



STATE BOARD OF EQUALIZATION

June 4, 1964

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This is to inform you of our recommendation to the Board with respect to the above named taxpayer's petition for redetermination. We will recommend that the protested item be deleted from the audit.

This item involved high reliability resistors removed from a production run for test purposes. The testing was more than quality control on the part of the petitioner in that the testing was done in the presence of the buyer's resident engineer, and the testing was done according to United States' standards.

It has been the Board's policy in the past to treat quality control test samples as a production loss which incurs on tax consequences. This is also true of defective items which are removed from production and destroyed. The theory is simply that production entails certain losses and items removed from a production run are not really self-consumed by the taxpayer.

While the testing in this case involved a higher degree of reliability and care because the items will be used in the missile industry, we feel the same rule should apply. The important thing here is not whether title passes prior to testing or who is ultimately benefited by the testing, but the fact that the testing was of resistors selected from a production run.

The Board will act upon our recommendation at its regular meeting, and you will receive official notice of the redetermined amount in due course. We appreciate your cooperation in answering our inquiries.

Very truly yours,

John H. Knowles
Associate Tax Counsel

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