairs. When you sell the bezel to a person in California, your sale is subject to sales tax. When you sell a bezel to a person outside California, and your contract requires you to deliver the bezel outside California and you do so, your sale is exempt from sales tax. (Reg. 1620.) When you sell bezels (as opposed to using them in repairs), you may purchase the parts incorporated into those bezels for resale (i.e., without paying tax) by issuing your vendor a resale certificate. This is discussed in Regulation 1668, a copy of which is enclosed.

In summary, it appears that sales tax applies to your business as follows:

1. You repair a watch by replacing the bezel. Tax applies to the sale to you of the bezel or the parts used to make the bezel. No tax applies to your charges for such repairs nor does tax apply to charges that a jeweler makes to his customers for repairs subcontracted to you.
2. You sell a bezel at retail to a person in California. Sales tax applies to your charges. You may purchase for resale the parts incorporated into the bezel you sell.
3. You sell a bezel to a person outside California and the contract requires you to deliver the bezel outside California and you do so. No tax applies to your sale of the bezel. You may purchase for resale the parts incorporated into the bezel you sell.

If you have further questions, feel free to write again.

Sincerely,

David H. Levine
Tax Counsel

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Enclosure