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**STATE BOARD OF EQUALIZATION**

916-445-8485

January 24, 1992

X-----

Re: X-----  
Fabrication

Dear Mr. X-----:

This is in response to your letter of November 14, 1991, requesting our opinion as to the taxability of charges for regrooving pipe.

Facts

You described the facts in this matter as follows:

"X----- purchased new pipe with grooves from a manufacturer. X----- cut the grooves off because the grooves did not meet the specifications of the pipe joints X----- is required to use on a water reclamation plant construction project. The cut pipe was then transferred to a pipe service company to be regrooved."

Sales and Use Tax - General Discussion

Except to the extent specifically excluded or exempted by statute, the Sales and Use Tax Law, California Revenue and Taxation Code (Section 6001 et seq.) imposes sales or use tax on the gross receipts from the retail sale of all tangible personal property sold or purchased for use in this state. (Sections 6051 and 6201). (All statutory citations are to the California Revenue and Taxation Code, unless otherwise noted herein.)

Producing, Fabricating and Processing Property Furnished by Consumers

Section 6006(b) provides that the term "sale" means and includes:

"The producing, fabricating, processing, printing or imprinting of tangible personal property for a consideration for consumers who furnish either directly or indirectly the materials used in the producing, fabricating, processing, printing or imprinting."

Sales and Use Tax Regulation 1526 implements and interprets Section 6006(b). Subsection (b) of the regulation provides:

"(b) OPERATIONS INCLUDED-REPAIRING AND RECONDITIONING DISTINGUISHED. Producing, fabricating, and processing include any operation which results in the creation or production of tangible personal property or which is a step in a process or series of operations resulting in the creation or production of tangible personal property. The terms do not include operations which do not result in the creation or production of tangible personal property or which do not constitute a step in a process or series of operations resulting in the creation or production of tangible personal property, but which constitute merely the repair or reconditioning of tangible personal property to refit it for the use for which it was originally produced."

In this case, it is our opinion that the regrooving services are considered to be "fabrication" within the meaning of Section 6006(b) and Regulation 1526. Such services are " ... steps[s] in a process ... resulting in the creation or production of tangible personal property." The property ultimately being bought by X----- consists of the regrooved pipes. The services rendered by the pipe service company are merely steps in the process of creating that property. Finally, the fact that X----- acquires the original pipe, is an indication that the materials are furnished directly by m and fabricated by the pipe service company. Accordingly, X----- will be required to pay sales tax reimbursement upon the regrooving charges. An entire copy of Regulation 1526 is enclosed for your convenience.

If you have any further questions, please do not hesitate to write to us again.

Cordially,

Victoria Lani Arena  
Tax Counsel

VLA:es  
42621

bc: Torrance District Administrator