

**STATE BOARD OF EQUALIZATION**

916-445-6450

January 25, 1984

Dear Mr. X-----,

This is in reply to your November 14, 1983 letter to James Delaney regarding the application of sales tax to sales of printing under the following facts you provided:

- "1. The contract between X----- and our customer specifically assigns a sales value to:
 - (a) Typesetting
 - (b) Printing including film preparation and plates.
- 2. We produce only the typesetting portion in our facilities and sub-contract the printing portion which is purchased by us for resale.
- 3. We invoice the typesetting separately from the printing, charging sales tax only in the printing portion that was purchased for resale.
- 4. The customer retains the right to cancel the contract after delivery of typesetting by paying only for typesetting."

"You explained that X----- is a typesetter with no printing equipment. However, you occasionally purchase printing for resale as a convenience to your customers.

We agree with the conclusions of Senior Tax Auditor Steve Foti that tax applies to your separate charges for typesetting when the customer, in fact, purchases printing from you. In this regard, Sales and Use Tax Regulation 1541, Printing and Related Arts, provides at subdivision (f) (6) :

"TYPOGRAPHY SERVICE A PART OF THE SALE OF PRINTED MATTER. Printers may not deduct from the gross receipts of their sales of printed matter charges related to their typography work or the cost of typography to them. Receipts attributable to such costs are includable in the measure of tax."

Of course, tax does not apply to the charge for typography when your customer exercises his right to cancel the contract after delivery of typesetting by paying only for typesetting. However, when the customer does, in fact, purchase the printing, the cost of typography is necessarily included in the gross receipts of the sale of the printing.

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

Very truly yours,

R. L. Dick
Tax Counsel

RLD:jw