

**STATE BOARD OF EQUALIZATION**

May 21, 1970

Gentlemen:

Your letter of May 4 addressed to Mr. T. P. Putnam of this office has been referred to the undersigned for reply. You raise a question as to the application of our sales tax Regulation 1526 relating to producing and fabricating of property furnished by consumers.

We understand that as a part of its regular operations as a producer of crude oil, "G" purchases pipe and contracts with various service companies for its conversion into perforated liner. The perforated liner is installed in wells to allow oil from the surrounding areas to enter through the slots or perforations into well casing for pumping to the surface. Conversion of the purchased pipe into perforated liner consists merely of cutting slots or perforations in the blank pipe. As you recognize, this perforating or slotting of the blank pipe results in the creation or production of a new item of tangible personal property and as such the charges therefor are subject to tax.

Occasionally slotting liner, on which California sales tax has been paid, is pulled from a well and, upon inspection, it is found the slots are plugged. It is necessary to clear the plugged slots prior to reinstalling the liner in the well. Your experience with this problem has indicated that it is cheaper to cut new slots in the liner than it is to have the existing slots cleared. It is your practice to have the pulled liner reslotted at a moderate charge. You now raise a question as to the taxability of these reslotting charges under the California Sales Tax Law.

We are in agreement with your analysis that the reslotting of "G"'s used liner does not result in the creation or production of tangible personal property nor does it constitute a step in a process resulting in the creation of or production of tangible personal property within the meaning of these concepts as employed in Regulation 1526 so as to subject the reslotting charges to the tax. The property on which the reslotting work is performed is a used liner, both before and after the service is performed on it. Since there is no change in the liner as a result of the reslotting, there is no "creation or production of tangible personal property" the charge for which would be subject to sales tax. Rather, the reslotting of the used liner constitutes more a repair or reconditioning of tangible personal property to refit it for the use for which it was originally produced, the charge for which is exempt from tax.

Very truly yours,

Gary J. Jugum
Assistant Tax Counsel

GJJ:ab [lb]