

440.1853

# Memorandum

To : Mr. Richard L. Evans  
Ventura District Principal Auditor

Date: September 16, 1992

From : Elizabeth Abreu  
Tax Counsel

Subject: SR -- XX-XXXXXX  
M--- P--- and B--- S---, Inc.

This is in response to your follow-up memorandum dated July 6, 1992, in which you transmitted further information about certain items purchased by M--- P--- and B--- S--- Inc. and used by it in applying paint to automobiles. Attached to your memorandum are two letters from the manufacturers which explain the purpose of the items involved. The first letter, from [B], states:

“In reference to refinish paint materials manufactured by [B] Corporation, products identified as ‘Hardeners or Catalysts’ are utilized to necessitate a chemical linking process when mixed with the appropriate paint material.

“We refer to this process as curing of the product to produce gloss, color retention and durability of the paint film. Upon cross linking the hardener or catalyst becomes integrated into the final paint film.”

The second letter, from [D], states:

“What is the primary function of this product?”

“The primary function of activators and hardeners is to provide protection to the painted surface and to provide a desirable appearance to the painted surface as part of the final paint film.

“Does the product evaporate after its application?”

“No. It is part of the paint film.

“Does the product remain with the paint after its application and continue to be of beneficial use?”

“Yes. These products help the paint film retain gloss, prevent chipping and in general improve the paint films durability and protective properties.”

There are two factors we generally consider in determining whether an item is a component part of a finished product. The first is whether the item is present in the finished product. If an item evaporates during manufacturing or is otherwise not present in the finished product, the item is a manufacturing aid. Second, if all or part of the item is present in the finished product, what is the function of the item after the product is finished? If the item still serves a beneficial purpose, the item is a component part of the finished product.

Merely because an item acts as a catalyst during the manufacturing process does not necessarily mean that the item cannot become a component part of the finished product. For example, Annotation 440.2480 states:

“‘Accelerator P-198.’ While ‘Accelerator P-198’ is a catalyst, in that it influences a chemical reaction, it remains unchanged in the process and becomes an ingredient or component part of film remaining upon coated labels and therefore, is properly purchased by the manufacturer for resale. 1/3/57.”

In Annotation 440.2840 the Board’s staff concluded that Formula 19020-B Synthetic Resin Pain Hardener, which does not evaporate but causes paint to set and dry by the process of polymerization, becomes a component of the painted surface.

In the present case the hardeners described by [B] and [D] do not evaporate during the painting process, and it appears that they serve a beneficial purpose after the paint has been applied and dried. [D] states that its hardeners help the paint film retain gloss, prevent chipping, and in general improve the paint films durability and protective properties. [B] states that its hardeners produce gloss, color retention, and durability of the paint film. Thus, these hardeners become a component part of the final product and may be purchased by M--- P--- with a resale certificate.

If you have any questions, please call me.

EA:cl

cc: Ventura District Administrator