**Private Letter Ruling**

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| **Ruling Number:** | **P-2000-071** |

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| **Tax Type:** | **Kansas Retailers' Sales Tax** |
| **Brief Description:** | **Graphic arts business sales and purchases.** |
| **Keywords:** |  |
| **Approval Date:** | **12/20/2000** |

**Body:**

Office of Policy & Research  
  
  
December 20, 2000

XXXXXXXXXXX  
XXXXXXXXXXX  
XXXXXXXXXXX  
XXXXXXXXXXX  
  
Re: Sales Tax Private Letter Ruling Request  
  
Dear XXXXXX:  
  
You requested a private letter ruling regarding the sales tax treatment of certain purchases and sales made by XXXXXXXXXX. Your letter states as follows:

“We are a general graphic arts business. We purchase film, color art replenisher, color art negative proofing, image setting fixer and proof paper to use in the production of negatives, color art proofs. We are presently purchasing these products with sales tax added. Once a job is complete and it includes negatives (film), proofs or color art, these items are charged individually as a separate line item to our clients. Tax is calculated again on these items, at a higher base, unless our client is a resale customer, is out of state, or some other qualified exception. We are thus paying sales tax at inception when the materials are purchased and again when they have been processed and sold.  
  
“Since we are able to capture and separately bill for these production materials, it seems equitable that the sales tax need only be collected when sold to the final consumer. Please address this issue.”

In my further discussions with XXXXXXXXXX about the business, you stated that design or correction time on a project is shown and billed separately on the customer invoice at the applicable hourly rate, and sales tax is not billed or collected on that charge. The amounts separately billed for the negatives and color proofs include the cost of materials, chemicals used, labor and overhead costs in producing the negatives and color proofs, as well as a mark-up. Sales tax is billed for these items. You also stated that in general, approximately XX% of the billing for a typical project would be attributable to design or correction time and the rest would be attributable to the materials and labor in producing or processing the negatives and color proofs.  
  
Given the facts you have provided, when the project is to provide negatives and color proofs to the client, XXXXXXXXX should be billing, collecting, reporting and remitting sales tax on the total amount invoiced to its clients for the project, including the negatives, color proofs, materials, design or correction time, and any other items. K.S.A. 1999 Supp. 79-3603(a) imposes sales tax on sales in Kansas of tangible personal property. The negatives and color proofs that you sell to your clients are such tangible personal property, and in the Department’s view, the design and correction work and materials used would be part of that process. Thus, sales tax would be due on the full amount billed to the client.  
  
If XXXXXXXX’s client will be reselling as a retailer the negatives and color proofs that XXXXXXXX has sold to that client, then before the sale by XXXXXXXX to the client can be considered a sale for resale and not subject to sales tax, you will need to obtain a properly completed resale exemption certificate (showing that retailer’s Kansas sales tax registration number) from that client. A copy of such a resale exemption certificate is included in the Department’s booklet entitled *Kansas Exemption Certificates*, enclosed for your reference.  
  
XXXXXXXXX should be eligible to claim that its purchases of the materials you described in your letter (film and paper), which become part of or an ingredient of the finished negatives and color proofs sold to the client, are exempt from sales tax under the “ingredient or component parts” sales tax exemption, K.S.A. 1999 Supp. 79-3606(m). Also, XXXXXXXXX’s purchases of the chemicals used to process the negatives and color proofs would appear to qualify for the “consumed in production” sales tax exemption, K.S.A. 1999 Supp. 79-3606(n). XXXXXXXXXX would need to complete the appropriate exemption certificate (see the enclosed booklet) and provide it to the supplier at the time of purchase to claim the exemption.  
  
This private letter ruling is based solely on the facts provided in your request, and as described above. This private letter ruling will be revoked in the future by operation of law without further Department action if there is a change in the statutes, administrative regulations, or case law, or a published revenue ruling, that materially affects this private letter ruling.  
  
I trust this information is of assistance. If I can be of further service, please feel free to contact me.  
  
Sincerely,  
  
  
  
Richard L. Cram  
  
Encl.  
  
  
**Date Composed: 01/03/2001 Date Modified: 10/11/2001**