

**BOARD OF EQUALIZATION****BUSINESS TAXES COMMITTEE MEETING MINUTES**

HONORABLE JOHN CHIANG, COMMITTEE CHAIR

450 N STREET, SACRAMENTO

MEETING DATE: MAY 28, 2003, TIME: 9:30 A.M.

ACTION ITEMS & STATUS REPORT ITEMS**Agenda Item No: 1**

Title: Proposed revisions to Audit Manual Chapter 4, General Audit Procedures, regarding property held for resale, when the property is transferred from an inventory account to a capital asset account and depreciated

Issue/Topic:

Should Audit Manual Chapter 4 be revised to make clear that when resale inventory, including property used for demonstration and display, is moved from an inventory account to a capital account and depreciated, the property is no longer regarded as held for sale in the regular course of business and tax must be paid measured by the purchase price of the property?

Committee Discussion:Action 1, Capitalization and Depreciation of Property Used for Demonstration and Display

Interested parties addressed the Committee in support of their alternative. They explained that while capitalizing and depreciating inventory is a strong presumption of taxable use, if the taxpayer can provide evidence that the property was used exclusively for demonstration and display while holding it for sale in the regular course of business, the depreciation, by itself, should not trigger the use tax. Interested parties also answered questions posed by Committee members for clarification.

Action 2, Approval to Publish

There was no discussion on this item.

Committee Action/Recommendation/Direction:Action 1, Capitalization and Depreciation of Property Used for Demonstration and Display

The Committee recommended that this item be put over until the July 9, 2003 Committee meeting, to allow staff to work with interested parties and refine the language proposed by the interested parties. The Committee clarified the language should provide that the capitalization of inventory merchandise is a strong presumption that the property is withdrawn from inventory and it is the taxpayer's burden to show by documentation deemed suitable to the department that the property has been used in an exempt manner, and that the exemption is limited to demonstration and display usage.

Action 2, Approval to Publish

The Committee postponed action on this item until July 9, 2003.

Approved: /s/ John Chiang
Honorable John Chiang, Committee Chair

/s/ Timothy W. Boyer
Timothy W. Boyer, Interim Executive Director

BOARD APPROVED

at the 5/28/03 Board Meeting

/s/ Deborah Pellegrini
Deborah Pellegrini, Chief
Board Proceedings Division