



(916) 445-5047

December 10, 1979

Mr. William C. Greenwood
Fresno County Assessor
P. O. Box 1146
Fresno, CA 93715

Dear Mr. Greenwood:

This is in response to questions asked in your November 7, 1979, letter to Mr. James Delaney.

1. The business inventory exemption is not available to machinery and equipment which is used in the utilization of animals for the production of food or fiber. The machinery and equipment is not "goods intended for sale or lease in the ordinary course of business" as required in Section 129 of the Revenue and Taxation Code. Nor can the machinery and equipment be classified as "animals and crops" which are considered business inventory if held for sale or lease, or used in the production of food, fiber or feed.

2. Farm supplies cannot be classified as business inventories. In order for supplies to be classified as business inventory, the supplies must become an actual part of the thing held for sale or lease; or the supply itself must be held for sale or lease. For example, if title to the supply passes with the product sold (containers, etc.), then the supply can be classified as inventory. But there is not sufficient nexus between crops sold and fertilizer and spray supplies to say that they pass to the buyer upon sale of the crop. (See California Administrative Code, Property Tax, Section 133; Assessors' Letter No. 75/83, E2, copy enclosed.)

Very truly yours,

Robert R. Keeling
Tax Counsel

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Enclosure