



STATE BOARD OF EQUALIZATION

January 25, 1961

[X]

Dear Mr. [X]:

This is in reply to your letter of January 20, 1961, concerning sales tax treatment gift certificates and assignment of accounts receivable.

Gift certificates are purchased with cash; when given as a gift, they entitle the owner to merchandise in the amount shown on the certificate. The customers may also apply them to their charge accounts. The gift certificate is evidence of an intangible right and is, therefore, not subject to sales tax. Applying gift certificates to charge accounts does not constitute "merchandise returned" because there is no sale of merchandise in question. Tax should only be charged these customers on the purchase of items of tangible personal property.

When a person charges an item to his account and later finances it through a bank or finance company, there is no second sale involved. You are assigning an intangible contract right and, therefore, there is no sales tax consequences involved. This should not be treated as merchandise returned.

Your request for a "road tax exemption" will be referred to the office of the Controller and that office will direct you in the proper procedure.

Very truly yours,

R.H. Stetson
Tax Counsel

JHK:o'b

cc: San Jose - Administrator