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**STATE BOARD OF EQUALIZATION**

April 6, 1965

Gentlemen:

We have completed our review of your petition for redetermination of sales and use tax. This letter sets forth our conclusions and directions for further action to be taken on this matter.

Our review of representative copies of the specifications for the protested jobs discloses that the essential nature of the undertaking for which the protested receipts were received consisted of the complete outfitting of a new airplane with a custom interior of a very high quality and the addition of electrical and electronic equipment. While the customers had previously accepted delivery of the aircraft from a third party manufacturer they were not complete and ready for the functional use for which they were purchased until these additions were made.

It is our opinion that all activities required to be performed in order to accomplish the integration of the interiors and electrical and electronic equipment with the airframes should be regarded as gross receipts from sales of tangible personal property under the provisions of Section 6006(b) and (f) of the Revenue and Taxation Code and sales and use tax Ruling 15, copy enclosed. This would include charges for removal and revamping of the floor, rewiring and modification of existing customer provided equipment to integrate it with the custom interior.

We have concluded that with respect to these particular jobs labor charges for the removal and replacement of radio and electronic equipment and pilot seating with more sophisticated equipment should not be regarded as part of the cost of adding the new interiors. Accordingly, these labor charges will be excluded from the measure of tax. However, to the extent charges were included for modification or changes in the interior to receive these items the receipts will be regarded as part of the cost of adding the custom interior and included in the measure of tax.

Additionally, we have concluded the charges for preservation of aircraft equipment, compliance with airplane manufacturers service bulletins, and adjustment of existing equipment not required in order to complete the addition of the custom interior and equipment should be regarded as exempt service labor and excluded from the measure of tax.

Although exempt labor charges were not segregated in billing your customers it is our opinion that you are not precluded from making a segregation of these charges provided

they can be authenticated by your books and records. We recognize that the listing set forth in your memo was not intended to represent a complete listing of the type of work or service contended to be exempt. However, we believe that a reasonable segregation of these charges can now be made utilizing the basic principles enunciated above. A complete listing of these items including amounts and descriptions of work performed should be prepared for examination by the field staff.

A representative of the field staff will contact you in the near future to complete the reaudit examination. In the interim period if you have any questions regarding our conclusions, they may be directed to the undersigned.

Very truly yours,

W. E. Burkett  
Associate Tax Counsel

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