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**STATE BOARD OF EQUALIZATION**

Bc: Hollywood – District Administrator

916-446-2242

June 2, 1986

X-----,

I am writing to you in response to your letter of April 18, 1986 requesting clarification of Sales Tax General Bulletin 50-24; July 10, 1950. You state in your letter that your company is involved in the activity of recording your client's documents on microfilm and delivering the microfilm to your clients. Along with the microfilm you also transfer reels, upon which the microfilm is stored, trailer holders, which lock the microfilm onto the reel, and boxes. You also informed me by telephone that the chemicals used in developing the microfilm are the Pro-Star Developer, and the Pro-Star Fixer, manufactured by the Kodak company.

In your letter you specifically request clarification of Sales Tax General Bulletin (STGB) 50-24. This bulletin has been revised and is now incorporated in Regulation 1525.1, entitled "Manufacturing Aids". A copy of Regulation 1525.1 is enclosed for your information. Regulation 1525.1 pertains to manufacturing aids such as dies, patterns, jigs, and tools which are the type of manufacturing aids which can be sold to the customer for reuse. The items that you have listed in your letter are either not manufacturing aids (e.g., reel, holders, boxes) or are not manufacturing aids which can be reused (e.g., chemicals) by your customers; rather, such items are either non-returnable containers for the microfilm (e.g., reel, holders, boxes) or used as a catalyst (chemicals) in the development of the microfilm. The more pertinent regulations in this area are Regulation 1525 on Property Used In Manufacturing and Regulation 1589 on Containers. A copy of Regulations 1525 and 1589 are enclosed for your information.

Sales tax is imposed upon all retail sales of tangible personal property in California, unless otherwise exempted. (Rev. & Tax. Code § 6051). A "retail sale" is defined by Section 6007 of the Revenue and Taxation Code as a sale for any purpose other than resale in the regular course of business. Regulation 1525(b), which interprets Revenue and Taxation Code Section 6007, states that tax does not apply to sales of tangible personal property to persons who purchase it for the purpose of incorporating it into the manufactured article to be sold. Conversely, Regulation 1525(a) provides that tax does apply to the sale of tangible personal property to persons who purchase it for the purpose of using it in manufacturing, producing or processing tangible personal property,

but which does not become physically incorporated into the manufactured product to be sold.

The reels, boxes, and trailer holders that are transferred to your customer as part of the sale are materials purchased by your company for the purpose of resale to your customer. These items also qualify as non-returnable containers which are exempt from sales tax upon their sale to you, pursuant to Revenue and Taxation Code Section 6364. Tax does not apply to the sale of these items to your company. In order to avoid the imposition of tax on the sales of these items to your company, you must issue to your supplier either a resale certificate or an exemption certificate. Examples of each are shown in Regulations 1668 and 1667, respectively, copies of which are enclosed for your information.

The chemicals used by your company to develop the microfilm are the Pro-Star Plus fixer and the Pro-Star Developer. I was informed by X----- of the X----- -- that these chemicals are consumed in the development process and do not become physically incorporated in the manufactured product, the microfilm. Because these chemicals are not incorporated into the manufactured article, they are not purchased by X----- for the purpose of resale. Because these chemicals are consumed by you and are not reusable by your customers, old STGB 50-24 and current Regulation 1525.1 do not apply to your chemicals. Therefore, tax will apply to the sale of these chemicals to your company. You may not issue your supplier a resale certificate upon the sale of these chemicals.

If you have any further questions, please contact us again.

Sincerely yours,

Teresa Armstrong  
Legal Counsel

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