

Cite as Det. No. 92-352, 12 WTD 509 (1992).

BEFORE THE INTERPRETATION AND APPEALS DIVISION  
DEPARTMENT OF REVENUE  
STATE OF WASHINGTON

In the Matter of the Petition	)	<u>D</u> <u>E</u> <u>T</u> <u>E</u> <u>R</u> <u>M</u> <u>I</u> <u>N</u> <u>A</u> <u>T</u> <u>I</u> <u>O</u> <u>N</u>
for Correction of Assessment	)	
of	)	No. 92-352
	)	
. . .	)	Registration No. . . .
	)	. . ./Audit No. . . .
	)	

[1] RULE 134: MFG TAX -- USE AND/OR DEFERRED SALES TAX -- MANUFACTURING FOR OWN USE -- INTERMEDIATE STEPS -- SILK-SCREENING. The creation of silk-screens by a sign maker was found to be an intermediate step in the printing process. Therefore, manufacturing B&O tax was not due on the value of the screens and use and/or deferred sales tax was due only on the materials consumed.

Headnotes are provided as a convenience for the reader and are not in any way a part of the decision or in any way to be used in construing or interpreting this Determination.

TAXPAYER REPRESENTED BY: . . .

DATE OF HEARING: . . .

NATURE OF ACTION:

The taxpayer protests the imposition of additional manufacturing B&O tax, use tax and interest assessed on the value of silk-screens used to print signs.

FACTS:

Okimoto, A.L.J. -- [Taxpayer] operates a sign making business in . . . , Washington. The taxpayer's books and records were examined by a Department of Revenue (Department) auditor for the period January 1, 1987 through March 31, 1991. An audit resulted in additional taxes and interest owing in the amount of \$ . . . and Doc. No. . . . was issued in that amount [in November 1991]. The taxpayer has protested the entire assessment and it remains due.

During the hearing, the taxpayer explained the silk-screening process of a typical sign as follows.

- 1) A client, usually a city, will place an order for fifty signs.
- 2) Taxpayer's employee will design and draw the sign on his computer.
- 3) The computer will cut out a legend of the sign in either a positive or negative image.
- 4) This image is then placed on top of a glass light table.
- 5) A wood frame coated with a silk-screen emulsion is then placed on top of the image. The air is withdrawn to make it airtight against the image.
- 6) The emulsion is exposed to light for 5 to 10 minutes.
- 7) The silk-screen is then washed out with hot water, leaving the image on the silk-screen.
- 8) The screen is placed on top of the sign material.
- 9) Ink is poured into one side of the screen and pushed through the open areas with a squeegee. This results in an imprinted image on aluminum sign material.

#### TAXPAYER'S EXCEPTIONS:

Schedules II & III: Mfg B&O and Use Tax on the Manufacture of Screens for Industrial Use.

In these schedules the auditor assessed manufacturing B&O tax and use tax on the value of screens manufactured for industrial use. The auditor computed the value based on the total costs including labor and overhead that was accrued by the taxpayer in its books and records. The taxpayer does not dispute any use tax assessed on the value of materials used in the silk-screening process.

The taxpayer argues that the preparation of the silk-screen is simply a step in the sign manufacturing process. The taxpayer contends that it is not a separate taxable activity. The taxpayer explains that although the screens can be used again, approximately 70% of the time the screens are simply washed out once the signs have been printed. Furthermore, the taxpayer states that the screens wear out quickly and have little lasting durability.

ISSUE:

Is manufacturing B&O tax and use tax due on the value of silk-screens created to imprint signs on aluminum material?

#### DISCUSSION:

Although the auditor distinguished the taxpayer's activity from the printing industry, we find no such distinction. The taxpayer's activity of silk-screening is simply one of the processes used to print or imprint an image on a tangible medium. In this case the image is imprinted upon aluminum or other reflective sheeting instead of paper. However, the activity being performed is essentially the same. Accordingly, we believe that the rules governing the taxability of the printing industry apply equally well to the taxpayer's silk-screening activity.

In applying these rules, we first note that the taxpayer's activity of making silk-screens is merely an intermediate step in the overall silk-screening or printing process. In the past the Department has addressed the issue of the taxability of intermediate steps in the printing process through the issuance of several Excise Tax Bulletins (ETB). ETB 417.12.144 (ETB 417) is the most recent pronouncement on this issue and states:

Printers are often required to produce a series of consumable items for use as intermediate steps in the production of the final print job or publication. Some examples are electronic tapes, layouts, proofs, litho negatives, type in galley or assembled form, and plates or engravings . . . .

After consulting with printing industry representatives and reviewing the business operations of commercial printers, the Department has re-evaluated its previous position. The Department has determined that when a printer produces these articles as intermediate steps in the production of a final printing job, the printer is engaging in a professional and/or artistic type of service. The articles produced are merely tangible evidence of in-house services necessary in the production of finished printed products sold to customers.

(Emphasis ours.)

ETB 417 states that when printers produce intermediate steps in the printing process, they are performing professional or artistic type services and the articles produced are merely the tangible evidence of those services. Since the taxpayer is performing an artistic type service by creating the silk-screen, it does not constitute a separate taxable manufacturing activity.

Therefore, the value of the silk-screens being produced are not subject to manufacturing B&O tax. The taxpayer owes use and/or deferred sales tax only on the materials used in the process. Accordingly, the taxpayer's petition is granted on this issue.

DECISION AND DISPOSITION:

The taxpayer's petition is granted.

DATED this 9th day of December 1992.