STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
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Fourth District, Orange County

BETTY T. YEE
State Controller

DAVID J. GAU
Executive Director

October 14, 2016

Dear Interested Party:

Enclosed are the Agenda, Issue Paper, and Revenue Estimate for proposed amendments to Regulation 1524, *Manufacturers of Personal Property*, which will be presented at the Board's October 25 – 26, 2016 Business Taxes Committee meeting. The proposed amendments clarify the application of tax to alterations of new and used garments.

Please feel free to publish this information on your website or otherwise distribute it to your associates, members, or other persons that may be interested in this issue.

Thank you for your input on these issues and I look forward to seeing you at the Business Taxes Committee meeting on **October 25 - 26, 2016** in Room 121 at the address shown above. If you wish to attend the meeting or watch the webcast, see the Public Agenda Notice found under "Upcoming Meetings" at http://www.boe.ca.gov/meetings/boardcomm.htm.

Sincerely,

Chief, Tax Policy Division
Business Tax and Fee Department

JP:map

Enclosures

cc: (all with enclosures, via email and/or hardcopy as requested)
Honorable Fiona Ma, CPA, Chairwoman
Honorable Diane L. Harkey, Vice Chair
Honorable George Runner, First District
Honorable Jerome E. Horton, Third District
Honorable Betty T. Yee, State Controller, c/o Ms. Yvette Stowers (MIC 73)
Ms. Genevieve Jopanda, Board Member's Office, Second District
Ms. Kathryn Asprey, Board Member's Office, Second District

Mr. Tim Morland, Board Member's Office, Second District
Ms. Natasha Ralston Ratcliff, Board Member's Office, Second District
Mr. Russell Lowery, Board Member's Office, Fourth District
Mr. Ted Matthies, Board Member's Office, Fourth District
Ms. Lisa Renati, Board Member's Office, Fourth District
Mr. Clifford Oakes, Board Member's Office, Fourth District
Mr. Sean Wallentine, Board Member’s Office, First District
Mr. Lee Williams, Board Member’s Office, First District
Mr. Brian Wiggins, Board Member's Office, First District
Mr. Cary Huxsoll, Board Member's Office, First District
Mr. Alfred Buck, Board Member's Office, First District
Ms. Kari Hammond, Board Member's Office, Third District
Ms. Linda Cheng, Board Member's Office, Third District
Mr. Chris Armenta, Board Member's Office, Third District
Mr. David Gau (MIC 73)
Mr. Robert Tucker (MIC 83)
Ms. Susanne Buehler (MIC 43)
Ms. Debra Kalfsbeek (MIC 62)
Mr. Todd Gilman (MIC 70)
Mr. Wayne Mashihara (MIC 47)
Mr. Kevin Hanks (MIC 49)
Mr. Mark Durham (MIC 67)
Mr. Jeff Vest (MIC 85)
Mr. Jeff Angeja (MIC 85)
Mr. David Levine (MIC 85)
Ms. Dana Brown (MIC 85)
Ms. Casey Tichy (MIC 85)
Ms. Nikki Mozdyniewicz (MIC 85)
Mr. Rick Zellmer (MIC 85)
Mr. Bradley Heller (MIC 82)
Mr. Lawrence Mendel (MIC 82)
Mr. John Thiella (MIC 73)
Ms. Erin Dendorfer (MIC 82)
Ms. Kirsten Stark (MIC 50)
Ms. Lynn Whitaker (MIC 50)
Mr. Marc Alviso (MIC 73)
Mr. Chris Lee (MIC 73)
Ms. Laureen Simpson (MIC 70)
Ms. Karina Magana (MIC 47)
Mr. Bradley Miller (MIC 92)
Mr. Joe Fitz (MIC 67)
Mr. Robert Wilke (MIC 50)
Mr. Michael Patno (MIC 50)

Agenda – October 25 – 26, 2016 Business Taxes Committee Meeting
Regulation 1524, *Manufacturers of Personal Property*

Action 1 – Agreed Upon Items	**Alternative 1**
Agenda, pages 2-4.	Approve and authorize publication of proposed amendments to Regulation 1524 OR **Alternative 2** Do not approve proposed amendments to Regulation 1524.

Agenda – October 25 – 26, 2016 Business Taxes Committee Meeting
Regulation 1524, *Manufacturers of Personal Property*

Action Item	Staff and Industry's Proposed Regulatory Language
Action 1 – Staff Recommendation	**§ 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.

Action Item	Staff and Industry's Proposed Regulatory Language
	(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 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

Agenda – October 25 – 26, 2016 Business Taxes Committee Meeting
Regulation 1524, *Manufacturers of Personal Property*

Action Item	Staff and Industry's Proposed Regulatory Language
	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.

Issue Paper Number **16-09**

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

BOARD OF EQUALIZATION
KEY AGENCY ISSUE

Regulation 1524, *Manufacturers of Personal Property*

I. Issue

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

II. Alternative 1 - Staff Recommendation

Staff recommends approval and authorization to publish the proposed amendments to Regulation 1524, as set forth in Exhibit 2. Staff's proposed amendments clarify that persons who perform alterations have a rebuttable presumption that the garments they are altering will be considered "used" provided that:

- The persons do not have an agreement to provide alterations for customers of the retailer of new garments; and
- There is no evidence that the garments to be altered are new.

III. Other Alternative(s) Considered

Do not approve the proposed amendments to Regulation 1524.

IV. Background

Regulation 1524, *Manufacturers of Personal Property*, explains the general application of tax to alterations.[1] Alterations of new goods are considered a step in the process (fabrication) of producing a new product. If changes are made to a new item to make it suitable for the customer to wear or use, those charges are considered part of the fabrication of the item, and are subject to tax. Conversely, labor charges for altering used goods are generally considered nontaxable repair or reconditioning labor.

Regulation 1524 was last revised in 2008 to add language addressing the application of tax to alterations of new and used products. The 2008 revision process included participation by the California Cleaners Association and the Korean Dry Cleaners Association. Historically, the Board considered an item brought in by a customer to be new if it did not have hems or cuffs, store tags were still attached, or the item was clearly unworn or unused to the observer. In essence, an item is considered new until such time as the customer has worn or used the item for its intended purpose.

This interpretation is based on *Duffy* v. *State Board of Equalization (Duffy)*[2]. The decision in *Duffy* supported the Board's definition of "new clothing" and held that tax applies to alteration charges. The plaintiff owned a dry cleaning and tailoring shop that altered new clothing for customers who had purchased the clothing elsewhere and had not worn the clothing except to try them on. The Board estimated and determined tax on the alteration charges on new clothing as fabrication labor under Revenue and Taxation Code (RTC) section 6006, subdivision (b), and Regulation 1524. In *Duffy*, the court stated that Regulation 1524, the Board's rulings, and court precedent interpreting RTC section 6006, subdivision (b), put the plaintiff on reasonable notice that he would be liable for sales tax on amounts collected for "alterations to clothing previously purchased somewhere else but not worn except for trying on or fitting."

During the September 2015 Board Meeting, Mr. Jim Vossen, representing multiple coastal Chambers of Commerce, spoke before the Board Members about the taxation of alterations. He explained that his friend, a tailor, had recently been audited. He stated the audit resulted in a liability based on unreported sales of alterations of new clothing. Mr. Vossen expressed his belief that it is too difficult for a tailor to make the distinction between new and used goods.

V. Discussion

An interested parties meeting was held on August 3, 2016, to discuss staff's proposed amendments to Regulation 1524 regarding a rebuttable presumption for tailors. Mr. Vossen attended the meeting and stated his belief that it is difficult for tailors to determine whether a garment is "new.' In addition, he strongly recommended changing the tax application on alterations of new garments because it is unfair to treat alterations performed by alteration establishments differently from alterations performed by clothes cleaning and dyeing establishments.

Staff recommends a rebuttable presumption for persons who perform alterations under certain circumstances. Staff believes tailors could be unclear about whether items brought in for alterations are used or new. Garments without tags and labels that appear new could make it difficult for the tailor to determine whether or not to charge tax on the labor performed. The tailor has to make a decision as to whether they are performing a taxable alteration of a new garment or a nontaxable repair of a used garment.

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[1] Regulation 1506, subdivision (c)(4), addresses alterations performed by clothes cleaning and dyeing establishments. These types of businesses are not included in the staff's proposed amendments.

[2] *Duffy* v. *State Board of Equalization* (1984) 152 Cal.App.3d 1156.

Rebuttable Presumption

To assist tailors with this determination, staff proposes that the regulation establish a rebuttable presumption that all garments to be altered will be considered "used" provided that:

- The person performing the alterations has no formal or informal agreement with the retailer of new garments; and
- There is no evidence indicating the garments are new.

Provided both requirements are met, all persons performing the alterations may presume they are tailoring used garments and that the alteration charges are not subject to tax.

An agreement between a retailer of new garments and a person performing alterations would include a situation where the person who performs alterations gives a preferred or discounted rate to customers of a specific retailer of new garments. An example of such an agreement would include a person who takes a suit, purchased from XYZ Suits, to Larry the Tailor's shop and receives a 25% discount on the alterations based on that purchase.

Staff's revision to Regulation 1524 includes the meaning of the term "new garments." The definition was used by the Court of Appeal in their decision, which supported the Board's position. Staff believes evidence which may be used to identify whether garments are new would include unhemmed pants or store tags or sales labels still attached to a garment. In essence, an item is considered new until such time as a customer has worn or used the item for its intended purpose.

Unfair to Small Tailors

Staff received two submissions from Mr. Vossen, one was received before the interested parties meeting and one was received afterwards (Exhibits 3 and 4). In the latter, Mr. Vossen concluded that the term "new" should be removed from the regulation thereby changing the application of tax such that tax would not apply to alterations of new or used garments. He alluded to Regulation 1506, *Miscellaneous Service Enterprises*, and the fact that alterations of new and used garments performed by clothes cleaning or dyeing establishments, who meet specific criteria, are not subject to tax. He was concerned that customers would forego the tailor who charges tax on alterations and instead go to the dry cleaner next door that does not, therefore providing the dry cleaner an unfair advantage to the tailor.

There is a specific statutory provision for the application of tax to alterations performed by clothes cleaning and dyeing establishments. RTC section 6018.6, subdivision (b), states that "sales tax shall not apply to the charges for alterations" performed by certain persons who clean or dye garments. Regulation 1506 interprets this statute and establishes the criteria for the clothes cleaners and dyeing establishments. Subdivision (c)(4)(A) of Regulation 1506, states that the clothes cleaning or dyeing establishments that meet the conditions described are the consumers of property used or furnished in the alteration of new or used garments. When a clothes cleaning or dyeing establishment is deemed the consumer, tax is due on their purchases of materials used or consumed in the alteration of garments. There is no statutory authority to change the application of tax to alterations performed by tailors or alteration shops as Mr. Vossen requests. Such a change is beyond the scope of RTC section 6006, Regulation 1524, and that of the Business Taxes Committee. Staff believes that a legislative change is required to address Mr. Vossen's suggestion. Accordingly, if requested, staff will provide language to the Board's Legislative Division to address Mr. Vossen's concerns.

VI. Alternative 1 - Staff Recommendation

A. Description of Alternative 1

Staff recommends approval and authorization to publish the proposed amendments to Regulation 1524, as set forth in Exhibit 2. Staff's proposed amendments clarify that persons who perform

alterations have a rebuttable presumption that the garments they are altering will be considered "used" provided that:

- The persons do not have an agreement to provide alterations for customers of the retailer of new garments; and
- There is no evidence that the garments to be altered are new.

B. Pros of Alternative 1

Staff's proposal will provide additional information for businesses that perform alterations to assist them in determining if their alterations should be subject to tax.

C. Cons of Alternative 1

The proposed change to Regulation 1524 does not address Mr. Vossen's concern about the underlying issue, which is that the regulatory revisions do not allow new garment alterations to be exempt from tax.

D. Statutory or Regulatory Change for Alternative 1

No statutory change is required. However, staff's recommendation will require a regulatory change.

E. Operational Impact of Alternative 1

Staff will publish the proposed amendments to Regulation 1524 and begin the formal rulemaking process.

F. Administrative Impact of Alternative 1

1. Cost Impact

The workload associated with publishing the regulation is considered routine. Any corresponding cost would be absorbed within the Board's existing budget.

2. Revenue Impact

None. See Revenue Estimate (Exhibit 1).

G. Taxpayer/Customer Impact of Alternative 1

Staff will provide outreach to businesses who perform alterations as described in Regulation 1524 regarding new and used garments. Staff will also update publications that provide information regarding this topic.

H. Critical Time Frames of Alternative 1

None.

VII. Other Alternatives

A. Description of Alternative 2

Do not approve the proposed amendments to Regulation 1524.

B. Pros of Alternative 2

The BOE will not incur the workload associated with revising the regulation.

C. Cons of Alternative 2

Taxpayers may still have uncertainty with regard to determining whether garments being altered are new or used.

D. Statutory or Regulatory Change for Alternative 2

None.

E. Operational Impact of Alternative 2

None.

F. Administrative Impact of Alternative 2

1. Cost Impact

None.

2. Revenue Impact

None. See Revenue Estimate (Exhibit 1).

G. Taxpayer/Customer Impact of Alternative 2

None.

H. Critical Time Frames of Alternative 2

None.

Preparer/Reviewer Information

Prepared by: Tax Policy Division, Business Tax and Fee Department

Current as of: October 7, 2016

REVENUE ESTIMATE

STATE OF CALIFORNIA
BOARD OF EQUALIZATION

BOARD OF EQUALIZATION
REVENUE ESTIMATE

Regulation 1524, *Manufacturers of Personal Property*

I. Issue

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

II. Alternative 1 - Staff Recommendation

Staff recommends approval and authorization to publish the proposed amendments to Regulation 1524, as set forth in Exhibit 2. Staff's proposed amendments clarify that persons who perform alterations have a rebuttable presumption that the garments they are altering will be considered "used" provided that:

- The persons do not have an agreement to provide alterations for customers of the retailer of new garments; and
- There is no evidence that the garments to be altered are new.

III. Other Alternative(s) Considered

Do not approve proposed amendments to Regulation 1524.

Background, Methodology, and Assumptions

Alternative 1 – Staff Recommendation

There is nothing in the staff recommendation that would impact revenue. The proposed regulation will assist tailors in determining whether they are performing a taxable alteration of a new garment or a nontaxable repair of a used garment. The assistance comes in the form of a rebuttable presumption which states that the garments they are altering will be considered "used" provided that (i) The persons do not have an agreement to provide alterations for customers of the retailer of new garments. (ii) There is no evidence that the garments to be altered are new. If these two requirements are met, then tailors performing the alterations may presume they are tailoring used garments and that the alteration charges are not subject to tax.

Other Alternatives Considered

Do not approve the proposed amendments to Regulation 1524. There is nothing in Alternative 2 that would impact revenue.

Revenue Summary

Alternative 1 – staff recommendation does not have a revenue impact.

The other alternative considered does not have a revenue impact.

Preparation

Mr. Ronil Dwarka, Research and Statistics Section, Legislative and Research Division, prepared this revenue estimate. This estimate has been reviewed by Mr. Mark Durham, Manager, Research and Statistics Section, Legislative and Research Division, and by the Tax Policy Division Chief. For additional information, please contact Mr. Dwarka at (916) 445-0840.

Current as of October 7, 2016.

§ 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 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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8/1/16

To:
California State Board of Equalization

Subject:
Sales Tax on Garment Alterations

Yesterday I had a conversation with Clifford Oakes, Senior Advisor, Tax Policy, Office of Vice Chair Diane Harkey, 4th District. The conversation was in response to my interest when I addressed the Board last September. My concern centers around the charging of sales tax on basic hem adjustments on my pants.

Mr. Oakes reminded me of the provision in which dry cleaners, who offer basic garment alterations, do not have to worry about the charging of sales tax, even if the garments appear to be new, as long as the alterations part of the business is less than a certain percentage of the whole business. Why should a tailor shop be treated differently? This is an unfair disadvantage to the tailor. One might as well go to a dry cleaners to do basic alterations to save paying a sales tax.

In reading this new Staff Proposed Revisions to Regulations 1524, Exhibit 1, Page 1, #1 (A), I believe and feel strongly that the verbiage is fine with me and that it would excuse the basic alterations of my pants. Adjusting the length of my pants, whether they are new or used, does not create a new product. Yes, if for some reason I discovered a market to resale my adjusted pants, whether they were new or used, would put 'me' in the position to obtain seller's permit, putting me in the situation of having to collect sales tax.

I remember being told by a supervisor auditor at the State Board of Equalization office in Salinas that the one of the reasons for the sales tax on the alteration of my pants increases the value of my pants. How does the altering of my pants increase their value.

TOO MUCH OF A BURDEN

The real bottom line to this whole situation is putting the burden onto a small tailor shop to decide what garments are new or not new. Is it as simple as the customer pulling the tags off the garment? Does the customer have to wear the garment for a day, a week, a month? When you look at it this way, doesn't it seem kind of stupid and unfair to the small tailor?

Just a reminder of how I got involved with this. Because I am short and stocky when I buy a pair of pants I need to have legs adjusted. Up until a year ago, I never was asked to pay sales tax. Last year Van's Tailor shop started charging me sales tax. I was told that the tailor had been audited for some back years and ended up paying the Board of Equalization $10,000. WHAT? I believe that his money should be returned to him, because he was never properly informed on what the customer needed to do to avoid paying this unfair sales tax.

Jim Vossen / General Manager
Seaside, Sand City, Del Rey Oaks & Monterey Chambers of Commerce

8/18/16

FROM: THE DESK OF JIM VOSSEN

TO: STATE BOARD OF EQUALIZATION

I have been doing a lot of thinking about the main issue of whether the articles of clothing are 'new' or 'not new'. I have been contending all along that once these articles of clothing are purchased that they are no longer 'new'.

Let's take a look at this from a different position. What is the difference between doing alterations on 'new' or 'not new' clothing? I contend that the arguments for charging sales tax on alterations of 'new' could just as well apply to 'not new' clothing.

I was told by one sales tax auditor in Salinas that alterations of 'new' clothing increases the 'value' of that article of clothing. Wouldn't that reason apply as well to 'not new' articles of clothing? After all, if I have a pair of 'not new' pants, that for whatever reason I would like the length adjusted because I have gotten shorter isn't that increasing the value of those pants? If fixing my 'new' pants increases their value, than fixing my 'not new' pants increases their value too.

About a week ago I stopped by Chong's Tailor Shop in Marina and discovered that this small shop knew nothing about any sales tax to be applied to 'any' alterations. I continue on to Salinas to Alterations By Soco. The owner told me that she pays the sales tax on 'all' alterations, 'new' or 'not new'. She told me that her bookkeeper pays the sales tax on her gross sales. She is paying the State Board of Equalization more than she needs too.

Bottom Line

The term 'new' should be removed from the new proposed 'rule/law'. That's the 'Bottom Line'.

Simple alterations of 'new' garments or 'not new' garments should be treated equally as repairs. The term 'alterations' has a kind of appearance that the simple shortening of my pants legs, whether 'new' or 'not new' is somehow improving the pants or creating something different therefore increasing their value. No, that's not the case. The pants are just becoming wearable.

Unfair to Small Tailors

The State Board of Equalization's special exemption to dry cleaners who offer 'alterations' is unfair to the small tailor who may be right next door. One might ask why should I go to the small tailor and pay sales tax, when I can go next door to the cleaners and not have to pay sales tax for the exact same labor intensive service. Maybe that special exemption should apply to small tailors who are doing the same thing.

Thank you,
Jim Vossen (831) 236-5994 – Jim@TheChamberOffice.org