



STATE BOARD OF EQUALIZATION

PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0001
TELEPHONE (916) 445-6450

May 27, 1993

Ms. M--- M---
M--- M--- D---
XXXX --- ---
--- ---, CA XXXXX

SR -- XX-XXXXXX

Dear Ms. M---:

Your October 31, 1992 letter to the State Board of Equalization has been referred to the legal staff for reply. You explained that you have begun producing designs by using a computer; accordingly, you are no longer producing rough comprehensives for client approval. You asked whether the State Board of Equalization has come up with a method for dealing with the problem of identifying nontaxable charges for preliminary art which is produced by a designer using a computer.

You may continue to consider the charges for preliminary art as nontaxable provided you continue to follow the criteria of Sales and Use Tax Regulation 1540 at subdivision (b)(4)(A). In accordance with the regulation, you must retain purchase orders, work orders, or other similar proof of the client's ordering or your producing the preliminary art prior to the date of your contract for the client's approval for the finished art. Also, the charge for the preliminary art must be separately stated from the charge for the finished art and clearly identified as preliminary art on your billing. Since you prepare the art using a computer, you must produce a hard copy of each of the roughs, visualizations, layouts or comprehensives you present for the client's approval and retain the copies for audit purposes in accordance with Sales and Use Tax Regulation 1698. Your method for determining the charge for nontaxable preliminary art should continue to be the same as before you began using the computer.

We hope this answers your questions; however, if you need further information, feel free to write again.

Very truly yours,

Ronald L. Dick
Senior Tax Counsel

RLD:sr

cc: Mr. Glenn A. Bystrom - MIC:49