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PRIVATE TAXPAYER RULING LR03-004

May 9, 2003

This private taxpayer ruling is in response to your letter of November 27, 2002, as updated on January 14, 2003. You request the Department to rule on behalf of your client . . . ("Client"), that certain chemicals—to wit, developers, fixers, and finishers—used in the printing activities of Client are exempt from Arizona transaction privilege tax and use tax as chemicals used in manufacturing.

The following are facts as presented in your November 27 letter:

FACTS

Client is a . . . publisher located in The . . . publishing process includes the creation of an electronic version of the . . . layout, which includes the articles, advertising, photographs and graphics that will appear in the printed [product]. The completed electronic layout, which is created using computers and specialized software, is transferred to a device that utilizes laser technology and a combination of chemicals to produce a negative for each page of the . . . layout. A negative is defined as a film, plate or other photographic material that contains an image in which the light areas of the object rendered (e.g., the . . . layout) appear dark and the dark areas appear light. *The American Heritage Dictionary of the English Language, Fourth Edition*, Houghton Mifflin Company, 2000. In fact, four separate negatives are created for pages of the . . . layout requiring color, one for each of the four primary colors of ink that are combined during printing to produce color photographs and graphics in the printed [product].

To prepare a negative, film is first exposed to the . . . layout using precision-controlled laser beams, and then it is immersed in two separate chemicals. The first chemical is called a **developer**. Through a chemical process, the **developer** causes a negative image of the . . . layout to appear on the film following its exposure. The second chemical is referred to as a **fixer**. Through a chemical process, the **fixer** stops the developing process, thus

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preventing the negative from becoming over developed. Once the negative is produced, it is utilized to prepare large, flexible printing plates used in the actual printing of the [product].

To prepare a printing plate, the negative of the . . . layout is placed against the plate and an ultraviolet light is passed through the negative. The plate contains a soft material coating that hardens wherever it is exposed to the ultraviolet light. Next, a chemical also referred to as a **developer** is sprayed on the plate. Through a chemical process, the **developer** enables the removal of any material from the plate that was not exposed to the ultraviolet light. This process results in a precise image of the . . . layout etched in the plate's coating. In the final step of this process, a chemical referred to as a **finisher** is applied to the plate to prevent it from oxidizing or corroding. The plate is then attached to a printing press, and ink is transferred from the plate to [paper] through an offset printing process.

Your Position

Chemicals used in the preparation of negatives and printing plates involve direct contact with and cause or permit a chemical or physical change to occur in the materials from which Client's [products] are printed. Therefore, sales of these chemicals qualify for exemptions from Arizona use tax pursuant to the exemption provided by A.R.S. § 42-5159(A)(35).

Conclusion and Ruling

The chemicals exemption in A.R.S. § 42-5159(A)(35) is available for chemicals that, inter alia, come in "direct contact with the materials from which the product is produced." In the case of printing, the product that is produced is the finished product generated by the commercial printing operation when viewed in its entirety. The materials from which the materials are produced are the materials that are part of the finished product upon completion of the commercial printing process. These are the materials with which exempt chemicals must come in direct contact.

Pursuant to these conclusions, the following ruling is given based on the facts presented in your request.

The Department rules that purchases of the aforementioned chemicals used in the preparation of negatives and printing plates for use in the printing of [products] published by Client fall outside the scope of the exemption found in A.R.S. § 42-5159(A)(35) and are thus subject to Arizona use tax. The finished product in this instance is Client's [product]. The materials from which the [product] is produced are [paper] and ink. None of the chemicals—film developer, fixer, plate developer, and plate finisher—come in direct contact with [paper] or ink.

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The conclusion of this private taxpayer ruling does not extend beyond the facts presented in your letters dated November 27, 2002 and January 14, 2003.

This response is a private taxpayer ruling and the determination herein is based solely on the facts provided in your request. The determinations are subject to change should the facts prove to be different on audit. If it is determined that undisclosed facts were substantial or material to the Department's making of an accurate determination, this taxpayer ruling shall be null and void. Further, the determination is subject to future change depending on changes in statutes, administrative rules, case law, or notification of a different Department position.

The determinations in this private taxpayer ruling are only applicable to the taxpayer requesting the ruling and may not be relied upon, cited, nor introduced into evidence in any proceeding by a taxpayer other than the taxpayer who has received the private taxpayer ruling.