



STATE BOARD OF EQUALIZATION

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TO COUNTY ASSESSORS:

78/209

BUSINESS INVENTORY EXEMPTION
APPLICATION TO CONTRACTORS' INVENTORIES

Two recent developments affect the application of the business inventory exemption to contractors' inventories.

First, in Superior Court decision 473205-9, S.G. HERRICK CORPORATION v. County of Alameda and City of Hayward, the court ruled that contractors' materials, such as steel beams, columns, and girders, held by the contractor to fulfill existing and anticipated construction contracts were eligible for the business inventory exemption. Although this case was not appealed, the legal staff is of the opinion the decision would probably be upheld in an appellate court.

Second, on September 30, 1978, Assembly Bill 2352 (Chapter 1394) was passed. This bill amends Revenue and Taxation Code, Section 129, by redefining business inventories to include goods held by a licensed contractor and not yet incorporated into real property. This amendment becomes effective on January 1, 1979.

As a result of these two events, this Board is reversing its previous position regarding contractors' inventories. We now recommend that all counties allow the business inventory exemption on contractors' eligible inventories for all previous years' assessments still open for corrections and refunds.

Contractors' eligible inventories now include all materials held by the contractor which will be incorporated into real property. Goods that continue not to be eligible for the inventory exemption are 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 where the real property will be retained for his own use.

Please contact Bud Florence of this division if you have any questions regarding the above.

Sincerely,

Verne Walton, Chief
Assessment Standards Division

VW:cmm