

ARIZONA DEPARTMENT OF REVENUE

ARIZONA TRANSACTION PRIVILEGE TAX RULING

TPR 94-2

This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona administrative procedure act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes § 41-1033 for a review of the statement.

(Note: On 10/9/2020 the statute references were updated to reflect their current numbers and footnotes were added. See footnotes for details. No substantive changes were made.)

ISSUE:

Taxation of persons engaged in the business of job printing, engraving, embossing and copying.

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 42-5066(A)¹ levies the transaction privilege tax on the business of job printing, engraving, embossing and copying.

A.R.S. § 42-5066(B)² provides the exemptions from transaction privilege tax as follows:

1. Sales to a person in this state who has a transaction privilege tax license issued in this state, and who does either of the following:

¹ This ruling originally cited A.R.S. § 42-1310.06.A which was renumbered as A.R.S. § 42-5066(A).

² This ruling originally cited A.R.S. § 42-1310.06.B which was renumbered as A.R.S. § 42-5066(B).

- (a) Resells the job printing, engraving, embossing or copying.
 - (b) Distributes such printing, engraving, embossing or copying without consideration in connection with the publication of a newspaper or magazine.
2. Sales of job printing, engraving, embossing and copying for use outside this state if the vendor ships or delivers the materials out of this state.
3. Sales of personal property to:
- (a) Qualifying hospitals as defined in § 42-5001³.
 - (b) A qualifying health care organization as defined in § 42-5001⁴ if the tangible personal property is used by the organization solely to provide health and medical related educational and charitable services.

A.R.S. § 42-5061(B)⁵ provides an exemption from the retail classification for machinery or equipment used directly in job printing.

A.R.S. § 42-5061(C)⁶ specifically states the exemption provided in subsection B does not include expendable materials.

DISCUSSION:

THE BUSINESS OF JOB PRINTING

³ This ruling originally cited A.R.S. § 42-1301 which was renumbered as A.R.S. § 42-5001.

⁴ See footnote number 3.

⁵ This ruling originally cited A.R.S. § 42-1310.01.B which was renumbered as A.R.S. § 42-5061(B).

⁶ This ruling originally cited A.R.S. § 42-1310.01.C which was renumbered as A.R.S. § 42-5061(C).

In general, the transaction privilege tax is levied on the gross proceeds from the business of job printing, engraving, embossing and copying. Unless specifically exempted by statute, all income derived from job printing, engraving, embossing and copying is subject to tax whether or not the paper and other materials are furnished by the consumer. The tax base for the job printing classification is the gross proceeds of sales or the gross income derived from the business without deduction on account of the cost of labor, materials or subcontract work.

Job printing activities include, but are not limited to, multigraphing, lithographing, photostating, multilithing, letterpress, offset or any other means of duplicating. The printing or reproduction of books, periodicals, magazines, stationery and any other printed matter which is copied or reproduced by printers is subject to tax under the job printing classification.

A full service printer may perform all functions necessary to produce printed matter including pre-press activities and binding or mailing activities. However, the full service printer may also accept printing orders for which pre-press activities have been performed by other vendors or by the ultimate consumer or for which binding and mailing services may be performed by another business.

A full service printer is subject to tax on the gross income from the business of job printing, without any deduction for pre-press activities or for binding and mailing activities regardless of whether those activities are performed by the printer or are passed through to the consumer as subcontract work performed by another person.

Vendor Sales to a Job Printer

The sale of tangible personal property to be used or consumed in the job printing process, which does not become an ingredient or component part of the final job printing order, is subject to tax under the retail classification when sold to the job printer. The sale of tangible personal property which becomes an ingredient or component part of the printed or reproduced item constitutes a sale for resale as part of the gross proceeds from the

business of job printing.

Sales by a Job Printer to the End Consumer

If the printer's customer obtains title to tangible personal property as part of the final job printing order, the original sale to the printer is exempt as a sale for resale.

Examples:

An outside firm contracts with a job printer to create and produce the film positive or negative from which the printing plate will be made. The job printer is the final consumer. The printer retains title and possession of the film positive or negative for subsequent use in other projects. The sale to the job printer is subject to tax under the retail classification.

Same facts as above except the title to the film positive or negative is transferred to the end consumer as part of the production of the printed material. The job printer will store the film positive or negative for the customer but the customer may take possession of the tangible personal property (the film) at any time. The sale of the item to the printer is exempt from tax under the retail classification. The transfer of the film positive or negative to the final consumer as part of the printing process is subject to tax under the job printing classification.

OTHER RELATED ACTIVITIES

Sales of materials and supplies such as pens, tools or paper upon which no printing, embossing, engraving or copying has been performed are subject to tax under the retail classification.

Examples:

Ink is purchased by a job printer for use in producing the final printed product. The ink becomes a component part of the

printed material. The original sale of the ink to the printer is an exempt sale for resale. The ultimate sale of the printed matter is subject to tax under the job printing classification whether or not the ink is shown as a separate item on the invoice and records of the job printer.

A job printer carries a supply of specialized inks for sale to the general public. The printer does not use the inks in the job printing process, but rather displays them for sale. The sale of these inks to the final consumer is subject to tax under the retail classification.

EXEMPTION FOR MACHINERY OR EQUIPMENT

A.R.S. § 42-5061(B)(1)⁷ provides an exemption from transaction privilege tax under the retail classification for the sale of machinery or equipment used directly in the job printing operation. The phrase "[m]achinery or equipment used directly in ... job printing ..." refers to all machinery or equipment which is used directly in the entire job printing process including pre-press and post-press activities. Machinery or equipment used to maintain equipment used in the production of printed matter, as well as machinery or equipment used in ancillary functions associated with the job printing process, are not exempt as machinery or equipment used directly. Additionally, hand tools, such as stripping knives, do not qualify as machinery or equipment.

A.R.S. § 42-5061(C)⁸ specifically excludes sales of expendable materials from the exemption under subsection B. Therefore, the sale of items such as masking paper used to mount negatives for plates, chemicals, alcohol, film used or consumed in the production of the plate and cleaning solutions are subject to tax.

RULING:

Gross receipts derived from the business of job printing, engraving, embossing and copying are subject to the tax unless such items are sold to

⁷ This ruling originally cited A.R.S. § 42-1310.01.B.1 which was renumbered as A.R.S. § 42-5061(B)(1).

⁸ This ruling originally cited A.R.S. § 42-1310.01.C which was renumbered as A.R.S. § 42-5061(C).

a person in this state who has a transaction privilege tax license and resells such items or distributes them in connection with the publication of a newspaper or magazine.

The business of job printing includes pre-press composition activities such as typesetting, stripping, graphic artwork, color separation, and layout as well as post-press activities such as binding and mailing.

An Arizona printer is exempt from tax on printed matter which is shipped or delivered outside Arizona for use outside Arizona. See Arizona Administrative Code (A.A.C.) rule R15-5-1109⁹ Interstate and Foreign Transactions.

Sales of materials and supplies such as pens, tools or paper upon which no printing, embossing, engraving or copying has been performed are subject to tax under the retail classification.

Machinery or equipment used directly in the job printing process, including pre-press and binding activities is not subject to tax under the retail classification when purchased. However, expendable materials and supplies are taxable under the retail classification.

Harold Scott, Director
Signed March 2, 1994

Explanatory Notice

The purpose of a tax ruling is to provide interpretive guidance to the general public and to department personnel. A tax ruling is intended to encompass issues of law which are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement which provides interpretation, details or supplementary information concerning the application of the law. **Relevant statute, case law, or administrative rules, as well as a subsequent ruling, may modify or negate any or all of the provisions of any tax ruling.** See GTP 92-1 for more detailed information regarding documents issued by the Department of Revenue.

⁹ A.A.C. R15-5-1109 was rescinded in 2006 because it was repetitive of the A.R.S. § 42-5066.