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**STATE BOARD OF EQUALIZATION**

December 16, 1969

Mr. H--- M. F---  
Certified Public Accountant  
--- --- Building  
XX --- ---, Suite XXX  
---, CA XXXXX

SR -- XX XXXXXX  
B--- Corporation  
D--- Division

Dear Mr. F---:

Thank you for securing the additional information from the chemical company which makes the phenolic resins involved in your processes. After reviewing it, I find that it does not support your conclusion very well, but rather strongly proves the correctness of the auditor's conclusions that isopropyl alcohol and methylethyl ketone are taxable manufacturing aids.

If you will again refer to the copy of ruling 14, which I sent you earlier, you will note that tax applies to the sale of tangible personal property to persons who purchase it for the purpose of use in manufacturing, producing or processing, and not for the purpose of physically incorporating it into the manufactured article to be sold. Examples of such property are chemicals used as catalysts or otherwise to produce a chemical or physical reaction such as the production of heat or the removal of impurities.

Methylethyl ketone and isopropyl alcohol are solvents; that is, they are used to dissolve other substances to produce a solution containing the solvent and the dissolved substance, which in this case is the phenolic resin.

In answering the inquiry from W--- W. J--- of F--- Corporation, Mr. M. G. D--- of H--- C--- Company, D--- Division, in a letter dated August 7, 1969, had this to say:

“When phenolic resin is dissolved in a solvent and the solvent subsequently evaporated the solvent is for all practical purposes considered fugitive. Under certain conditions certain solvents may be retained in small quantities but this is not the usual case. Retained solvents conceivably can influence the physical properties of a phenolic resin but on [unknown] the solvents will ultimately be eliminated from the cured resin.

“The change from ‘crystalline to amorphous state in the final product’ is due to the thermosetting process which is an important characteristic of phenolic resins. The molecular weight will increase upon application of heat until the product is completely thermoset (infusible and insoluble). This action is completely independent of any solvents which may be used in the process.”

This statement seems clearly to indicate that the chemicals in question are used only in producing a chemical reaction, i.e., to dissolve the resin to facilitate the application of heat, and that none of them become a permanent part of the finished product.

You wrote to Mr. M. G. D--- on September 19, 1969, and asked him for further explanation. He replied on October 16, 1969, with these specific statements:

- “1. A change in the molecular weight of Durez 175 and 9841 is due to the application of heat in this case. By compounded chemicals it is assumed you refer to the solvents used.
- “2. The MEK and alcohol do not influence the physical properties of the thermoset end product. The same thermoset properties can be achieved with heat only and without the use of solvents. The solvents are used only as process aids. [Emphasis added.]
- “3. The solvents will be eliminated during the oven curing of the resin. The molecular weight change is a function of time and temperature and is not dependent on the solvents used in this process.”

If any doubt existed before, this last letter laid it to rest. The chemicals in question are used only as processing aids; they do not influence the physical properties, and they are completely dissolved in the manufacturing process.

You indicate that Mr. D--- side steps the issue of whether or not the chemicals become a beneficial ingredient. He appears to me to answer it directly: It does not become a beneficial ingredient of the finished product.

We do not deny that there may be some reaction between the chemicals and the resins, but that reaction is merely part of the manufacturing process and does not result in the solvents becoming part of the finished product.

Mr. H--- M. F---  
(S- -- XX XXXXXX)

-3-

December 16, 1969  
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No information has been submitted regarding diethylene glycol, and I assume you do not dispute its taxability or dispute it on the same ground as the other two solvents.

It will be my recommendation that your petition be denied. If you still desire an oral hearing, please notify Mr. James L. Martin, Supervisor of Petitions and Refund Unit, P.O. Box 1799, Sacramento, California 95808, within two weeks of this letter.

Very truly yours,

Lawrence A. Augusta  
Assistant Counsel

LAA/vs