



**STATE BOARD OF EQUALIZATION**

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DOUGLAS D. BELL  
*Executive Secretary*

August 22, 1984

No. 84/79

TO COUNTY ASSESSORS, COUNTY COUNSELS  
COUNTY ASSESSMENT APPEALS BOARDS, AND  
OTHER INTERESTED PARTIES:

NOTICE OF PROPOSED REGULATORY ACTION  
BY THE  
STATE BOARD OF EQUALIZATION

RULE 133, Business Inventory Exemption

PUBLIC HEARING: October 10, 1984

NOTICE IS HEREBY GIVEN that the State Board of Equalization, pursuant to the authority vested by Section 15606 of the Government Code, and to implement, interpret, or make specific Sections 129 and 219 of the Revenue and Taxation Code, proposes to amend Rule 133 in Title 18 of the California Administrative Code, relating to property tax.

PUBLIC NOTICE: Notice is further given that a public hearing relevant to this action will be held in Room 102, Consumer Affairs Building, 1020 N Street, Sacramento, California, at 2:00 p.m., on October 10, 1984. Any person interested may present statements or arguments orally or in writing at that time and place.

INFORMATIVE DIGEST: This rule is amended to bring it into conformity with current law.

Part (b)(2) of the rule was deleted because its provision was obsolete. The deleted provision made reference to excluding property from the inventory exemption which was classified by law for the purpose of

assessment or taxation in a different proportion to its value than is applicable to real property. For example, such property as baled cotton and general aircraft were previously classified by law as property which were to be assessed by a particular assessment ratio. The property, therefore, was not available to also be afforded the inventory exemption. With the repeal and reenactment of Revenue and Taxation Code Section 219 (Stats. 1980, Ch. 411), inventories are now totally exempt from taxation. Therefore, it now is unnecessary to depict certain properties which are not exempt as inventory since all properties considered inventory are now exempt under Section 219 of the Revenue and Taxation Code.

Part (b)(8) is deleted because it is no longer necessary. The deleted part deals with describing the conditions under which such property lost its exemption to property taxation. Prior to the total exemption of inventory from property taxation, persons who willfully or fraudulently omitted or failed to report their inventory lost the right to the inventory exemption. (See Section 219 in effect and as amended by Stats. 1974, Ch. 1441, pg. 3148.) Since inventory is now totally exempt under Section 219 as repealed and reenacted in 1980 (Stats. 1980, Ch. 411), it is no longer necessary to depict the conditions under which the holder of inventory property loses the exemption for failure to report since now there is no requirement to report the inventory in the first instance.

ESTIMATE OF COST OR SAVINGS: The State Board of Equalization has determined that the proposed change does not impose a mandate on local agencies or school districts. Further, the Board has determined that the change will result in no direct or indirect cost or savings to any State agency, any local agency or school district that is required to be reimbursed under Section 2231 of the Revenue and Taxation Code, or other non-discretionary cost or savings imposed on local agencies, or cost or savings in Federal funding to the State of California.

The cost impact on private persons or businesses will be insignificant. This proposal will not have a significant adverse economic impact on small businesses.

WRITTEN COMMENTS: Written statements or arguments will be considered by the Board if received by October 10, 1984; they are requested by September 28, 1984. Please send comments to Janice Masterton, Regulation Coordinator, at 1020 N Street, Sacramento, California 95814.

STATEMENT OF REASONS; EXPRESS TERMS;  
RULEMAKING FILE: The Board has prepared a statement of reasons and a strike-out and underscore version (express terms) of the proposed changes. Both of these documents are available to the public upon request. The rulemaking file is available for public inspection at Room 123, 1020 N Street, Sacramento, California.

STAFF MEMORANDA AFTER PUBLIC HEARING OR REVISIONS TO PUBLISHED VERSION OF THE REGULATION: In the event there are any staff memoranda included in the rulemaking file after the close of the public hearing, these memoranda will be available to the public upon request from Mrs. Masterton for a period of 15 days after the public hearing.

In the event there are any revisions sufficiently related to the published version of the rule, these revisions will be available to the public from Mrs. Masterton for a period of 15 days before adoption.

Following the hearing, the State Board of Equalization, upon its own motion, or at the request of any interested person, may in accordance with law adopt the changes proposed without further notice.

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INQUIRIES

CONTENT

Questions regarding the content of the regulation should be directed to Gordon P. Adelman, Assistant Executive Secretary, Property Taxes, (916) 445-1516, at 1020 N Street, Sacramento, CA 95814.

HEARING

Written comments for the Board's consideration or requests to present testimony and bring witnesses to the public hearing should be directed to Janice Masterton, Assistant to Executive Secretary, (916) 445-6479, at the same address.

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STATE BOARD OF EQUALIZATION

*Douglas D. Bell*

Douglas D. Bell  
Executive Secretary

**Rule No. 133. (Cal. Adm. Code) Business Inventory Exemption**

**(a) SCOPE OF EXEMPTION.**

- (1) "Business inventories" that are eligible for exemption from taxation under section 129 of the Revenue and Taxation Code include all tangible personal property, whether raw materials, work in process or finished goods, which will become a part of or are themselves items of personalty held for sale or lease in the ordinary course of business. Included in business inventories are containers or container material such as kegs, bottles, cases, twine and wrapping paper, whether returnable or not, if title thereto will pass to the purchaser or lessee of the product to be sold or leased therein. Materials such as lumber, cement, nails, steel beams, columns, girders, etc., held by a licensed contractor for incorporation into real property are eligible for the exemption, providing the real property will not be retained for the licensed contractor's use. Also included are crops and animals held primarily for sale or lease and animals used in the production of food or fiber and feed for animals in either category.
- (2) The phrase "ordinary course of business" does not constitute a limitation on the type of property which may be held for sale or lease, but it does require that the property be intended for sale or lease in accordance with the regular and usual practice and method of the business of the vendor or lessor.
- (3) The phrase "goods intended for sale or lease" means property acquired, manufactured, produced, processed, raised or grown which is already the subject of a contract of sale or which is held and openly offered for sale or lease or will be so held and offered for sale or lease at the time it becomes a marketable product. Property which is ready for sale or lease must be displayed, advertised or otherwise brought to the attention of the potential purchasers or lessees by means normally employed by vendors or lessors of the product.

**(b) EXCLUSIONS.** Property eligible for the "business inventories" exemption does not include:

- (1) Property of any description in the hands of a vendee, lessee or other recipient on the lien date which has been purchased, leased, rented, or borrowed primarily for use by the vendee, lessee or other recipient of the property rather than for sale or lease or for physical incorporation into a product which is to be sold or leased. Examples of property excluded from business inventories are office supplies, furniture, machines and equipment and manufacturing machinery, equipment and supplies such as dies, patterns, jigs, tooling or chemicals used to produce a chemical or physical reaction, and contractors' supplies, tools, concrete forms, and other items that will not be incorporated into and become a part of the real property. Also ineligible are materials that a contractor is holding to incorporate into real property that will be retained for his own use.

~~(2) - Any tangible personal property that is classified by law for the purpose of assessment or taxation in a different proportion to its value than is applicable to real property.~~

- (2) ~~(3)~~ Property being used by its owner for any purpose not directly associated with the prospective sale or lease of that property.
- (3) ~~(4)~~ Property actually leased or rented on the lien date.
- (4) ~~(5)~~ Property which has been used by the holder prior to the lien date, even though held for lease on the lien date.
- (5) ~~(6)~~ Property intended to be used by the lessor after being leased or during intervals between leases even though held for lease on the lien date.
- (6) ~~(7)~~ Property in the hands of a lessor who, with intent to enjoy the benefits of the inventory exemption, had leased the property for a period that expired shortly before the lien date but who renewed, extended or renegotiated the lease shortly thereafter.

~~(8) - Property which had escaped assessment as of the filing of the roll pursuant to section 616 of the Revenue and Taxation Code, but has subsequently been assessed under the provisions of sections 521.3 or 521.4 of the Revenue and Taxation Code, except that such assessments for the tax years 1975-76 through 1977-78 shall result in loss of exemption only when the assessment includes the penalty provided by section 524 of the Revenue and Taxation Code.~~

**(c) SERVICE ENTERPRISES.** Property held by a person in connection with a profession which is primarily a service activity such as medicine, law, architecture or accountancy is not "business inventories" held for sale or lease even though such property may be transferred to a patient or client incidental to the rendition of the professional service. Property held by enterprises rendering services of a nonprofessional type such as dry cleaners, beauty shop operators and swimming pool service companies is to be regarded as "business inventories" held for sale if such property is delivered to the customer as an item regularly included in the service.

**(d) REPAIRERS AND RECONDITIONERS.** Persons engaged in repairing or reconditioning tangible personal property with the intent of transferring parts and materials shall be regarded as holding said parts and materials as "business inventories."

**(e) AGRICULTURAL ENTERPRISES.** Animals, crops and feed held primarily for sale or lease in the ordinary course of business are included in the term "business inventories," as are animals used in the production of food or fiber and feed for such animals.

- (1) "Animals used in the production of food and fiber" includes all animals customarily employed in the raising of crops or for the feeding, breeding and management of livestock, or for dairying, or any other confined animals whose products are normally used as food for human consumption or for the production of fiber useful to man. Excluded are and animals held by an owner or lessee principally for sport, recreation or pleasure such as show animals, horses kept for racing or horses and other animals kept as pets.
- (2) The term "crops" means all products grown, harvested, and held primarily for sale, including seeds held for sale or seeds to be used in the production of a crop which is to be held primarily for sale. It does not include growing crops exempted pursuant to Article XIII, section 3 (h), of the California Constitution or fruit trees, nut trees, and grapevines exempted by section 223 of the Revenue and Taxation Code.
- (3) The term "food" means property normally considered as food for human consumption.
- (4) Feed for animals held primarily for sale or lease or for animals used in the production of food or fiber constitutes "business inventories" subject to exemption. It includes every type of natural-grown or commercial product fed to animals except medicinal commodities intended to prevent or cure disease unless the medicinal commodities are purchased as a component part of feed for such animals.

Reference: Sections 129, 219, Revenue and Taxation Code.