

435.0000 PRODUCING, FABRICATING AND PROCESSING PROPERTY FURNISHED BY CONSUMERS—GENERAL RULES—Regulation 1526

See also Automatic Data Processing Services and Equipment; Construction Contractors; Gross Receipts; Manufacturers of Personal Property; Motion Pictures; Photographers, Photostat Producers, Photo Finishers and X-ray Laboratories; Printing and Related Arts; Repainting and Refinishing.

(a) ASSEMBLY, DISASSEMBLY AND REASSEMBLY

[435.0020](#) **Assembling** steel lockers and shelving is not regarded as installation labor. Accordingly, tax applies to charges for assembling lockers and shelving sold by the retailer as well as to charges for assembling parts furnished by a consumer. 7/19/50.

[435.0038](#) **Assembly of Electronic Kits and Repair of Electronic Equipment.** The assembly of an electronic kit for a consumer who furnishes the kit constitutes the completion of the manufacture of the electronic item. Charges for this assembly labor are taxable.

The providing of labor on previously assembled and already used electronic items which restores the item to its original condition for its original use is not taxable. 12/7/93.

[435.0040](#) **Assembly of Furniture—Fabrication, etc.** A bank (consumer) ordered furniture from a California retailer who ordered the furniture from an out-of-state supplier for direct shipment to the bank, with title to pass out-of-state. The retailer assembled the furniture on the bank's premise. The purchase price of the knocked-down furniture was subject to use tax, and the assembly of the parts was step in a series of operations resulting in the production of tangible personal property. Accordingly, such an assembly constituted fabrication labor subject to sales tax. 7/25/67.

[435.0060](#) **Bolting and Assembly Shelving.** A consumer ordered shelving from a retailer; the retailer ordered the shelving from the factory for direct shipment to the consumer; when the shelving arrived, the retailer assembled it on the consumer's premises for a separately stated charge. The charges for bolting and assembling the shelving are subject to the sales tax, since such assemblage constitutes a step in a series of operations resulting in the production of tangible personal property. 3/15/66.

[435.0080](#) **Charges for Delivery, Assembly, and Reconfiguration.** Charges for the assembly of office furniture, lockers, shelving, bookcases, inter-connecting partitions, etc., received knocked-down and/or in cartons are taxable whether the assembly is done at the retailer's premises, or at the customer's premises, and regardless of whether the work is done by the retailer's employees or a sub-contractor's. If the assembled units are to be attached to the customer's floor or walls, charges for such installation are not taxable. Similarly, tax does not apply to additional charges for re-configuring units which have already been assembled, such as desks in which drawers are to be moved from right side to left side, etc.

Charges for shipment to a subcontractor's warehouse for later delivery are not excludable from the measure of sales or use tax because the charge is not for transportation "directly to the purchaser." 2/27/91.

[435.0100](#) **Dismantling.** The seller of surplus houses who also dismantles them at request of buyer and makes an additional charge for such dismantling, must include such charge in his taxable gross receipts. 9/2/54.

[435.0120](#) **Engineering Services.** Charges for engineering services at the site of installation of equipment necessitated by the bolting of sections of the equipment together prior to its being affixed to the floor, constitutes assembly or fabrication rather than installation, and should be included in the measure of the tax. 8/31/53.

[435.0122](#) **Fabrication.** A taxpayer manufactures steel stampings which are manufacturing aids used in the construction of hollow concrete floors. Customers sometimes request that the stampings be preassembled into eight foot squares. The labor charge for this service is in addition to the usual selling price of the stampings.

When the properties being sold are assembled eight-foot sections of steel stampings, the fee for the assembly is taxable, whether or not separately stated. Completing the production of a finished article for a consumer by affixing one piece of tangible personal property to another such piece is taxable fabrication pursuant to section 6006(b) or (f) of the Sales and Use Tax Law. 10/30/91.

[435.0123](#) **Fabrication Labor.** Under section 6006(b), the term “sale” is defined to include the producing, fabricating, or processing of tangible personal property furnished by a consumer.

Where fabrication labor is performed within California and outside, with delivery to the purchaser taking place inside California and outside California, respectively, California sales tax applies to the California charges, but not to the out-of-state charges, without regard to where payment is tendered. 12/18/95.

[435.0130](#) **Iridium.** The iridium metal is purchased from and fabricated into crucibles by an out-of-state company and is then shipped to another company’s California plant where the crucibles are used as containers for molten sapphire in the plant’s growth operation. Although not meant to become incorporated into the grown sapphire crystal, a minute portion, less than 1/2 of 1%, becomes incorporated into the grown sapphire crystal. Approximately 90% of the iridium metal is normally recovered and returned to the company’s pool account with the out-of-state supplier.

This transaction may be handled on a “net exchange” basis. Tax is properly due on the charge made to the instate company for reclaiming iridium from crucibles returned to the out-of-state company. (See also Annotation 330.2627.) 10/20/70.

435.0138 **Platinum.** Platinum is purchased and fabricated into a liner by an out-of-state company and shipped to another company’s California plant. The liner is used in the emerald growth reactors but does not become a part of the end product. The instate company maintains a platinum pool account with the out-of-state company and California tax is paid on purchases of platinum and also on the fabrication charges but not on the “reclaiming charge” made by the out-of-state company.

The “net exchange” principle is applicable to the platinum. That is, tax is due on the fabrication charge and not on the value of the returned platinum. However, tax is also properly applicable to the “reclaiming charge.” (See also Annotation 330.2627.) 10/20/70.

[435.0140](#) **Reassembling Tangible Personal Property That Has Been Previously Assembled.** When tangible personal property is manufactured and completely assembled at the retailer’s plant, then disassembled for shipment and reassembled at the buyer’s place of business, the reassembling constitutes a reconditioning of the property rather than fabrication. Accordingly, separately stated charges for such reassembly are not subject to tax if title to the tangible property passed to the buyer prior to its reassembly and if the buyer was not required to hire the seller to do the reassembly. 11/14/67.

[435.0143](#) **Reassembly.** If property had been fully assembled prior to its disassembly and is not substantially different in its reassembled form from its original form, the labor to reassemble the property is a nontaxable service if: (1) The charges for reassembly are separately stated, (2) title to the property passed to buyer prior to the reassembly, and (3) the buyer was not required to hire the seller to do the reassembly. 12/29/86.

[435.0144](#) **Repair vs. Fabrication.** A manufacturer of integrated circuits purchases silicon wafers which are etched with micro-circuitry to produce integrated circuits for sale. Each batch of wafers is tested to assure proper manufacturing by withdrawing a sample wafer and testing it. Some percentage of wafers fail to meet quality control standards and are rejected. Most rejected wafers are scrapped. Some are shipped to vendors who back-lap them. Back-lapping consists of cleaning and coating. Back-lapped wafers do not meet the manufacturer’s quality standards for manufacturing integrated circuits for resale and are used to test various manufacturing processes. These test wafers are processed through the individual manufacturing processes separately from production wafers as a verification that the process is operating properly. If the

process is operating properly, new production wafers are fed through the process as part of the normal manufacturing operation.

In order for an activity to be regarded as the performance of repairs, the product must be returned to its original condition or function. If a transaction consists solely of furnishing repair labor, it is regarded as a service activity which is not subject to tax. In the above situation, the back-lapped wafers are not regarded by the manufacturer as acceptable for use in its manufactured product and the back-lapped wafers are not being repaired. The manufacturer's vendors are producing a product which the manufacturer uses to test its manufacturing process. section 6006(b) define sales to include processing of property furnished by another for a consideration. That is what occurs in this situation. Accordingly, tax applies to the amount charged to the manufacturer by back-lap vendors. 10/20/88. (Am. 2000-1).

[435.0144.750](#) **Salvaging of Raw Materials.** The process of melting down wire furnished by a customer and the drawing of new wire from copper castings is a fabrication process. This is the salvaging of raw material and the manufacture of a new product. If the process involves only the heating of the wire furnished by the customer to drive off impurities and to recondition the wire, this operation is a repair transaction. 10/28/91.

[435.0145](#) **Shelving.** A corporation is engaged in the furnishing and installation of market equipment, including meat monorail systems, adjustable shelving, and overhead conveying systems. The item in question involves labor charges in connection with shelving delivered to the buyer in a knocked-down condition (steel pipe uprights, brackets, shelve frames, and steel wire trays). The questioned shelving generally is furnished in conjunction with the sales and installations of other food handling equipment under a single order. The corporation states that, because the individual components of the shelving are treated with a hot galvanized dip, factory assembly is necessary to make sure the components fit, since galvanizing sometimes causes warping of the frames or other undesirable effects. The shelving is then disassembled and shipped to the jobsite and reassembled. After delivery to the customer's place of business, the shelving is assembled prior to its being placed in its final location. The shelving generally is free standing.

In this case, the shelving was reassembled at the jobsite prior to being placed in its final location as a free standing unit (without attachment to the realty). Under such circumstances, the assembly labor does not qualify as nontaxable installation labor. The corporation cited Annotation 435.0140 as support for its belief that this labor is not taxable. The corporation's method of operation is not in conformance with the requirements for nontaxable as set out in that annotation. The charges for labor are not separately stated, there is no showing that title to the property passes to the buyer prior to the assembly, and reassembly is a contractual obligation of the seller under the agreement to furnish and install. 4/28/76.

[435.0150](#) **Tapes and Reels.** A taxpayer provides processing services and specializes in surface mount device tape and reeling. Surface mount device tape and reel service involves placing customer provided semiconductor chips onto a special carrier tape. The tapes contain recesses where the chips are placed. A clear film is then placed over the carrier tape to prevent the chips from falling out. The filled tape is then rolled up on a reel. The reel containing the filled carrier tape is then packaged and shipped to the customer.

The customer loads the reel onto an assembly machine. The carrier tape from the reel is fed into the assembly machine similar to a machine gun belt. The assembly machine removes the chips from the tape and stamps the chips onto circuit boards. The carrier tape is emptied and discarded by the customer. The reel is also discarded when it becomes empty. The chips are expensive sensitive devices. They cannot be loaded onto a machine by simply dumping the chips into a hopper. The assembly machines are designed to accept these semiconductor chips via the tape and reel system. Without the tape and reel system, the semiconductor chips cannot be loaded into the assembly machine.

With the taping service, the taxpayer includes various levels of inspection of the semiconductor chips. The fee for the tape and reel service varies with the level of the inspection service chosen by the customer.

The customer/maker is purchasing the tapes and reels which are used in the manufacturing process to keep the chips from being damaged. Thus, the taxpayer is selling tangible personal property (the reels and tapes) to be used as manufacturing aids and any service provided, such as chip placements and inspection, are incidental to that sale. Therefore, the total gross receipts from the sale of the reels and tapes are taxable. 1/21/94.

[435.0152](#) **Television Filming Sets.** A taxpayer is engaged in designing, constructing and selling or renting scenery used in filming television commercials. The taxpayer assembles the sets at its own facilities so that approval can be obtained from its customers prior to filming. After approval, the set is disassembled, transported to the studio and reassembled. Separate charges are made for setup, stand by during filming, disassembly, transportation, and art direction.

If the standby and disassembly are optional, the charges are not subject to tax. If the reassembly is optional, and title or possession are passed to the customer prior to reassembly, tax does not apply to the charges.

Art direction involves a person who ensures the set looks good on film and decides what props are needed. This person also is responsible for watching the monitor during filming and making changes that may be needed. The portion of the charge that relates to the designing and construction of the sets is a service that is part of the sale and subject to tax. The portion related to work done during the filming is a service related to the filming and is nontaxable, if such charges are optional. 10/7/94.

(b) REPAIRING, RECONDITIONING AND INSTALLATION DISTINGUISHED

See also Installing, Repairing, Reconditioning in General. Bookbinding, see also Miscellaneous Repair Operations.

[435.0160](#) **Aircraft—Conversion Work.** The conversion of a piston-type aircraft to a jet aircraft is not extensive change which would be considered as manufacture or fabrication of a new aircraft. It is a repair, reconditioning or modification of an existing aircraft and tax applies to the sale price of parts and materials used in the conversion. 9/21/65.

[435.0180](#) **Altering and Repairing Rugs.** Merely reducing the size of a rug is not a taxable fabrication. But making two rugs out of one or one rug out of two is a taxable fabrication.

When charges for fabrication are taxable, charges for cleaning, finishing edges, and removing or adding fringe are also taxable.

When the work is merely the repair or reconditioning of a rug, none of such charges is taxable. 6/2/53.

435.0220 **Binding, Serging and Sewing of Carpeting.** When carpeting is sold, other than a contract to furnish and install wall-to-wall carpet, the tax applies to all charges except for actual installation charges. Thus charges for binding, serging, or sewing of carpeting for the purpose of fabricating a rug of a prescribed size or shape are subject to the tax, whether performed before or after title passes. On the other hand, sewing, serging and binding which is incidental to and performed in connection with a contract to furnish and install carpeting, are regarded as part of the labor of installation and the tax will not apply with respect to such charges.

The contractor installing the carpet is the consumer of all materials used in contracts to install wall-to-wall carpet. 7/5/51.

[435.0240](#) **Bodies and Chassis.** Sales tax applies to charges for installing bodies, new or used, on new chassis. Even if the chassis is furnished by the customers, the operation is a "sale" as defined by Revenue and Taxation Code section 6006(b), and the charge for the operation is subject to tax.

However, changing an old body from one old chassis to another old chassis is a repair operation and tax applies as provided in Regulation 1546.

Tax applies to the entire charge for placing a body on a new chassis including the cost of straightening dents, painting, etc. These are a part of the processing operation and are taxable according to the provisions of section 6006(b). For the same reason, tax applies to charges for painting the cab of a new chassis. However, tax does not apply to the single or lump-sum charge for painting an old or used body and chassis. If the painter furnishes the paint, tax applies to the cost of the paint to him.

Tax does not apply to charges for the labor of narrowing a used cab provided the operation is merely an alteration of the shape of the cab and does not result in a substantial change in form and kind. 8/15/51; 10/2/85; 6/10/75; 4/17/86.

435.0250 Diamond Cutting. The recutting of a customer's diamond to eliminate a chip or break constitutes nontaxable refurbishing labor. While tax applies to the charge made for the initial cutting of a diamond, whether the diamond is furnished by the retailer or is furnished by the customer, tax does not apply to labor performed in refurbishing a diamond, when the refurbishing is made necessary by damage to the original cutting. 7/16/91.

435.0260 Heat Treatment of Customer's Material. Charges for heat treating of customer furnished dies which involves merely repair and maintenance are not subject to tax. However, if there is a substantial change in the pattern cut by the altered die, so that it is fitted for a new and different use, the charge is taxable as a fabrication or processing. 4/9/57.

435.0280 Hemstitching and Buttonholing. Charges for hemstitching or buttonholing new garments are taxable as a step in the fabrication process. However, if these operations are performed in connection with repairing or reconditioning garments, the charges are not subject to tax. 11/1/51.

435.0300 Microfilm. Charges for placing exposed, developed microfilm on keypunched, aperture IBM cards, both the film and the cards having been supplied by the consumer, are taxable receipts from sales. The labor involves the creation for the first time of the desired article, i.e., the card with the film mounted thereon, and is not repair or reconditioning labor. 10/9/62.

435.0320 Neon Signs. If repair of a neon sign involves merely replacing an electrode in the tube and repumping the tube with gas, the labor charges would not be subject to tax. However, if it was necessary to replace a complete tube involving cutting tube to length, bending, placing electrodes, pumping with gas, and sealing the new tube, would constitute the sale of a completed tube. The labor charges in connection therewith would be taxable fabrication labor rather than exempt repair labor. 11/17/54.

435.0340 Neon Signs. Labor of bending glass tubing, exhausting the air, and filling with gas is fabrication labor, rather than repair labor. Attaching electrical contacts is also fabrication labor if it is part of fabricating repair parts such as tubing. On the other hand, merely attaching the tubing to the sign is repair labor. 7/22/52.

435.0360 Perforated Liners of Oil Wells. Sales tax was correctly imposed on charges for converting pipes into perforated liners for use in oil wells because the perforating of the pipe resulted into a production of a new product. However, the reslotting of used perforated liners so that the liners could be used again was not taxable because the reslotting was only a repair of the perforated liners and there was no change in the liners. 5/21/70.

435.0380 Pipe. Burning, sandblasting, straightening, cutting, welding and wrapping of old pipe is done to restore the pipe to its previous condition. Tax applies to the sales price of the materials used. The labor expended is nontaxable repair labor. However, welding pipe to make its length greater than it was goes beyond restoration and constitutes taxable fabrication. 11/5/64.

435.0400 Pipe. Application of somastic coating makes such a change in the characteristics of pipe that even its application to used pipe would result in a product quite different from new pipe. In other words, it would add valuable qualities not present in new pipe, and thus results in more than mere repair or

reconditioning. If other types of coating have the same result, the application of the tax should be the same. 10/2/53.

435.0418 Sale and Conversion of Used/New Bus to Motorhome. Where the taxpayer contracts to sell a used bus to a customer, then subsequently contracts with the customer to convert the bus into a motorhome, such contracts constitute a single integrated transaction for the sale of the converted used bus, the gross receipts from which are subject to tax. That is, tax applies to the charge made for the bus as well as to any separately-stated charges related to conversion work performed by the taxpayer. A delay in executing the contract to convert the bus into a motorhome is immaterial for sales and use tax purposes. This applies whether the taxpayer performs full conversion, partial conversion or preconversion work.

Where a customer provides the taxpayer with a new bus for conversion into a motorhome, tax applies to the entire charge made by the taxpayer for the full conversion, partial conversion, or preconversion work if the bus was purchased for the purpose of converting it into a motorhome. A new bus will be considered to have been purchased for this purpose if the contract for the conversion work is entered into within 60 days of the date the bus was first registered with the Department of Motor Vehicles. (See Annotation 435.0470.)

Where a customer provides the taxpayer with a used bus for conversion, tax applies to charges for the sale of new parts and equipment whether the parts and equipment are withdrawn from inventory or fabricated by the taxpayer. However, tax does not apply to the charges for installing the property sold. 12/13/96.

435.0420 Shoes. If an additional charge is made for altering men's new shoes by addition of heel inserts, replacing of rubber heels for leather heels or stretching of the shoes, such additional charge would be subject to sales tax. If the shoes are not new, the replacement of worn heels, etc., would be a repair operation. 8/25/66.

435.0440 Tank Truck, Creation of, as Fabrication or Repair. A shop not only installs a propane tank on a chassis, but also makes and installs the fenders, skirts, tool box, brackets and other parts required to convert the chassis into a complete tank truck.

Assuming that the chassis is new, the entire operation constitutes a step in the fabrication of a complete tank truck and that the full charge is subject to the tax.

If the truck chassis is not new and the operation consists of rebuilding or converting used equipment owned by the petroleum distributor, the operation is not the fabrication of a truck. In this event, the tax will apply to the retail sales price of the fabricated articles and parts, such as tool boxes and fenders, etc., and other materials furnished, but not to installation charges. 1/24/51.

435.0460 Trailer Hitches. If a hitch is built on a new car, it is a completion of manufacture and charges for labor would be taxable as fabrication. Where the hitch is built into a used vehicle it is a sale of the individual pieces and the labor of attaching them would be exempt installation. If the hitch were preassembled, the only exempt labor would be that of attaching the hitch to the car. 5/21/54.

435.0464 Truck Converted to House Car. When the work is of such magnitude, the DMV classification changes from that of a truck and commercial vehicle (Motor Vehicles Code sections 410 and 260, respectively) to a house car (Motor Vehicle Code section 362). The sale results in a "modification" of the customer's vehicle and the taxpayer's total charge attributable to such modifications is subject to tax, with no deduction allowable for "installation labor." 4/21/76.

435.0470 Van Conversions. The following guidelines should be utilized for determining the measure of tax for van conversion work.

(1) Where a van dealer contracts with the conversion company to transform a new motor van into a house car at the request of the customer, the entire operation is a step or process in fabricating or producing tangible personal property. The dealer's charge to the customer for the conversion work constitutes gross receipts from a sale of tangible personal property.

(2) Where the customer provides the van conversion company with a new stock van for conversion into a house car the operation is also a step or series of operations resulting in the production of an end item of property desired by the customer and the entire charge made by the van conversion company is includible in gross receipts. A van will be considered to have been purchased for this purpose if the contract for the conversion work is entered into within 60 days of the date the vehicle was first registered with the Department of Motor Vehicles.

(3) Where the customer provides the van conversion company with a used motor van for conversion the operation constitutes a modification of the existing property. The tax is applicable to the fabrication or production of new parts and equipment or any new parts or equipment sold from inventory but is not applicable to the charge of installing the property sold. For example, the entire charge for constructing a bubble top for the used van would be subject to the tax. However, the charge for installing the new top or any item withdrawn from inventory would not be taxable.

A charge for the services of rearranging items that were part of the original equipment of the used van, amounts to refitting and would be exempt from the tax. 9/8/77.

(c) MISCELLANEOUS OPERATIONS

435.0478 Adaption of Stock Cars to Racing Cars. A taxpayer contracts with an automobile manufacturer for the purpose of adapting the manufacturer's stock cars for racing and entering the cars in performance events. Under the terms of the contract, the taxpayer received possession and purportedly received title to the cars and related components supplied by the manufacturer. However, there were no formal documents of title executed. Also, pursuant to the terms and provisions of the agreement, the manufacturer retained complete control over the vehicles with respect to the performance events and all cars withdrawn from racing reverted back to the manufacturer.

Under these facts, a title clause standing alone is not conclusive of ownership for tax purposes when it appears that the manufacturer retains the essential indicia of ownership. Thus, ownership of the vehicles upon which taxpayer performed the modifications rested in the manufacturer and not the taxpayer.

Therefore, the modification and adaption of the cars consisting of (1) blueprinting the engine, disassembly and magnafluxing or zylgolding all parts, changing parts and reassembly, and (2) reducing weight of production cars, removing flammable materials, modifying hood, wheel width, etc., changing transmission, tires, wheels, etc., constitute a step or series of steps in the production of a racing model and are regarded as fabrication labor, the charges for which are subject to the tax. 12/11/73. (Am. 2000-1).

435.0479 Alteration of a New Product. Alteration of a new product to meet its final performance specification is fabrication and the charge for such fabrication is subject to tax under Regulation 1526. 1/26/90.

435.0479.125 Alteration and Repair of Dies. Changes to a die used to produce cardboard boxes, such as the removal or addition of locking tabs, are taxable fabrication labor because the boxes produced from the altered die will differ from the boxes produced by the die prior to alteration. Similarly, changes to a die from round cornered tabs to square-cornered tabs or vice-versa constitute taxable fabrication labor. A replacement of a $\frac{3}{4}$ -inch steel rules with a $\frac{1}{2}$ -inch steel rules "in order to make the die work better" is nontaxable repair labor if the boxes produced by the changed die are identical to the boxes produced before the change was made.

Where a company attributes five hours to refurbishing a die (replacement of worn out parts) and three hours to modifying the die (removal of two locking tabs and the addition of two scores) and the company does not itemize the two labor charges on the invoice, tax does not apply to the five hours of repair labor provided the company provides documentation sufficient to show that the proration is reasonable and reflects the work actually done. If the company cannot document its claim that part of the charges are nontaxable repair labor, then the entire charge is subject to sales tax.

Where the company refurbishes all of the dies for a major customer and alters (new vents added) 33 of the dies, no tax is owing for the dies that were only refurbished. As to the dies which were both refurbished and altered, no tax is owing for that portion of the labor attributed to the refurbishment provided adequate documentation is provided to support the claim. If the documentation is inadequate to support this claim, the entire charge for the changes to the 33 dies is subject to tax. 10/10/89.

[435.0480](#) **Alterations.** Dies used by a supplier of automobile seat springs to an automobile manufacturer are owned by the latter. Alterations in the dies by the supplier necessitated by the yearly change in automobile models constitutes taxable fabrication labor by the supplier. A design change results in a new product being produced and the alterations go beyond the limits of reconditioning and repair. 9/22/65.

[435.0500](#) **Batching.** Batching concrete aggregate into ready-mix truck and mixing the aggregate in the truck on the way to the jobsite, each constitutes taxable fabrication of the resultant wet concrete. 3/25/66.

435.0505 **Blending.** Blending petroleum products is an operation which results in the production or creation of tangible personal property pursuant to Regulation 1526. Such charges are includable in the measure of tax even if the blending occurred after the sale of the constituent product parts. 3/15/91.

[435.0509](#) **Blocking Sweater Parts.** Charges for blocking sweater parts are taxable whether the blocking is done on parts woven from yarn purchased from the person who blocks the parts, or from others. The tax applies because the work performed is a step in a process resulting in the creation or production of tangible personal property. 6/20/91.

[435.0520](#) **Calibrating and Sealing Trailer** constitutes a taxable processing. 3/19/52.

[435.0527](#) **Calligraphy.** Calligraphy is regarded as artwork. Tax applies to calligraphy charges, even in circumstances where calligraphy is done on paper or to other products supplied by the customer. However, tax does not apply when calligraphy is done as addressing for the purpose of mailing. (Regulation 1541(c).) 12/9/93.

[435.0540](#) **Canning Service.** The customer places fruit or other commodity in a can which then goes through a processing line and through a sealing machine. The customer pays a charge for the can and the canning operation. The operation constitutes a "processing" under section 6006(c), and thus is a "sale," and the cans containing the customer's commodity are regarded as being sold with the contents, exempt under section 6364(b). 6/12/57.

[435.0560](#) **Canvas Gang Plank Curtains.** A charge for painting canvas gang plank curtains for steamship lines is taxable unless it is to restore or recondition the curtains. A charge for lettering on the curtains is not taxable. 2/14/50.

[435.0580](#) **Change in Copy.** A charge for repainting removable sign to change the copy thereon constitutes taxable processing since the sign becomes essentially new. 8/29/51.

435.0583 **Charges by a Carpet Retailer.** A consumer provides a taxpayer with carpet remnants and contracts for the following labor and services:

- (1) Cutting the carpet and attaching binding to finish the edges to make doormats.
- (2) Adding a border of contrasting carpet to another piece of carpet to make an area rug.
- (3) Cutting a completed rug into several pieces and finishing the cut edges with binding and fringe.
- (4) Assembling a rug from carpet scraps both supplied by the customer and from the taxpayers scrap supply.

The work performed is for the fabrication of tangible personal property from customer furnished materials. As such, tax applies to the total amount charged for the labor and materials under Regulation 1526. 12/21/92.

[435.0584](#) **Colorways for Fabric Designs.** A person who produces and sells production art (colorways) for fabric designs is a retailer of tangible personal property. The colorway is consumed in the process of producing the fabric and it is not incorporated into the fabric. The colorway is in the form of tangible personal property and, thus, its sales are subject to tax.

Also, a person hired by a customer to change the color of a colorway to create a new design is in fact producing a new design and, therefore, such work is a taxable fabrication sale. 1/31/90.

435.0585 **Computer Additions.** A computer company receives a computer, which was bought elsewhere, from a customer. The company produces and installs into the computer an amplifier. If the computer is a new computer, sales tax applies to the entire charge for the installation of the amplifier.

If the computer is a used computer, and the amplifier simply amplifies the audio output of the computer and does not refit the computer for a use different from which it was originally produced, the charge for the amplifier and parts furnished to the customer is taxable. Tax does not apply to the charge for labor to install the amplifier. 4/13/92.

[435.0595](#) **Conversion of Black and White Video Tape.** The conversion of a black and white motion picture on video tape into color is a taxable sale pursuant to Regulation 1526(a). The transaction is as follows: An owner of a black and white motion picture provides the converter with a black and white master on one inch video tape. The converter's personnel performs the following: (1) lists all scenes and contents thereof, (2) determines the overall scene by scene color strategy, (3) does research for photographs, contemporary colored motion pictures, etc.. This is done in order to find materials for reference during the color conversion process, to electronically color convert the black and white video tape in accordance with the reference materials, and to provide the owner with a color master on one inch video tape.

The work performed is a sale of tangible personal property rather than a service. Although a certain amount of thought, skill, and labor must go into the converter's conversion process, the true object of the contract between the converter and the owner is the color master video tape. 9/22/86.

(Subsequent statutory change re "qualified motion picture.")

[435.0600](#) **Core Samples.** The sawing off of the ends of core samples in order to prepare them for use in making compression tests on concrete structures constitutes taxable fabrication under section 6006(b). 11/9/67.

[435.0620](#) **Crushing.** The crushing of materials furnished by a consumer constitutes processing, the receipts therefrom being subject to sales tax. Where a sub-contractor performs such crushing for a prime contractor with the United States the government ownership of the materials is immaterial and the processing charges are subject to tax. 2/24/56.

[435.0640](#) **Custom Airplane Interiors and Equipment.** Outfitting a new plane received from the manufacturer with custom interior and additional electrical and electronic equipment to make it complete and ready for use constitutes fabrication of tangible property, which includes the removing and revamping of the floor, rewiring and modifying existing customer provided equipment to integrate it with the custom interior. Labor charges for the removal and replacement of equipment with more sophisticated equipment are exempt unless such charges were included in the charges for modification or change in the interior so that the more sophisticated equipment could be installed. The charges for preserving aircraft equipment, compliance with the manufacturer's service bulletins and adjustments of existing equipment, not being part of the addition of the custom interior and equipment, are not taxable. 4/6/65.

[435.0650](#) **Cutting Lumber.** When a retailer sells lumber to its customers and charges them for cutting to size, such charge constitutes taxable fabrication labor. Thus, the total amount of the sale price of the lumber, including charges for the fabrication labor, is subject to the tax. Additionally, if the customers furnish lumber to be cut to size, the retailer's charges for cutting the customers' lumber are taxable as sales of fabrication labor. (Section 6006(b).) 2/6/96.

[435.0655](#) **Cutting or Punching Printed Paper.** Cutting and punching the paper is a step that results in the creation of tangible personal property. Hence, tax applies to those charges if the cutting and punching are for a consumer. On the other hand, tax does not apply if the sale of the fabrication is for resale or exempt such as fabrication of a periodical the sale of which is exempt under Regulation 1590. 9/7/95.

[435.0700](#) **Cutting of Slots** in pipe constitutes a taxable processing. 10/8/51.

[435.0712](#) **Die Alterations.** As a general rule, alterations to a used die constitute taxable fabrication labor if the altered die is used to produce a new item of property even though the property may generally be of the same type previously produced. An example would be modifying a die for a truck door to create a door for the new model year.

However, not every change in an existing die is treated as fabrication labor. The rework of a die is not taxable when some minimal change or configuration is made to the die by means of some change in the assembly of the die. That is, if a die is "programmable" in that parts can be disassembled, rearranged and reassembled, then that product is not treated as a new product, but as a previously finished product "tuned" to a new specification. If relocation of tooling parts occurs alone, this would be viewed as a nontaxable service charge. Where parts are added to the die, or where parts are physically reworked, the change constitutes taxable fabrication. Where there is relocation together with such a physical reworking of the die to cause it to be treated as a new product, the tax would apply to all charges made for changing the die. 3/19/84.

[435.0717](#) **Drawings of Jewelry Design and Wax Models.** Charges to jewelers for drawings of a jewelry design which the jeweler uses as a visual aid for its customers to decide whether to purchase a piece of specialty manufactured jewelry are sales of tangible personal property and subject to tax. It makes no difference if the drawings are based on ideas of the artist or the jeweler. Likewise, the charges to a jeweler for a wax model sold to a jeweler for use in the lost wax process to manufacture jewelry are subject to tax. 10/28/96.

[435.0720](#) **Drilling Holes in Bowling Balls.** The charge made for drilling holes in a new bowling ball constitutes taxable fabrication labor. Drilling holes in a ball constitutes a step in the manufacturing process of a finished article. 10/27/77.

[435.0740](#) **Drying of Lumber.** The kiln drying or dehydration of lumber, furnished by consumers, constitutes a taxable processing. 2/2/51.

[435.0755](#) **Embroidering Used Clothing.** Unless there is something unusual about the embroidery work (such as converting the clothing into a work of art), embroidering used clothing is similar to making repairs under Regulation 1546. As such, unless the retail value of the thread is more than ten percent of the total charge or the charge for the thread is separately stated, the charge for embroidery work on used clothing is not subject to tax. 5/15/92.

[435.0760](#) **Engraving of Bronze Panels.** The charge an engraver makes a cemetery for the engraving of a bronze panel is a taxable processing charge for a consumer pursuant to section 6006(b) of the Sales and Use Tax Law. The panel is not actually resold to the "purchaser", who merely acquires a perpetual right to use realty belonging to the cemetery. The tax applies to the first engraving because the panel is essentially new when the engraving takes place. 2/26/52.

[435.0780](#) **Engraving of Double Urn.** Tax does not apply to the second engraving of a double urn which is so constructed as to constitute a piece of personalty and used a considerable time before second engraving. 12/17/51.

[435.0800](#) **Engraving of Jewelry.** Charges for engraving jewelry before it is sold are not deductible from gross receipts subject to sales tax. If the engraving is done after the sale, the tax applies to the engraving charges unless done so long after the sale as not to be regarded as an essential part of or closely connected with the sale and the goods, in the meantime, have become used goods. This rule does not apply to charges for engraving on customers' used merchandise. 8/7/56.

435.0820 **Experimental Street Sweeper.** Company A, which is under an oral contractual agreement to manufacture, assemble, test and replace experimental parts for Company B, which is in the process of developing experimental street sweepers, is engaged in fabrication of the complete street sweeper. Thus, the charges made by Company A are subject to tax unless Company B is holding the sweeper for resale, in which case, the total amount charged by Company A, except that attributable to the experimental parts which are removed because they do not meet Company B's expectations, would be exempt as a sale for resale. 12/2/66; 12/27/66.

[435.0821](#) **Exposing Raw Film Stock.** A photographer takes movies of newsworthy events on raw film stock furnished by a television studio. The photographer is paid only for the film used by the studio other than simply processing and reviewing it (the studio possessed and edited the film). Exposing of film to the news action is a form of fabrication pursuant to Regulation 1526. It is a step in the process of producing motion pictures films for showing on television. 7/9/71.

(Note: Subsequent statutory change re motion pictures.)

[435.0822](#) **Fabrication.** A subcontractor has not made a sale if the subcontractor performs fabrication for a nonconsumer and furnishes no tangible personal property when performing that fabrication. The reason for this is that fabrication is defined as a sale only when performed for the consumer. (Section 6006(b).) Since no sale occurs, the subcontractor does not need to take a resale certificate to establish that sales tax does not apply. However, it may be advisable to retain a resale certificate. This would provide the subcontractor some documentation showing that the fabrication was not performed for a consumer. 1/30/90.

[435.0827](#) **Falling Trees and Cutting Into Firewood.** A taxpayer's customers initially obtain a permit from the California Department of Forestry or the appropriate federal authority to cut and obtain firewood for their personal use. Upon obtaining the permit, the customer gives it to the taxpayer who in turn cuts, splits, and delivers the firewood for the customer. The firewood which is delivered came from trees which the taxpayer cut down as well as previously fallen timber.

The taxpayer's splitting into firewood of fallen timber, including timber he has felled, constitutes a taxable sale under Regulation 1526(a). The taxpayer's customers furnished the material to be fabricated into firewood through a combination of the following two actions: (1) giving the taxpayer their permits to cut and obtain firewood; and (2) the taxpayer's later selection of the specific timber to be cut. The taxpayer subsequently fabricates the materials furnished by his customers to produce firewood which is tangible personal property. 7/11/83.

[435.0830](#) **Fingerprinting.** The imprinting of customer's fingerprints on cards furnished by such customers and to be used by the customers in applying for various licenses constitutes an imprinting of consumer furnished material within section 6006(b) and is a sale, the charge for which is taxable. 3/12/85.

[435.0834](#) **Fingerprinting—Construction of a Mathematical Model.** The customer provides a fingerprint and the taxpayer translates it into a digitized image. During this step a mathematical model of "minutae" derived from the image of the fingerprint is created. This process is considered nontaxable development of original information from customer-furnished information under Regulation 1502(d)(5). "Minutae" refers to the location and interrelationship of those critical points within the fingerprint that allow fingerprint matching. 7/9/90.

[435.0840](#) **Fireproofing** new fabrics furnished by customer is a taxable processing. 4/27/50.

[435.0860](#) **Firing of Ceramics or China** furnished by consumers is regarded as a step in the production of the finished article and tax applies to the charge for such firing. 7/21/50; 2/19/53.

[435.0870](#) **Fitting Charges—Picture Frames.** Labor charges for fitting pictures into a frame are assembly (fabrication) charges, not installation charges. These charges are taxable. 1/10/92.

[435.0874](#) **Folding Wiping Cloths.** The folding of wiping cloths constitutes a step in the production of tangible personal property into its final form and is taxable when done for a consumer. 7/15/83.

[435.0880](#) **Handcarving of Stock of New Gun** constitutes taxable processing; not taxable processing if used gun is carved. 6/1/51.

[435.0885](#) **Hand Lettering.** A person hand letters names and dates on documents, e.g., certificates awarded for achievements, etc., furnished by customers. The work is regarded as similar to an engraver's handwork in inscribing names and dates on trophies. The lettering is regarded as artwork. The charges are subject to tax. 9/16/75.

[435.0900](#) **Handling Charges.** Charges for "handling" of asphalt by person who sells gravel for mixing with asphalt may be taxable. To the extent that the charge represents reasonable expenses for the labor and machinery and other costs of mixing the two products, the charge represents taxable fabrication labor. That portion of the charge which represents solely a charge for storage of property for buyer's convenience is nontaxable, but the charge should be allocated for tax purposes. 1/18/55.

[435.0918](#) **Heat-Treating.** Heat-treating of customer furnished new material is taxable if the customer is a consumer of the treated material. If the customer is a fabricator or other contractor who is not the consumer of the item being made from heat-treated material, the process is not a "sale" and tax does not apply to the charge to this customer for heat-treating. 3/12/91.

[435.0920](#) **"Heat-Treating" New Pieces of Metal** constitutes a taxable processing. 3/18/52.

[435.0930](#) **Irradiation of Property.** The application of tax to transactions involving irradiation of property furnished by customers is as follows:

(1) When the irradiation renders the material valuable for a new and different purpose, the transaction is subject to tax under Regulation 1526 unless the customer issues to the seller a resale certificate pursuant to Regulation 1668. For example, a particular drug or chemical which is to be resold may be made radioactive so that it may be used in its radioactive state for medical treatment or diagnosis.

(2) In instances where after the irradiation the appearance of the property has changed, the seller does not know if any value has been added and does not know the customer's purpose for having the property irradiated. The transaction is subject to tax unless the customer issues to the seller a resale certificate. For example, a customer may submit gem stones for radiation and, although the radiation appears to alter the stones' color, the seller does not know if any value has been added.

(3) In instances where there is a deterioration of the property as a result of the radiation, the transaction will be regarded as taxable processing if the seller does no more than expose the property to radiation even though the property will be of lesser economic value as a result of the radiation. Only if the seller furnishes to the customer a report with respect to the effect of the radiation on the property will the transaction be treated as a nontaxable testing service. 3/25/74.

[435.0940](#) **Knurling and Sizing of Pistons—Fabricating.** The knurling and sizing of new pistons for consumers is a processing or fabricating, the charge for which is taxable even though performed by other than the seller of the standard size new piston. 3/23/65.

[435.0960](#) **Lacquering** new film, charges for, are taxable, while charges for lacquering old worn and scratched film are nontaxable repair charges. 6/13/51.

[435.0980](#) **Laminac Process.** The process of impregnating metal parts with Laminac, a polyester resin, to prevent microporosity, is a fabrication operation. Accordingly, if the parts are furnished by consumers, tax applies to charges for such processing. If the parts are furnished by persons who resell the impregnated parts, charges for such processing are exempt as receipts from sales for resale. Sales of Laminac to the processor for such purpose are exempt sales for resale. 1/25/66.

[435.1000](#) **Laminating.** Gross receipts from the plastic laminating of membership cards, identification cards, etc., for consumers are taxable. 4/1/58.

[435.1010](#) **Lettering on Trucks.** Charges for lettering a sign on a truck are not taxable whether the truck is new or used. 4/17/86.

[435.1020](#) **Library Services.** The application of classification labels, card pockets and a college name stamped in the book, are not tax exempt professional library services. They are mechanical processing included within the definition of sale in section 6006(b) of the Sales and Use Tax Law and are subject to tax as part of the gross receipts. However, the following are tax exempt professional library services:

- a. Bibliographical description of the book for classification purposes.
- b. Assignment of, or verification of, the Library of Congress classification number to each book.
- c. Inspection and verification of book card, pocket label and Library of Congress catalogue cards.

Records of receipts from taxable and nontaxable portions of contracts must be segregated in order to claim a deduction from gross receipts for nontaxable portions. 12/4/64.

[435.1040](#) **Map Mounting.** The charges for mounting maps supplied by the customer on canvas backs previously purchased by him from the person engaged to do the mounting, are subject to sales tax since such an operation constitutes "producing, fabricating or processing." 9/15/60.

[435.1050](#) **Meat Processors and Locker Plants.** Meat processors and operators of locker plants who carve or dress meat, or clean and pick game birds, for consumption by customers who furnish the meat or the birds, are making processing "sales" under section 6006(b), which are exempt under section 6359. The purchase and sale of paper used to wrap the product for delivery to the customer are exempt under section 6364. 5/6/76.

[435.1056](#) **Microscope Slides.** An independent technician prepares microscope slides of rock samples which he takes from rocks received from customers. The slide is delivered to the customer and is used by the customer for research. The true object of the transaction is the microscope slide. Tax applies to the charges made by the technician. 4/22/85.

[435.1060](#) **Mixing.** Mixing Bentonite with water to form a gelatinous mass to be used in fighting fire constitutes processing and is subject to the tax. 4/5/65.

[435.1065](#) **Mixing of Cement and Hazardous Waste.** A firm furnishes a truck with a mixer and driver to a customer. The firm mixes cement with the customer's hazardous waste to fabricate a solid which can be disposed of at a hazardous waste facility for solids. The total charge is subject to tax as fabrication labor.

Assertions that the driver and truck were "leased" to the customer are not borne out by the facts. There is no transfer of possession and control over the truck nor is there a lease. The firm is contracting to perform fabrication and is required to furnish all labor, materials, tools, equipment, facilities and services necessary to do the work. 1/13/93.

[435.1070](#) **Modification of New Equipment.** Equipment as originally purchased was too tall and had to be shortened to an acceptable height. The work to shorten the new equipment constitutes taxable fabrication and charges for parts and labor to effect the change are taxable. 12/7/89.

[435.1080](#) **Mounting Gun Scope.** Mounting a scope on a new gun constitutes fabrication and the charges therefor are taxable. Mounting a scope on a customer's used gun constitutes installation labor and the charges therefor are exempt. 7/23/68.

[435.1100](#) **Mounting Transparencies in Cardboard Mounts** constitutes taxable processing. 5/31/51.

[435.1120](#) **Musical Arrangements.** The original manuscript of a musical arrangement is the work product of the arranger and its sale is not subject to tax. However, the preparation of multiple copies is considered the fabrication of personal property rather than the sale of services and the multiple sales would all be taxable. 11/10/64.

[435.1130](#) **Negative Retouching.** Charges for retouching new photographs constitutes taxable fabrication labor.

If the retouched negatives are merely shipped to an out-of-state location prior to making any use of them in this state, on behalf of the purchaser, the sale is exempt from sales tax pursuant to section 6396.

However, if the customer's retouched negatives are used in this state to make prints, the sale of retouching is a retail sale in this state and subject to sales tax. 8/27/93.

[435.1140](#) **Optical Coating.** High-vacuum optical coating, involving the evaporation of aluminum, fluoride and other materials on glass and plastics, is a taxable transaction when performed initially. The tax does not apply to charges for recoating. 3/24/55.

[435.1160](#) **Packaging.** The sales tax applies to a charge made for packaging samples of taxable merchandise such as soap and cosmetics, the packaging materials and merchandise being furnished by the customer. Such packaging is a "sale" as defined in section 6006(b). However, the charge for packaging exempt food products is not taxable. 12/5/58.

[435.1166](#) **Painting Murals on Vehicles.** Charges to customers for painting murals on vehicles, whether the vehicles are new or used (60 days or more have passed since registration with DMV), are not subject to tax. It is not an operation which results in a creation or production of tangible personal property or a step in the process resulting in the production of tangible personal property. 11/15/88.

[435.1180](#) **Perforating of Casing** constitutes a taxable processing. 1/24/52.

[435.1200](#) **Planing and Ripping Lumber** constitutes taxable processing. 3/29/51.

[435.1220](#) **Plating Charges.** Charges for chrome, nickel or aluminate plating applied to fittings supplied by customer, constitutes taxable fabrication labor when performed on new personal property, and the sales tax applies to the entire charge.

Where such work is performed for persons who will resell the article plated the tax does not apply.

Where such work is done upon used property so as to repair or recondition it, repair labor rather than fabrication labor is involved. 6/17/53.

[435.1223](#) **Platinum Catalyst.** A refiner of petroleum products with refineries located in and outside of California sends platinum catalyst used outside of California to a processor in California for recovery and shipment of the new platinum catalyst to its California refinery.

If the platinum catalyst is received by the processor prior to the shipment of the new platinum catalyst to the California refinery, the principal contained in sections 6095 and 6245 apply. In other words, no use tax is due on the value of the platinum recovered as long as the refinery has sufficient tax paid recovered platinum inventory on hand with the platinum manufacturer to cover the amount of platinum used in the new catalyst. Only the processing charge is subject to sales tax. If there is not a sufficient amount of recovered platinum on hand, the value of any platinum added would also be subject to the sales tax. 4/22/71; 5/20/96.

[435.1224](#) **Platinum Catalyst.** The following covers the application of sales and use taxes to transactions involving platinum catalyst.

(1) A California oil refiner orders one “load” of fresh platinum catalyst for use in California from a catalyst manufacturer located out of state. Title to the platinum catalyst passes upon shipment.

Use tax applies and the measure of tax includes the total amount for which the catalyst is sold, including the cost of the platinum component of catalyst.

(2) Same as (1), above. The refiner has paid tax upon one load of platinum catalyst. The catalyst is used in the refining process and after a period of time has become contaminated and thus becomes spent catalyst. The oil refiner returns it to the catalyst manufacturer who salvages the platinum component from the spent catalyst and manufactures fresh platinum catalyst from the salvaged platinum component. The oil refiner retains title to the platinum in the spent platinum catalyst. The platinum manufacturer then ships the fresh platinum catalyst to the California oil refiner.

This constitutes a fabrication of customer owned property under section 6010(b) and the measure of tax is the total amount for which the catalyst is sold, including any “salvage” or “recovery” charges made and any other charge made to the oil refiner. The measure of tax does not include the value of the platinum component of the spent catalyst furnished to the catalyst manufacturer. It is immaterial that the catalyst manufacturer might commingle the spent catalyst with spent catalyst owned by it or by another oil refiner or with other fresh platinum on hand.

(3) Same as (2), above, except that the catalyst manufacturer ships fresh catalyst to the refiner prior to the time the catalyst manufacturer receives, at its plant, spent catalyst owned by the refiner. Upon shipment of the fresh catalyst, the platinum manufacturer retains title to the platinum catalyst furnished and charges rent until the spent catalyst is received from the refiner. If the spent catalyst received by the catalyst manufacturer balance the “platinum account” of the refiner, a catalyst manufacturer buys, on the open market, sufficient platinum to balance the account. When the account is balanced, title to the platinum component in the fresh catalyst passes to the refiner (and the rental obligation ceases), and title to the platinum component in the spent catalyst, or title to the platinum purchased from outside sources for the account of the refiner, passes to the manufacturer.

The transaction is subject to sales tax at the time title to fresh platinum passes to the refiner. The measure of tax includes the total amount for which the catalyst is sold, including the value of the platinum of the spent catalyst subsequently salvaged by the catalyst manufacturer.

Use tax also applies to the rental charge made for the fresh catalyst prior to the time of the sale of the fresh catalyst to the refiner.

(4) Same as (3), above, except upon shipment of the fresh catalyst to the refiner, the platinum manufacturer makes no “platinum account” entry and title to the second “load” of fresh platinum catalyst passes to the refiner upon shipment. The refiner returns the first “load” of spent catalyst to the catalyst manufacturer who salvages the platinum component of the spent catalyst and credits a “platinum account” it maintains in the name of the refiner. The refiner retains title to the platinum in the spent catalyst furnished by it to the manufacturer.

The application of tax is the same as in (1) above.

(5) Same as in (4), above. The oil refiner has paid use tax on the platinum component of the two “loads” of the platinum catalyst. The refiner maintains a “credit” balance of refiner owned platinum with the catalyst manufacturer. The refiner then orders a third “load” of fresh platinum catalyst. The catalyst manufacturer ships a fresh “load” to the refiner, depleting the refiner’s credit balance. The refiner replenishes its platinum account by shipping the second “load” of platinum catalyst, which is now spent catalyst, to the catalyst manufacturer and refiner’s “platinum account” is credited.

The application of the tax is the same as (2), above, assuming no intervening sale, purchase, or trade of the refiner’s platinum pool maintained in the hands of the catalyst manufacturer. Tax applies only to the “fabrication” and “salvage” charges and does not include any “trade-in” value of the platinum in the spent catalyst returned to the catalyst manufacturer. 11/5/70; 5/20/96.

[435.1227](#) **Platinum Corporate Pool.** An oil company has entered into a pooling arrangement with its various corporate subsidiaries in regard to platinum held by the platinum catalyst manufacturer. The oil company owns all of the platinum maintained in stock with the out-of-state catalyst manufacturer. The subsidiaries draw on this pool, exchanging platinum in their spent catalyst stocks for platinum in the fresh catalyst. Title to the platinum in the spent catalyst passes to the oil company when the platinum enters the pool. Title to the platinum in the fresh catalyst is in the subsidiary when it is in the subsidiaries’ refining unit.

Under this arrangement, the acquisition of the platinum from the subsidiaries by the oil company is just as much a “purchase” as would be the acquisition of platinum directly from some other party.

Therefore, if the platinum is then brought into California, it would be subject to tax where the platinum held in the pool was ex-tax. However, when the platinum pool is part “California tax-paid” and part “ex California tax,” the major oil company may bring into California for use here without payment of tax an amount of platinum equivalent to the amount of tax-paid platinum maintained in the pool at the time the withdrawal is made. 4/7/71.

[435.1240](#) **Printing and Hand Painting of Textiles** furnished by customer constitutes taxable processing labor. 7/11/52.

[435.1260](#) **Printing and Inscribing—High School Diplomas.** Inscribing names of high school graduates on diplomas constitutes a taxable sale under section 6006(b). 6/24/68.

[435.1263](#) **Processing Green Waste.** A firm is a wood recycler which operates inside a landfill. It processes green waste (leaves, trees, grass clippings, shrubbery, etc.) to be used by the county as an alternate daily cover for its landfill. It processes the green waste by chipping it into suitable cover. The cover material is delivered by truck to an active cell of the landfill and deposited at a designated point, but it is not spread onto its final resting place.

The chipping of the green waste is fabrication labor subject to tax pursuant to section 6006(b). 10/20/95.

[435.1266](#) **Processing of Scrap Dental Gold.** The processing of scrap dental gold alloy to dental alloy is a fabrication process and the “fungible good theory” applies. Thus, tax applies only to the exchange price if the customer retains title to the scrap dental gold and customer furnished scrap gold was available for processing prior to the shipment of the recovered gold to the customer. The processing time may be ignored. To the extent that the processor does not have on hand, at time of shipment of new gold, gold resources equal to the new gold shipped to the customer, tax applies as measured by both the processing (refining) charge and the value of the trade-in gold. 4/8/71.

[435.1270](#) **Producing, Fabricating, etc.—Gamma Ray Exposure.** The exposure of seeds, cuttings, bulbs, etc., belonging to others for the purpose of inducing mutations after germination is a processing subject to tax when performed for consumers such as colleges or experimental laboratories, unless the items being

irradiated are seeds or annual plants the products of which ordinarily constitute food for human consumption or are to be resold in the regular course of business. 11/21/72.

435.1280 Purification of Beeswax. Tax does not apply to the charge for purifying beeswax, by removing foreign matter, where the identical wax is returned to the customer.

However, tax applies to charges made when the reconditioning of beeswax involves commingling the wax of several customers, so that each receives reconditioned or purified beeswax which may not be the identical property which was submitted for reconditioning or purifying. 4/7/50.

435.1300 Quilting constitutes a taxable processing. 11/1/51.

435.1320 Rebuilding and Enlarging. The rebuilding and enlarging of a cabin on a pleasure boat constitutes a repair or reconditioning operation, even if the cabin is larger and sleeping facilities are added, provided the boat remains a pleasure boat following the completion of the operation. Tax applies as provided in Regulations 1546. 2/2/51.

435.1340 Rebuilding Batteries. Rebuilding of batteries in which new material is installed, including plates, separators, spun glass insulation, and perforated rubber retention, constitutes the creation of a new battery, and charges for both material and fabrication labor are subject to tax. 6/25/53.

435.1360 Recovering and Refining Metals. The charges for recovering and refining metal from an exhausted petroleum filter gauze is to be included in the measure of tax. When a customer is billed for a replacement gauze at the time he returns the used one he is given credit for the value of the recovered metal and these charges are itemized. The price of the new filter gauze becomes the full price of the new filter minus the value of the platinum and rhodium recovered and refined from the old. Only the approximate value of the exhausted metal is excluded from the measure of the tax. 3/11/65.

435.1363 Refining Crude Oil. An airline purchases crude oil and contracts with a refinery to process the crude oil into aircraft fuel and other products. Because the aircraft fuel will be consumed by the airline, charges for processing the aircraft fuel are subject to tax. Charges for processing the other products are not subject to tax because the products will be resold by the airline rather than consumed. 7/17/85.

435.1363.200 Regrooving Pipe. A construction contractor purchased new pipe with grooves. The grooves were cut off by the purchaser because the grooves did not meet the specifications of the pipe joints. The cut pipe was then sent to a pipe servicing company to be regrooved.

The regrooving services are considered to be “fabrication” within the meaning of Regulation 1526. Such services are “. . . step(s) in a process . . . resulting in the creation or production of tangible personal property.” The property ultimately being bought by the contractor consists of the regrooved pipes. The services rendered by the pipe service company are merely steps in the process of creating that property and the charge for the services of regrooving is subject to sales tax. 1/24/92.

435.1364 Rekeying Locks. A customer purchased locks which she took to a taxpayer for rekeying. The locks were recently purchased and had not been installed or previously used for the purpose intended.

In this case, the property, as purchased, was independently functional and operational for the use for which it was originally designed. However, the customer decided to have this newly purchased property fabricated to conform to the customer’s specifications. As such, the rekeying operations constituted “a step in the process or services of operations resulting in the creations or production of tangible personal property,” which, pursuant to Regulation 1526, constitutes taxable fabrication labor. The passage of time from purchase date to rekeying date is not relevant in determining the taxability of the rekeying charge.

For example, if the locks had been purchased three years prior to the time they were rekeyed, but had never been installed, the rekeying operations would still be considered taxable fabrication labor. 7/28/95.

[435.1365](#) **Removing Lacquer and Polishing a New Article.** Charges for removing a lacquer finish from new brass hardware and polishing the hardware articles represent charges for fabrication and processing of tangible personal property. Tax applies to such charges if performed for consumers. 6/21/91.

[435.1380](#) **Rental of Road Base Mixing Machine.** The “rental” of a fully manned woodmixer machine for use in transforming raw materials into asphalt paving or cement treated road base will be regarded as a producing, fabricating and processing of tangible personal property where the evidence demonstrates that the equipment owner has retained the right to control the equipment operator or the details of the mixing operation. 1/22/65.

[435.1384](#) **Reprocessing Paint.** A county has a recycling program in which individuals drop off unwanted paint at a county facility. The unwanted paint obtained from donors are mixed together at the county facility and sent to a paint manufacturer. The paint manufacturer mixes the paint obtained from the county with paint obtained from other sources and reprocesses this paint removing impurities, etc. The reprocessed paint is returned to the county where it is used by the county or given to individuals.

Since the county has paint obtained from many sources reprocessed by the paint manufacturer, the charge for processing the paint is subject to tax pursuant to Regulation 1526(a). 5/11/93.

435.1390 **Rock Crushing.** The crushing of rock for persons who will use the resulting crushed rock to determine if it is suitable for use in molds, constitutes taxable fabrication labor and not a service. 3/10/71.

[435.1400](#) **Roto Blasting** of new pipe constitutes a taxable processing. 5/16/52.

435.1440 **Sample Garment.** Charges for fabricating a garment from cloth furnished by a customer, who then shows the sample to possible subcontractors are taxable. The sample garment is used by the taxpayer’s customer for purposes of preparing patterns, selecting materials and quantities, and is then sold to an employee of the customer. Since the garment is not used for demonstration or display by the taxpayer prior to resale to its employee, the fabrication labor is taxable. 1/13/67.

[435.1460](#) **Screening and Separating of Rock.** When materials furnished by the customer are separated according to size, e.g., rock, gravel, whether by screening, hand sorting or otherwise, this operation alone does not amount to a taxable fabricating or processing.

On the other hand, the crushing of rock or mixing of it with other ingredients is considered taxable processing. If there is such processing involved, the total charge therefor would be taxable unless some specific portion of the material is only sorted or separated and the charge for such sorting and separating can be separated from the charge for taxable processing. Only in that case would the charge for sorting and separating be excluded from the measure of the tax. 11/14/66.

[435.1477](#) **Shoe Alterations.** The addition of dance or protective taps to new shoes constitutes fabrication labor subject to tax, even though the customer supplies both the shoes and the taps, because it is a step in the creation of the desired product, i.e., new shoes with taps. The application of taps to previously worn shoes is not taxable because it is installation labor, excluded from gross receipts by section 6012(c)(3). The labor to remove worn taps from used shoes and replace them with new taps is a nontaxable repair operation as it makes the shoes again suitable for their original purpose. 8/19/94.

[435.1480](#) **Shoes.** Where orthopedic correction work is performed on new shoes the charge therefor is taxable fabrication labor. 12/17/54.

[435.1500](#) **Shirring of New Drapes,** tax applies to labor charges for. 4/25/51.

[435.1520](#) **Ski Bindings.** The attachment of bindings to new skis is regarded as taxable fabrication labor. 6/5/68.

[435.1540](#) **Slitting and Sheering Steel** constitutes taxable processing. 6/27/51.

[435.1580](#) **Steel.** Charges for drilling holes in, or flattening angles, or cutting steel into desired lengths, for a customer who furnishes such steel, constitutes taxable fabrication labor. 6/2/53.

[435.1600](#) **Steel.** The fabrication of precast steel piling to be emplaced by another contractor constitutes a taxable sale of personal property in that the transaction involves the fabrication of such property for the emplacing contractor who is the consumer using it to improve real property. 2/21/55.

[435.1620](#) **Stones.** Tax applies to charges for: drilling holes in stones; mounting stones in rings not previously having had stones mounted therein; processing rough stones into finished products. Tax does not apply to charges for: cutting or slabbing of rough stones for inspection purposes only; redrilling of stones in order to make minor modifications in the size of the hole; mounting stones in used rings previously having had stones mounted therein. 10/18/50.

[435.1640](#) **Styling of Wigs.** Charges for cutting, sizing, styling, and coloring new wigs are includable in the measure of the tax. The exemption in section 6012 “for labor or services used in installing or applying the property sold” applies only to labor expended in attaching or adapting the purchased property to or for a specified site, in other words, emplacement. However, the charges for restyling of used wigs are exempt. 11/30/66.

[435.1650](#) **Supervision.** When a person supervises the fabrication of tangible personal property supplied directly or indirectly by the customer, and that supervision is considered to be a necessary component of the fabrication, the supervision is considered to be a part of the fabrication of tangible personal property. On the other hand, when a person provides consulting services only, without having control over the performance by others of the fabrication, such consulting services are not regarded as part of the fabrication. 1/12/90.

[435.1655](#) **Tank Production.** A taxpayer in the business of manufacturing petroleum products “revamps” tanks by taking a customer’s three 27,000-gallon tanks and remaking them into six 13,500-gallon tanks. The labor to produce six tanks out of three constitutes the creation of a new product and is not merely repair or reconditioning of the old tanks. The taxpayer’s cutting the original tanks in half, adding new bottom heads and cone tops, new fittings, new lift lugs, new labels, new coatings and linings, and some or all new seismic clips, with appropriate welding is fabrication labor under section 6006(b). Charges for the labor to produce the six tanks are subject to tax. 5/6/99. (2000-1).

[435.1660](#) **Tanning of Hides** constitutes a fabrication or processing. 1/2/51.

[435.1666](#) **“Tape Reel.”** A company contracts with an outside vendor to package electronic components into a form called a “tape reel.” The company supplies the vendor with loose components that are eventually returned to the company and are incorporated into a finished product which is sold by the company. The vendor uses a machine to align the individual components side by side into a linear sequence which is specified by the company. The vendor attaches two strips of adhesive tape to the components, one strip linking together one end of the components and the other strips linking together the components’ opposite end. The end result is the production of a large “reel” which resembles a ladder. The “reel” is transferred into a machine which cuts the components off the adhesive strip and automatically places the electronic components on printed circuit boards. The adhesive strips are subsequently discarded by the company.

The uniting of the individual electronic component parts by the company’s vendor into a “tape reel” by taping the components together into a specified sequence constitutes “fabricating.” The purpose for placing adhesive strips on both sides of the components is to ensure the proper order and alignment of the individual components and to convert the individual unit into a form which is usable by the company in the manufacturing of printed circuit boards. Although the individual components become incorporated into the finished product which is sold by the company, the “tape reel” itself is not resold by the company. Accordingly, the vendor fabricates customer furnished tangible personal property and this fabrication results in a taxable sale. The measure of tax is the vendor’s gross receipts from the sale. 1/18/84.

[435.1680](#) **Television Sets.** Conversion of used sets to larger screen size is regarded as repair or reconditioning, not as fabrication, and tax applies to charge for materials only, if separately stated. 1/12/50.

[435.1700](#) **Tennis Rackets.** Where a person brings into a shop the frame and gut for the original stringing of a tennis racket the sales tax applies to the entire charge made for stringing the racket, even though no additional parts are furnished.

Where a used racket requires restringing and the customer furnishes the gut which will be used, the labor charges involved constitute exempt repair and reconditioning labor. 2/25/54.

[435.1720](#) **Test Bars.** The machining of steel test bars which are used to test and determine tensile strength and physical properties of castings, constitutes fabrication and the charge for machining is subject to tax. It is immaterial that the test bars are subsequently scrapped and either sold or remelted. The machining of the bars is not for the purpose of sale, but rather for the purpose of test usage. 1/4/54.

[435.1726](#) **Transfer of Exposed Film.** Newspapers will often employ photographers as independent contractors to provide them with photographs or exposed film. Sales tax applies to such amounts received by the photographer since the object of the transaction is the delivery of tangible personal property, such as exposed film. 7/30/93.

[435.1730](#) **Transfer of Information from One Tape to Four Others.** A firm is in the business of manufacturing and embossing credit cards for financial institutions. The information to be embossed is obtained from the financial institution on a data processing tape. Occasionally the firm's equipment cannot read the financial institution's tape because it is incompatible with the firm's equipment. In order to make it compatible with its equipment, the firm transfers the information on the tape to four tapes. In these cases, it makes a separate charge to the financial institution for "interim tape processing."

This charge is not a charge for processing customer furnished information as described in Regulation 1502 (d)(5). The contract with the financial institution is a contract to produce credit cards. The restructuring of the information is merely one step in the manufacturing process. The separately stated charge is part of the gross receipts from the manufacture of the credit cards. 5/13/93.

[435.1740](#) **Trophy—Engraving on.** The first or initial engraving on a trophy is regarded as performed on new merchandise and taxable. The addition of subsequent names of winners of contests or the like after the trophy has been on exhibit or otherwise devoted to the use for which it was ultimately intended constitutes an engraving on used merchandise and exempt. 7/27/51.

[435.1743](#) **Vehicle Window Tinting.** A person who tints the windows of a new vehicle for a customer who has purchased the vehicle from a new car dealer is performing a step in the process of producing a finished product. The tinting operation constitutes taxable fabrication labor. 10/24/89.

[435.1745](#) **Video Tape.** The transfer of (existing) motion pictures to video tape cartridges owned by the customer is regarded as producing, fabricating and processing of tangible personal property, and is therefore a taxable sale made by the recording company. 10/16/78.

[435.1747](#) **Video Transfer.** The charge for taking a customer's personal snapshots, slides, home movies, etc., and transferring them to video, adding music and organizing the flow of the video is included in gross receipts from the sale of tangible personal property. Therefore, the total charge is subject to tax. 7/11/91.

[435.1760](#) **Fabric Purchased to Make a Suit.** Where fabric is purchased from an importer and subsequently taken to a tailor to be made into a suit, the entire amount charged by the tailor to create the suit is taxable fabrication labor. Thus, tax applies to both the purchase of the fabric and the charge made by the tailor for labor.

If the tailor purchases fabric and makes a complete suit, the total sales price of the suit is taxable without any deduction for materials, labor or other expenses. 8/25/53. (Am. 2004-2).