

M e m o r a n d u m**330.3017**

To: B. H. Watson
Return Review

Date: November 28, 1988

From: David H. Levine
Tax Counsel

Subject: A--- T--- J---
SY -- XX-XXXXXX

This is in response to your memorandum dated October 12, 1988. Taxpayer rents tuxedos, collecting use tax on rentals payable. Taxpayer took a deduction on its return for "alterations." In response to our request for an explanation, taxpayer stated the deduction was for separately stated labor charges assessed on rental tuxedos. You ask whether this is a proper deduction.

I assume that the rental tuxedos are not tax-paid. Leases of such tuxedos are therefore subject to use tax measured by rentals payable. Reg. 1660(c)(1).) The taxable rentals payable include any payments required by the lease with certain exceptions. (Ibid.) Based on the information provided by the taxpayer, none of those exceptions appear relevant. Rather, the alteration charge appears to be a charge necessary for the lessee to lease a tuxedo in the form required. That is, it appears that the alteration charges are part of the taxable rentals payable.

If you have further questions, feel free to write again.

DHL:ss