



STATE BOARD OF EQUALIZATION

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State Controller, Sacramento

JAMES E. SPEED
Executive Director

December 27, 2002

Dear Interested Party :

Enclosed are the Agenda, Issue Paper, and Revenue Estimate for the January 8, 2003 Business Taxes Committee meeting. This meeting will address the proposed amendments to Regulation 1553, *Miscellaneous Repair Operations*.

Action 1 on the Agenda consists of consent items regarding the application of tax to watch and jewelry repairs. If you wish to have any consent items (Action 1) discussed fully at the Committee meeting, you must contact a Board Member prior to January 3, 2003 to request removal of the item from the Consent Agenda. In addition, please notify Ms. Charlotte Paliani, Program Planning Manager, after you contact a Board Member's Office. Ms. Paliani may be reached at (916) 324-1825.

Thank you for your input on these issues and I look forward to seeing you at the Business Taxes Committee meeting at **1:30 p.m. on January 8, 2003** in Room 121 at the address shown above.

Sincerely,

Ramon J. Hirsig
Deputy Director
Sales and Use Tax Department

RJH: lk

Enclosures

cc: (all with enclosures)
Honorable Johan Klehs, Member, First District
Ms. Carole Migden, Board Member-Elect, First District (MIC: 73)
Honorable Dean Andal, Member, Second District
Mr. Bill Leonard, Board Member-Elect, Second District (MIC: 78)
Honorable Claude Parrish, Member, Third District
Honorable John Chiang, Member, Fourth District
Mr. Steve Westly, State Controller-Elect
Ms. Jean Alexander, Board Member's Office, First District
Mr. Arnulfo Hernandez, Board Member's Office, First District (MIC 71)
Ms. Rita Perry, Board Member's Office, First District (MIC 71)
Ms. Mai Harvill, Board Member-Elect's Office, Second District (MIC: 78)
Mr. Neil Shah, Board Member's Office, Third District
Mr. Romeo Vinzon, Board Member's Office, Third District
Mr. Matthew Zylowski, Board Member's Office, Third District
Mr. John Thiella, Board Member's Office, Fourth District (MIC 72)
Mr. Steven Kamp, Board Member's Office, Fourth District (MIC 72)
Ms. Marcy Jo Mandel, State Controller's Office
State Controller's Transition Office, Attn: Mr. Greg Larsen
Mr. James E. Speed (MIC 73)
Mr. Timothy Boyer (MIC 83)
Ms. Janice Thurston (MIC 82)
Mr. Warren Astleford (MIC 82)
Mr. John Abbott (MIC 82)
Ms. Sharon Jarvis (MIC 82)
Ms. Jean Ogrod (via e-mail)
Mr. Jeff Vest (via e-mail)
Mr. David Levine (MIC 85)
Mr. Steve Ryan (via e-mail)
Mr. Rey Obligacion (via e-mail)
Ms. Jennifer Willis (MIC 70)
Mr. Dan Tokutomi (via e-mail)
Mr. Dave Hayes (MIC 67)
Ms. Charlotte Paliani (MIC 92)
Mr. Joseph Young (via e-mail)
Mr. Jerry Cornelius (via e-mail)
Mr. Jeffrey L. McGuire (via e-mail)
Mr. Vic Anderson (MIC 40 and via e-mail)
Mr. Larry Bergkamp (via e-mail)
Mr. Geoffrey E. Lyle (MIC 50)
Ms. Laureen Simpson (MIC 50)
Ms. Leila Khabbaz (MIC 50)
Mr. Chuck Arana (MIC 50)

AGENDA —January 8, 2003 Business Taxes Committee Meeting
Proposed Regulatory Changes Regarding the Application of Tax to Watch and Jewelry Repairs

<p>Action 1 — Consent Items</p> <p>Agenda, page 3.</p> <p>Agenda, pages 1-3</p>	<p>Adopt proposed amendments to Regulation 1553 as proposed by staff to:</p> <ul style="list-style-type: none"> • In subdivision (e): clarify that repairers are consumers of parts used in repairing watches and jewelry and that tax is due on their cost, unless the retail value of the part is more than 10 percent of the total charge, or unless the repairer makes a separate charge for the repair part. If so, the repairer is the retailer of the part and is responsible for the tax on the retail selling price of the part. • Throughout the regulation: make nonsubstantive changes to correct the reference to Revenue and Taxation Code section 6006 in the California Code of Regulations, to add a reference to Regulation 1546, to correct a typographical error in subdivision (a) of the regulation, and to make various amendments to enhance clarity and consistency.
<p>Action 2 – Authorization to Publish</p>	<p>Recommend the publication of amendments to Regulation 1553 as adopted in the above actions.</p> <p>Operative Date: None</p> <p>Implementation: 30 days following OAL approval</p>

AGENDA —January 8, 2003 Business Taxes Committee Meeting
Proposed Regulatory Changes Regarding the Application of Tax
to Watch and Jewelry Repairs

Action Item	Staff 's Proposed Regulatory Language
<p>Action 1 — Consent Items</p>	<p>Regulation 1553. MISCELLANEOUS REPAIR OPERATIONS.</p> <p>Reference: Section 60086, Revenue and Taxation Code. <u>Installing, Repairing, Reconditioning in General, Regulation 1546</u></p> <p>(a) BOOKBINDERS. Bookbinders are consumers, rather than retailers, of the materials, such as cloth, leather, cardboard, glue, and thread, used in rebinding used books for a single or lump-sum charge, and tax applies to the sale of such materials to the bookbinder. If, however, the bookbinder makes a separate charge for such property at the fair retail selling price, <u>the bookbinder</u> he is the retailer of the materials and tax applies to the amount of the separate charge.</p> <p>When bound books are sold at retail, tax applies to the gross receipts without any deduction for the cost of binding, even when done by the seller of the books. Tax also applies to the entire charge for the initial binding of new books furnished to a bookbinder for binding, unless the customer of the bookbinder will sell the books in the regular course of business, in which case he<u>the customer of the bookbinder</u> may furnish a resale certificate to the bookbinder.</p> <p>Tax applies to the entire charges for binding done in connection with the furnishing of a finished product, i.e., a bound book, including a book produced with either a hard or soft cover by binding together materials such as magazines, newspapers, or business records.</p> <p>(b) MOTOR AND TRANSFORMER REWINDING. Tax applies to sales of materials and supplies furnished in connection with the rewinding of motors and transformers. If a lump-sum price is charged for the materials and labor, 50 percent thereof is regarded as the sales price of the supplies and materials.</p> <p>(c) SHOE REPAIRPERSONSMAN. Shoe repairmen<u>Persons engaged in repairing shoes</u> are retailers of the tangible personal property furnished in connection with <u>the repair work</u> and tax applies to the retail selling price of such property. If a lump-sum or single charge is made for both materials and labor, 25 percent thereof is considered the retail selling price of the materials.</p> <p>Tax applies to retail sales by shoe repair<u>personsmen</u> of such items as shoes, polishes, and laces.</p> <p>(d) TENNIS RACKET RESTRINGING AND REPAIRING. Persons engaged in repairing and restringing tennis rackets are retailers of the strings and other tangible personal property furnished, and tax applies to the retail selling price thereof. If a lump-sum charge is made for materials and labor, 50 percent thereof is regarded as the retail selling price of the materials furnished.</p>

AGENDA —January 8, 2003 Business Taxes Committee Meeting
Proposed Regulatory Changes Regarding the Application of Tax
to Watch and Jewelry Repairs

Action Item	Staff 's Proposed Regulatory Language
	<p>(e) WATCH AND JEWELRY REPAIRMEN PERSONS. <u>Persons engaged in repairing watches and jewelry repairmen are consumers of watch, clock and jewelry repair parts and materials such as crystals, findings, and chain links, gold and gems used in repairing watches, clocks, and jewelry. Tax applies with respect to the sale to them of such property- unless</u></p> <p style="padding-left: 40px;">(1) <u>The retail value of the parts and materials furnished in connection with repair work is more than 10 percent of the total charge, or</u></p> <p style="padding-left: 40px;">(2) <u>The repair person makes a separate charge for the repair parts and materials.</u></p> <p><u>Repairers are, however, retailers of wrist watch straps, metal bands, watches, clocks, chains, precious stones, gems and other tangible personal property which they sell to consumers in the regular course of business and tax applies to the gross receipts from such retail sales.</u></p> <p><u>When the retail value of wrist watch straps, metal bands, watches, clocks, chains, precious stones, gems and other tangible personal property furnished in connection with a repair work is more than 10 percent of the total charge for the repair, the repair person is the retailer of these parts and materials, and must segregate on the invoices to customers and in its records the fair retail selling price of these parts and materials from the charges for the repair labor performed. "Total charge" means the aggregate of the retail value of the parts and materials furnished or consumed in making the repairs and charges for the labor performed in making the repairs.</u></p>

Issue Paper Number 02-024



- Board Meeting
- Business Taxes Committee
- Customer Services and Administrative Efficiency Committee
- Legislative Committee
- Property Tax Committee
- Other

Proposed Regulatory Changes Regarding the Application of Tax to Watch and Jewelry Repairs Regulation 1553, Miscellaneous Repair Operations

I. Issue

Should subdivision (e), *Watch and Jewelry Repairmen*, of Regulation 1553 be amended to incorporate the general provisions concerning repairs that are currently found in Regulation 1546, *Installing, Repairing, Reconditioning in General*?

II. Staff Recommendation

Staff proposes to:

- Amend subdivision (e) of Regulation 1553 to clarify that repairers are consumers of parts used in repairing watches and jewelry and that tax is due on their cost, unless the retail value of the part is more than 10 percent of the total charge, or unless the repairer makes a separate charge for the repair part. If so, the repairer is the retailer of the part and is responsible for the tax on the retail selling price of the part. The proposed revisions are consistent with current Board policy and with the provisions of Regulation 1546, *Installing, Repairing, Reconditioning in General*; therefore, the proposed revisions do not include an operative date.
- Make nonsubstantive changes to correct the reference to Revenue and Taxation Code section 6006 in the California Code of Regulations, to add a reference to Regulation 1546, to correct a typographical error in subdivision (a) of the regulation, and to make various amendments to enhance clarity and consistency.

A copy of staff's proposed amendments is illustrated in Exhibit 2. See Issue Paper (IP) pages 2-3, and agenda action item 1.

III. Other Alternative(s) Considered

Do not adopt proposed amendments to Regulation 1553, *Miscellaneous Repair Operations*. See IP page 4.

IV. Background

Regulation 1546, *Installing, Repairing, Reconditioning in General*, explains the application of tax to repair operations in general. It provides that if the retail value of the parts and materials furnished in connection with the repair work is 10 percent or less of the total charge for the repair and no separate charge is made for the parts and materials, then repairers are consumers of the parts and materials and tax applies to the sale of the property to them. One of three footnotes in this regulation cites Regulation 1553 and the parts furnished in repairing watches and jewelry as an example of items consumed by the repairer.

If the retail value of the parts and materials furnished in connection with repair work is more than 10 percent of the total charge, or if the repairer makes a separate charge for such property, Regulation 1546 provides that the repair person is the retailer and tax applies to the fair retail selling price of the property. A copy of Regulation 1546 is attached as Exhibit 3.

Regulation 1553, *Miscellaneous Repair Operations*, explains the application of tax to specific operations, including watch and jewelry repairs. Subdivision (e) provides that repairers are consumers of watch, clock and jewelry repair parts and materials such as crystals, findings and chain links and tax applies with respect to the sale to them of such property. They are, however, retailers of wrist watch straps, metal bands, watches, clocks, chains, and other tangible property which they sell to consumers in the regular course of business, and tax applies to their sales of such items. These provisions were adopted in 1969 as a restatement of former Ruling 35, and remain essentially unchanged since Ruling 35 was promulgated in 1945.

Staff is proposing to clarify the application of tax to parts and materials furnished in connection with watch and jewelry repairs by incorporating the applicable provision of Regulation 1546 into Regulation 1553(e). Interested parties meetings were held on September 10 and October 29, 2002. No public comments or suggestions were received at or following the meetings. The Business Taxes Committee is scheduled to discuss this issue at its meeting on January 8, 2003.

V. Staff Recommendation

A. Description of the Staff Recommendation

As illustrated in Exhibit 2, staff's recommendations are:

1. Amend subdivision (e) of Regulation 1553 to clarify that repairers are consumers of parts used in repairing watches and jewelry and that tax is due on their cost, unless the retail value of the part is more than 10 percent of the total charge, or unless the repairer makes a separate charge for the repair part. If so, the repairer is the retailer of the part and is responsible for the tax on the retail selling price of the part.
2. Make nonsubstantive changes throughout Regulation 1553 to correct errors in the California Code of Regulation and to enhance clarity and consistency.

Regulation 1553(e) refers to repairers as the consumers of "repair parts and material such as crystal, findings and chain links," all of which are of relatively minor value for which no separate charge is made, and does not include any reference to items of greater value, such as high-quality gemstones. Therefore, the regulation does not provide rules with respect to the application of tax to repair parts

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and materials that are of greater value than those items listed above. A question frequently raised by taxpayers is whether precious stones furnished in connection with repair operations are consumed by the repairer or sold to the customer. Since Regulation 1546 is the relevant law controlling repair work and applies the 10 percent rule to jewelry repair, the Board has historically relied on the general rules established in Regulation 1546 to determine whether jewelry and watch repair parts are sold or consumed by the repairer, particularly where the parts consisted of precious stones. For example, repairers are the consumers of gold and gems used in the repair operations if the gold and gems are of insignificant value and essentially fungible in nature. If the gold and gems are separately stated, or if their value is greater than 10 percent of the total charge made for the repair, the repairer is the retailer of the gold and gems and tax applies to its sale of these items, unless the sale is otherwise not subject to tax, such as a sale to another retailer for the purpose of resale.

The Board's historic interpretation of watch and jewelry repairs is reflected in Sales and Use Tax Annotations¹ 315.0480, *Electric Clocks* (1/5/77) and 355.0030, *Jewelry Repairman-Consumers of Precious Stones* (4/5/89). Annotation 315.0480 provides that repairers are regarded as retailers of parts and materials furnished if their retail value is greater than 10 percent of the total charge, or if a separate charge is made for such property. Annotation 355.0030 provides that repairers are consumers of precious stones if the stones are of insignificant value and essentially fungible in nature. In addition, in January 2002, the Board revised Pamphlet No. 64, *Tax Tips for Jewelry Stores*, to reflect the application of the 10 percent rule described above to watch and jewelry repair operations.

B. Pros of the Staff Recommendation

- Clarifies the application of tax to watch and jewelry repairs.
- Makes Regulation 1553 consistent with the provisions of Regulation 1546, annotations and other Board publications.

C. Cons of the Staff Recommendation

Requires regulatory amendment.

D. Statutory or Regulatory Change

No statutory change is required. However, staff's recommendation does require an amendment to Regulation 1553.

E. Administrative Impact

Staff will be required to notify taxpayers of the amendments to the regulation through an article in the Tax Information Bulletin (TIB), and to update and distribute the amended regulation.

F. Fiscal Impact**1. Cost Impact**

There will be no additional costs. Staff will notify taxpayers of the new regulation through a TIB article. The workload associated with publishing and distributing the TIB is considered routine and any corresponding cost would be within the Board's existing budget.

¹ Annotations published in the Business Taxes Law Guides are summaries of the conclusions reached in selected legal rulings of counsel. "Legal ruling of counsel" means a legal opinion written and signed by the Chief Counsel or an attorney who is the Chief Counsel's designee, addressing a specific tax application inquiry from a taxpayer or taxpayer representative, a local government, or Board of Equalization staff.

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2. Revenue Impact

None. The proposed amendments clarify existing policy. See Revenue Estimate (Exhibit 1).

G. Taxpayer/Customer Impact

None.

H. Critical Time Frames

The proposed amendments represent an interpretation of existing statutes and, therefore, have no operative date. Implementation will take place 30 days following approval of the regulation by the State Office of Administrative Law.

VI. Alternative 1

A. Description of the Alternative

Make no changes to Regulation 1553.

B. Pros of the Alternative

No regulatory change is required.

C. Con of the Alternative

- Does not answer recurring questions raised by taxpayers regarding the application of tax to watch and jewelry repairs.
- On its surface, Regulation 1553 may appear inconsistent with Regulation 1546 and other Board publications.

D. Statutory or Regulatory Change

None.

E. Administrative Impact

None.

F. Fiscal Impact

1. Cost Impact

None.

2. Revenue Impact

None. See Revenue Estimate (Exhibit 1).

G. Taxpayer/Customer Impact

None.

H. Critical Time Frames

None.

Prepared by: Program Planning Division, Sales and Use Tax Department

Current as of: December 17, 2002

REVENUE ESTIMATE

STATE OF CALIFORNIA
BOARD OF EQUALIZATION



PROPOSED REGULATORY CHANGES REGARDING THE
APPLICATION OF TAX TO WATCH AND JEWELRY REPAIRS
REGULATION 1553, MISCELLANEOUS REPAIR OPERATIONS

Recommendation and Alternatives

Staff Recommendation:

Staff proposes to:

- Amend subdivision (e) of Regulation 1553 to clarify that repairers are consumers of parts used in repairing watches and jewelry and that tax is due on their cost, unless the retail value of the part is more than 10 percent of the total charge, or unless the repairer makes a separate charge for the repair part. If so, the repairer is the retailer of the part and is responsible for the tax on the retail selling price of the part. The proposed revisions are consistent with current Board policy and with the provisions of Regulation 1546, *Installing, Repairing, Reconditioning in General*; therefore, the proposed revisions do not include an operative date.
- Make nonsubstantive changes to correct the reference to Revenue and Taxation Code section 6006 in the California Code of Regulations, to add a reference to Regulation 1546, to correct a typographical error in subdivision (a) of the regulation, and to make various amendments to enhance clarity and consistency.

Alternative 1:

Do not adopt proposed amendments to Regulation 1553, *Miscellaneous Repair Operations*.

Background, Methodology, and Assumptions

Staff Recommendation:

There is nothing in the proposed changes to Regulation 1553 that would impact revenues.

Alternative 1:

Alternative 1 has no revenue effect.

Revenue Summary

The staff recommendation has no revenue effect.

The alternative proposal has no revenue effect.

Preparation

This revenue estimate was prepared by David E. Hayes, Research and Statistics Division. This revenue estimate was reviewed by Ms. Charlotte Paliani, Program Planning Manager, Sales and Use Tax Department. For additional information, please contact Mr. Hayes at (916) 445-0840.

Current as of December 5, 2002

State of California

BOARD OF EQUALIZATION

SALES AND USE TAX REGULATION

Regulation 1553. MISCELLANEOUS REPAIR OPERATIONS.

Reference: Section 60086, Revenue and Taxation Code.

Installing, Repairing, Reconditioning in General, Regulation 1546

(a) BOOKBINDERS. Bookbinders are consumers, rather than retailers, of the materials, such as cloth, leather, cardboard, glue, and thread, used in rebinding used books for a single or lump-sum charge, and tax applies to the sale of such materials to the bookbinder. If, however, the bookbinder makes a separate charge for such property at the fair retail selling price, the bookbinder ~~he~~ is the retailer of the materials and tax applies to the amount of the separate charge.

When bound books are sold at retail, tax applies to the gross receipts without any deduction for the cost of binding, even when done by the seller of the books. Tax also applies to the entire charge for the initial binding of new books furnished to a bookbinder for binding, unless the customer of the bookbinder will sell the books in the regular course of business, in which case ~~he~~ the customer of the bookbinder may furnish a resale certificate to the bookbinder.

Tax applies to the entire charges for binding done in connection with the furnishing of a finished product, i.e., a bound book, including a book produced with either a hard or soft cover by binding together materials such as magazines, newspapers, or business records.

(b) MOTOR AND TRANSFORMER REWINDING. Tax applies to sales of materials and supplies furnished in connection with the rewinding of motors and transformers. If a lump-sum price is charged for the materials and labor, 50 percent thereof is regarded as the sales price of the supplies and materials.

(c) SHOE REPAIRPERSONS. ~~Shoe repairmen~~ Persons engaged in repairing shoes are retailers of the tangible personal property furnished in connection with the repair work and tax applies to the retail selling price of such property. If a lump-sum or single charge is made for both materials and labor, 25 percent thereof is considered the retail selling price of the materials.

Tax applies to retail sales by shoe repair ~~persons~~ men of such items as shoes, polishes, and laces.

(d) TENNIS RACKET RESTRINGING AND REPAIRING. Persons engaged in repairing and restringing tennis rackets are retailers of the strings and other tangible personal property furnished, and tax applies to the retail selling price thereof. If a lump-sum charge is made for materials and labor, 50 percent thereof is regarded as the retail selling price of the materials furnished.

(e) WATCH AND JEWELRY REPAIRMEN PERSONS. Persons engaged in repairing watches and jewelry ~~repairmen~~ are consumers of watch, clock and jewelry repair parts and materials such as crystals, findings, ~~and~~ chain links, gold and gems used in repairing watches, clocks, and jewelry. Tax applies with respect to the sale to them of such property ~~unless~~

(1) The retail value of the parts and materials furnished in connection with repair work is more than 10 percent of the total charge, or

(2) The repair person makes a separate charge for the repair parts and materials.

~~They~~ Repairers are, however, retailers of wrist watch straps, metal bands, watches, clocks, chains, precious stones, gems and other tangible personal property which they sell to consumers in the regular course of business and tax applies to the gross receipts from such retail sales.

When the retail value of wrist watch straps, metal bands, watches, clocks, chains, precious stones, gems and other tangible personal property furnished in connection with a repair work is more than 10 percent of the total charge for the repair, the repair person is the retailer of these parts and materials, and must segregate on the invoices to customers and in its records the fair retail selling price of these parts and materials from the charges for the repair labor performed. "Total charge" means the aggregate of the retail value of the parts and materials furnished or consumed in making the repairs and charges for the labor performed in making the repairs.

State of California
BOARD OF EQUALIZATION
SALES AND USE TAX REGULATION

Regulation 1546. INSTALLING, REPAIRING, RECONDITIONING IN GENERAL.

References: Sections 6006, 6010, 6011, 6012, 6015, Revenue and Taxation Code.
Tire Retreading and Recapping, see Regulation 1548.
Accommodation loans by repairers, see Regulation 1669.
Returns, Defects, and Replacements, see Regulation 1655.

(a) INSTALLATION GENERALLY. Charges for labor or services used in installing or applying the property sold are excluded from the measure of the tax. Such labor and services do not include the fabrication of property in place.

(b) REPAIRMEN.

(1) **WHEN RETAILERS.** If the retail value of the parts and materials furnished in connection with repair work is more than 10 percent of the total charge, or if the repairman makes a separate charge for such property, the repairman is the retailer and tax applies to the fair retail selling price of the property.¹

If the retail value of the property is more than 10 percent of the total charge, the repairman must segregate on the invoices to his customers and in his records the fair retail selling price of the parts and materials from the charges for labor of repair, installation, or other services performed.² "Total charge" means the aggregate of the retail value of the parts and materials furnished or consumed in making the repairs, charges for installation, and charges for labor of repair or other services performed in making the repairs, including charges for in-plant or on-location handling, disassembly and reassembly. It does not include pick-up or delivery charges.

If the retailer does not make a segregation, the retail selling price of the parts and materials will be determined by the Board based on information available to it.

(2) **WHEN CONSUMERS.** If the retail value of the parts and materials furnished in connection with the repair work is 10 percent or less of the total charge, as defined in (b)(1) above, and if no separate charge is made for such property, the repairman is the consumer of the property,³ and tax applies to the sale of the property to him.

(3) LUMP-SUM MAINTENANCE CONTRACTS.

(A) In General—Definitions. "Mandatory maintenance contract." A maintenance contract is mandatory within the meaning of this regulation when the buyer, as a condition of the sale, is required to purchase the maintenance contract from the seller. "Optional maintenance contract." A maintenance contract is optional within the meaning of this regulation when the buyer is not required to purchase the maintenance contract from the seller, i.e., he is free to contract with anyone he chooses.

(B) Mandatory Maintenance Contracts. If the repair work is performed under a mandatory lump-sum maintenance contract providing for the furnishing of parts, materials, and labor necessary to maintain the property, the repairer is regarded as the retailer of the material furnished. Accordingly, if the property upon which the maintenance will be performed is sold at retail, the measure of tax includes any amount charged for the lump-sum maintenance contract, whether or not separately stated. The sale of the parts and materials to the repairer furnishing them under such a contract is a sale for resale and is not taxable.

(C) Optional Maintenance Contracts. If the repair work is performed under an optional lump-sum maintenance contract providing for the furnishing of parts, materials, and labor necessary to maintain the property, the repairer is regarded as the consumer of the parts and materials furnished.

¹ Parts furnished for repairing such property as motor vehicles, airplanes, bicycles, machinery, refrigerators, farm implements, musical instruments, radios, television sets, boats and furniture.

² Section 9884.8 of the Business and Professions Code provides in part, with respect to automotive repair dealers, that ". . . Service work and parts shall be listed separately on the invoice, which shall also state separately the subtotal prices for service work and for parts, not including sales tax, and shall state separately the sales tax, if any, applicable to each . . ."

³ Parts furnished for repairing such property as tires (retreading and recapping, see Regulation 1548), tubes, clothing, fishing rods, watches, and jewelry (see Regulation 1553).

(4) EXCHANGE OF USED FOR RECONDITIONED SIMILAR PROPERTY. If the method of repairing or reconditioning certain tangible personal property involves commingling property delivered to a repairman or reconditioner with similar property so that the customer receives repaired or reconditioned property which may not be the identical property delivered to the repairman or reconditioner but which is exactly the same kind of property or derived from exactly the same kind of property as that so delivered, tax applies to the amount charged by the repairman or reconditioner for the repaired or reconditioned property.

(5) REPAIR JOBS COVERED BY INSURANCE. An amount represented as the sales price of parts in an accepted bid is the taxable measure required to be reported by the repairman unless there is a subsequent modification of the bid agreement and the customer or the insurer is informed of the change, provided, however, that the sales price of the parts is not less than the cost of the parts actually used. The bid agreement may be modified by an invoice or a priced repair order given to the customer or the insurer showing the sales price of the property actually furnished by the repairman. If a bid is so modified and the customer or insurer is notified of the change, the amount represented as the sales price of the parts on the modified bid is the amount upon which tax must be reported.

When the accepted bid is in writing, the subsequent modification to the bid agreement must also be in writing. The customer or the insurer should be notified of such modification prior to completion of the sale (e.g., delivery of the repaired automobile).