**Private Letter Ruling**

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| **Ruling Number:** | **P-2003-015** |

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| **Tax Type:** | **Kansas Retailers' Sales Tax** |
| **Brief Description:** | **Purchases of equipment or purchases of repair parts and services for such equipment.** |
| **Keywords:** |  |
| **Approval Date:** | **03/06/2003** |

**Body:**

Office of Policy & Research

March 6, 2003

XXXX
XXXX
XXXX

RE: Your e-mail dated January 13, 2003

Dear XXXX:

Thank you for your e-mail inquiry that we received in January. I apologize for the delay in this response. You ask if the integrated plant exemption applies to your business.

Your web site describes your business:

Since 1922, XXXX has been an industry leader, providing a variety of services to the business community. First established as a blueprinter servicing architects and engineers as well as producing oil field lease maps for the petroleum industry, XXX has evolved and grown into a full service resource for a wide variety of clients. Current services include: digital color imaging, diazo and plain paper reproduction, quick copying, mapping, cad plotting, mounting and laminating, as well as drafting, plotting and diazo supplies and equipment.

XXXXXX strives to be the first to be on the cutting edge of technology with our services. this has led us in recent years to be known as the leader in the industry.

Diazo refers to a type of photocopying process. Please be advised that your business does not qualify for exemption on purchases of its equipment or purchases of repair parts and services for such equipment. It is exempt on purchases of materials, ink, and other items that become part of the product that you provide to your customers.

Service businesses like yours that produce articles to the special order of customers are considered to be retailers under the law, rather than as industrial processors or manufacturers. Your business and other similar businesses, such as desk top publishers, copy businesses, drapery makers, custom tailors, customer boot makers, T-shirt printers, etc. do not operate an integrated production operation and do not qualify for exemption under K.S.A.79-3606(kk). These business do not operate what is "commonly regarded by the general public as an industrial production operation to manufacture, process, fabricate, finish, or assemble items for wholesale or retail distribution as part of what is commonly regarded by the general public as an industrial manufacturing or operation." *K.S.A. 79-3606(kk)(2)(D).* Typically, these business accept an order from a final consumer and reproduce items to fill the order. The statutes provides that "manufacturing or processing businesses do not include, by way of illustration by not of limitation, nonindustrial businesses that whose operation is primarily retail and that produce or process tangible personal property as an incidental part of conducting the retail business." *K.S.A. 79-3606(kk)(2)(D)(i).*

While you are not engaged in industrial manufacturing or processing, you do fabricate items to the custom order of your customers. As someone who fabricated items to a customer special order, you are required to collect sales tax on the total amount charged to your customers. You can claim the ingredient or component part exemption when you buy materials that become part of the tangible personal property that is transferred to your customers. As noted, this would include the materials, ink, and other items that become part of the product that you provide to your customers. Items that are exempt do not include cleaning supplies, oil, or other items that you use to maintain your equipment. Please note that when you buy taxable items from outside the state and no use tax is billed to you, you must accrue consumers' use tax on the cost of the item, which includes shipping.

When you ship your product to a Kansas address, the sale is subject to Kansas sales tax. The tax base includes the shipping charges that you bill to the customer. The local sales tax that should be charged are the local taxes in place at your place of business. These sales are taxable whether the order is place via the internet, mail, or telephone. They are taxable even though you bill an out-of-state customer for the in-state delivery.

Conversely, if you ship your product to an address outside Kansas, the charges are not subject to Kansas tax. These sales are exempt even though you bill an in-state customer for the out-of-state sale.

I hope that this answers your questions clearly. If you need to discuss this matter further, please call me at 785-295-3081. This is private letter ruling. It is based solely on the facts provided in your request. If it is determined that undisclosed facts were material or necessary to make an accurate determination by the department, this ruling is null and void. 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 ruling.

Sincerely,

Thomas E. Hatten
Attorney/Policy & Research

**Date Composed: 03/12/2003 Date Modified: 03/12/2003**