



STATE BOARD OF EQUALIZATION
PROPERTY TAXES DEPARTMENT
450 N STREET, MIC: 64, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
TELEPHONE (916) 445-4982
FAX (916) 323-8765
www.boe.ca.gov

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First District, Hayward

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October 13, 2000

JAMES E. SPEED
Executive Director

No. 2000/059

TO COUNTY ASSESSORS:

BUSINESS INVENTORY EXEMPTION—NONPROFESSIONAL SERVICE ENTERPRISES

Attached for your information is a copy of the recently decided case of *Transworld Systems, Inc. v. County of Sonoma*, (2000) 78 Cal.App.4th 713. In this case, the California Court of Appeal, First Appellate District, held that property of nonprofessional service enterprises constitutes exempt business inventory, if it is delivered incidental to the rendition of the service, regardless of whether the goods are delivered to the customer or to a third party designated by the customer.

The plaintiff, a collection service, brought suit seeking a refund of business property taxes paid as the result of assessment of its preprinted forms and envelopes. The plaintiff, on behalf of its customers, sends a series of computer-generated letters to debtors of its customers, on its preprinted forms. The customer chooses the series of letters to be sent; the text of each series of letters is preset, with only the debtor information and creditor information changing in the letters.

The plaintiff contended that these form letters should qualify as exempt business inventory of a nonprofessional service under Revenue and Taxation Code section 129 and Property Tax Rule 133. The Court of Appeal agreed, observing that “the critical consideration is whether the goods are to be transferred away from the business pursuant to sale, not whether they are to be delivered directly to the customer or to a third party designated by the customer. . . . The fact that the letters are delivered *for* the customer rather than *to* the customer is not relevant to the statutory scheme . . .” [Emphasis in original.]

In concluding that property of nonprofessional service enterprises constitutes exempt business inventory, if it is delivered incidental to the rendition of the service, regardless of whether the goods are delivered to the customer or to a third party designated by the customer, the Court of Appeal expanded upon Property Tax Rule 133, subdivision (c), which requires that property be “delivered to the customer as an item regularly included in the service”.

If you have any questions, please contact our Business Property Technical Services Unit at (916) 445-4982.

Sincerely,

/s/ Richard C. Johnson

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:grs
Enclosure