

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

HONORABLE DIANE L. HARKEY, COMMITTEE CHAIR

450 N STREET, SACRAMENTO

MEETING DATE: OCTOBER 25, 2016, TIME: 9:00 A.M.

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**ACTION ITEMS & STATUS REPORT ITEMS****Agenda Item No: 1****Title: Proposed revisions to Regulation 1524, *Manufacturers of Personal Property*****Issue/Topic:**

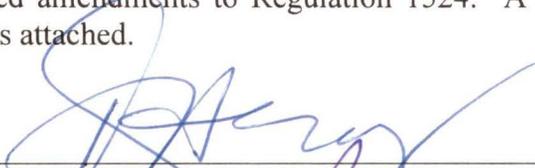
Whether the Board should amend Regulation 1524, *Manufacturers of Personal Property*, to clarify the application of tax to alterations of new and used garments.

**Committee Discussion:**

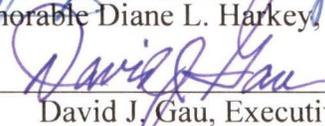
Staff introduced the issue. Ms. Harkey explained staff's revisions regarding alterations to new and used garments. There was discussion by the committee of existing law and clarification of the regulatory change. Ms. Stowers asked if the proposed changes gave those that perform alterations parity to dry cleaners. It was explained that dry cleaners have a specific statute addressing their transactions. Staff plans to propose similar statutory language at the December 2016 Legislative Committee to address tailors' transactions.

**Committee Action/Recommendation/Direction:**

Upon motion by Mr. Horton, seconded by Ms. Ma, without objection, the Committee approved and authorized for publication the proposed amendments to Regulation 1524. A copy of the proposed amendments to Regulation 1524 is attached.



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Honorable Diane L. Harkey, Committee Chair

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David J. Gau, Executive Director

BOARD APPROVED

at the October 25, 2016 Board Meeting

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Joann Richmond, Chief  
Board Proceedings Division

**§ 1524. Manufacturers of Personal Property.**

Note: Authority cited: Section 7051, Revenue and Taxation Code.

Reference: Sections [6006](#), 6011, 6012 and 6018.6, Revenue and Taxation Code.

Bad debts, see ~~regulation~~ [Regulation](#) 1642; Tax Paid Purchases Resold, see ~~regulation~~ [Regulation](#) 1701.

(a) In General. Tax applies to the gross receipts from retail sales (i.e., sales to consumers) by manufacturers, producers, processors, and fabricators of tangible personal property the sale of which is not otherwise exempted. The measure of the tax is the gross receipts of, or sales price charged by, the manufacturer, producer, processor, or fabricator, from which no deduction may be taken on account of the cost of the raw materials or other components purchased, or labor or service costs to create or produce the tangible personal property, or of any step in the manufacturing, producing, processing, or fabricating, including work performed to fit the customer's specific requirements, whether or not performed at the customer's specific request, or any other services that are a part of the sale. In addition, no deduction may be taken on account of interest paid, losses, or any other expense.

(b) Particular Applications.

(1) Alteration of New and Used Items.

(A) Alteration of New Items means and includes any work performed upon new items such as garments, bedding, draperies, or other personal and household items to meet the requirements of the customer, whether the work involves the addition of material to the item, the removal of material from the item, the rearranging or restyling of the item, or otherwise altering the item, when such alterations result in the creation or production of a new item or constitute a step in the creation or production of a new item for the customer.

Charges for the alteration of new items are subject to tax, except as provided in subdivision (c)(4) of Regulation 1506, regardless of whether the charges for the alterations are separately stated or included in the price of the item, or whether the alterations are performed by the seller of the item or by another person. Persons engaged in the producing, processing or fabricating of new items are retailers, not consumers, of the alterations provided to the customer and are required to hold a seller's permit.

(B) Alteration of Used Items means and includes the mending, shortening or lengthening, taking in or letting out, or otherwise altering used items such as garments, bedding, draperies, or other personal and household items when such alterations merely refit or repair the item for the use for which it was created or produced.

Charges for the alteration of used items are not subject to tax. Generally, persons performing the alteration of used items are consumers, not retailers, of the supplies and materials furnished in connection with the alterations, and tax applies to the sale of the supplies and materials to such persons.

Except as provided in subdivision (c)(4) of Regulation 1506, persons performing the alteration of used items are retailers, not consumers, of the supplies and materials furnished in connection

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The proposed amendments contained in this document may not be adopted. Any revisions that are adopted may differ from this text.

with the alterations when the retail value of the supplies and materials is more than 10 percent of the total charge for the alterations, or if the invoice to the customer includes a separate charge for such property. When such persons are retailers, not consumers, tax applies to the fair retail selling price of the supplies and materials to the customer.

When the retail value of the supplies and materials is more than 10 percent of the total charge to the customer, the person performing the alterations must segregate on the invoice to the customer and in its records, the fair retail selling price of the supplies and materials from the charge for the alterations. "Total charge" means the combined total of the retail value of the supplies and materials furnished or consumed as part of the alterations and the labor charges for the alterations.

1. Alterations of Used Garments. New garments are clothing not previously worn except for trying on or fitting. Garments being altered are rebuttably presumed to be used garments, provided that both of the following apply:

a. The person performing and charging for the alterations does not have a formal or informal agreement to provide alterations for customers of the retailer of new garments, such as an agreement to perform alterations for the retailer's customers at a discounted price.

b. There is no evidence that the garments are new (for example, unhemmed pants or store or sales labels still affixed to the garment).

(2) Painting, Polishing, Finishing. Tax applies to charges for painting, polishing, and otherwise finishing tangible personal property in connection with the production of a finished product for consumers, whether the article to be finished is supplied by the customer or by the finisher. Tax does not apply to charges for painting or finishing real property.

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