



STATE BOARD OF EQUALIZATION

June 1, 1965

Gentlemen:

This is to inform you of our position with respect to your petition for redetermination of sales tax. We are recommending that the deficiency be redetermined to reflect the application of tax outlined below.

The second paragraph of Ruling 24, copy enclosed, provides:

"Tax applies to charges for services in connection with the sale of printed matter, such as die cutting, embossing, folding, and other binding operations "

We believe collating service as performed by you at times falls within this paragraph. When you collate printed matter as a part of a printing and binding operation it is a sale within the meaning of the Sales and Use Tax Law, and if the sale is a retail sale and not a sale for resale, it is subject to sales tax. Where you perform this function for printers who sell the printed materials, the sale is for resale and you should obtain a resale certificate to show the sale was not taxable.

At the hearing you stated you also did collating for advertisers prior to mailing advertising material. In this situation, tax may not apply to the collating services. If the collating is to place pages of a catalog or similar printed booklet in numerical order, collating forms a part of the manufacture of the end product and is subject to tax under the paragraph of Ruling 24 quoted above.

However, where it forms a part of a mailing service not resulting in an end product, it does not result in a taxable transaction. In this regard, the third paragraph of Ruling 24 provides:

"Tax does not apply to additional charges for postage, or for addressing, enclosing, sealing, preparing for mailing, or mailing letters or other printed matters, provided such charges are stated separately on invoices and in the accounting records."

When your collating services form a part of a mailing service which does not result in an end product, they are not a sale within the meaning of the Sales and Use Tax Law; it is the sale of a service rather than a sale of tangible personal property. Accordingly, tax does not apply whether the sale is at retail or for resale. An example of a nontaxable transaction is where an advertiser desires the mailing of one or two advertising folders

with a cover letter, a reply card and a return envelope. Collating these diverse elements does not result in an end product but merely facilitates placing them in envelopes. The fact that staples are used to hold these items together is immaterial because stapling in this case is not a part of a binding operation.

At the hearing you also inquired whether folding letters was taxable. Folding letters also falls within the third paragraph of Ruling 24. It is a service not subject to the Sales and Use Tax Law. However, folding of other printed matter may be part of the manufacture of an end item of tangible personal property in which case it is taxable if it occurs at retail.

You stated at the preliminary hearing that you objected to the test method used by our auditors in determining the amount of the deficiency. We believe the tax method was justified in your audit because the amount in question was small and because the test method could be expected to give reasonably accurate results. However, if you wish to present our auditors with your computation of the actual sales figures, we will recommend that such figures, after they have been verified, be used as a basis of the deficiency rather than the figures developed by test. If you have any further questions, please feel free to call upon us.

Very truly yours,

John H. Knowles
Associate Tax Counsel

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