

M e m o r a n d u m**330.2484**

To: San Diego – Auditing (WAS)

Date: June 28, 1972

From: Tax Counsel (GLR) - Headquarters

Subject:

We understand from your memorandum of May 22, 1972 that --- --- --- sells and rents school band instruments. As a part of the lease contract, they will allow a lessee to purchase an instrument and deduct a maximum of six months' rental payments from the list price of the instrument.

For example, a student rents an instrument for \$30 a month plus \$1.50 use tax. At the end of eight months, the student decides to buy the instrument which has a list price of \$300 allowing for the maximum deduction of six months' rental payments, this would mean that the student would pay an additional \$120 to get title to the instrument (\$300 less \$180 rentals equals \$120).

Although you point out that under Regulation 1660 (c) (3) (D), if the instrument was the same one that the student had been renting tax would only be due measured by the \$120, you ask our opinion as to whether our answer would be different if the instrument purchased was not the one the student had been leasing. For example, the student was leasing piano A but purchased piano B.

It is our opinion that the tax consequences would be unchanged. What is happening is that the seller is allowing a discount or price adjustment to the selling price of the article and the amount required to be paid by the student is subject to tax, i.e., the \$120.

GLR:lb

cc: Mr. Robert Nunes
Mr. Jack Najarian
Mr. Dan Allen
Mr. T. P. Putnam
Mr. Gary J. Jugum