

M e m o r a n d u m**295.0020**

To: Los Angeles – Dist. Prin. Aud. (JTQ)

Oct. 12, 1967

From: Tax Counsel (GAT)

Your letter of September 27, 1967 has been referred to the undersigned for reply.

It is our understanding the “R” builds trailers and sells them to “A”, it wholly owned subsidiary. When a particular trailer is transferred, “R” makes out an invoice indicating an arbitrary selling price. This is a predetermined price and tax is reported thereon by “A”.

At the end of the fiscal year, “R” determines its actual, direct and indirect costs for producing the trailers plus an amount for profit, and charges “A” for the difference between the originally invoiced selling price and the actual price as redetermined. Thus, at year’s end, “R” makes an adjustment of the selling price of the trailers.

In our opinion, the adjusted selling price of the trailers including the additional charges for overhead, labor, material, and profit as redetermined by “R” and agreed to by “A”, is the taxable purchase price.

It is further our opinion that “A”, having elected to report tax on the purchase price of the trailers, may report tax on the correct amount and is not required to report tax measured by rental receipts.

GAT:smk