

STB 28 - How it affects the graphic arts industry

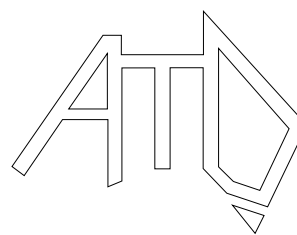
Sales Tax Bulletin

Number 28

How it affects the graphic arts industry

Valid from 1 January 1997

Australian
Taxation
Office



Withholding and Indirect Taxes

About this bulletin

This bulletin explains how the sales tax laws affect people in business in the graphic arts industry. It is a public ruling for the purposes of section 77 of the *Sales Tax Assessment Act 1992* and may be relied upon by any person to whom it applies. It replaces any previous private or public rulings, if they are inconsistent with the bulletin, and is current as at 1 January 1997.

The term *graphic artist* in this bulletin includes a graphic designer and a desktop publisher.

If, after reading this bulletin, you need more information on how the sales tax laws affect you, contact your local Tax Office on **13 28 66** for the cost of a local call.

Can I register for sales tax?

You may register for sales tax if you do either of the following in the course of a business:

- manufacture printed matter or hard copies of final artwork or bromides for use in the production of printed matter; or
- edit or format text or images so as to bring them into the final form necessary for the production of printing plates or similar goods, or printed matter.

If you believe you have grounds for being registered please contact your local Tax Office on **13 28 66** and ask for an application form.

What happens if I register?

Once registered, you may quote your sales tax registration number to your supplier and buy free of sales tax certain materials and equipment that you use in your manufacturing and editing or formatting activities. For information on how to quote you should refer to Bulletin No. 13 titled *Sales Tax - Buying goods free of sales tax*. In this bulletin, we will refer to a graphic artist who is registered for sales tax as a registered graphic artist.

What happens if I don't register?

Registration is not compulsory. If you are entitled to register but choose not to do so, you will not be able to buy your materials and equipment free of sales tax. However, you may be entitled to a refund at a later stage.

Can I buy goods free of sales tax?

Whether you may buy goods or equipment free of sales tax depends on:

- whether you are registered for sales tax; and
- how you will use the goods or equipment.

What does '*mainly*' mean?

You will note while reading this bulletin that exemption may apply to goods used *mainly* in certain activities. In the sales tax legislation *mainly* means more than 50%.

Manufacturing Activities

Where you produce printed matter or hard copies of final artwork or bromides to be used in producing printed matter, you are a manufacturer of these goods and you are entitled to register for sales tax purposes.

As a registered manufacturer you are entitled to buy materials to produce those goods free of sales tax by quoting your sales tax registration number. The exemption will also apply to any equipment used *mainly* in production activities.

However, the preparation of roughs, mock-ups or presentations of rough concepts or draft designs for clients does not involve the manufacture of goods. You are not entitled to claim exemption on materials used in this preliminary work.

If you produce printed matter such as posters and advertising material for your clients or yourself using an inkjet, digital or other printing machine, you may have a liability to pay sales tax. For more information refer to Bulletin No. 6 titled *Sales Tax - How it affects the printing industry*.

The following examples will help you understand how the exemption for goods used in manufacturing activities applies.

Example 1: A registered graphic artist uses brushes *mainly* in the preparation of roughs or draft work. This is not a manufacturing process. The brushes do not qualify for exemption. On the other hand, brushes for use *mainly* in the production of final artwork, as distinct from roughs and other draft work, may be bought free of sales tax by quoting a sales tax registration number.

Example 2: An unregistered graphic artist buys brushes for use *mainly* in the production of final artwork as distinct from roughs and other draft work. The graphic artist is not registered and is therefore unable to buy the brushes free of sales tax. Once the artwork is sold or used a refund of the tax paid on the brushes is allowable.

Example 3: A registered graphic artist buys a printer *mainly* to produce final artwork or printed matter comprising text and images created by him. As the printer is used by the graphic artist *mainly* in production activities it can be bought free of sales tax by quoting a sales tax registration number.

Example 4: A registered graphic artist produces final artwork for clients in electronic form, either on disk or down loaded by means of a modem. As this activity does not involve manufacture exemption is not available on the disks or the modem.

Editing and formatting activities

You may also register for sales tax if you carry out editing and formatting of text or images, for the purpose of bringing them into a final form necessary to make a bromide or printing plate, or to allow the generation of electronic instructions for a printing machine. This ground for registration is available where you provide the final artwork in an electronic form, either on disk or via a modem.

Once registered, you can buy computer equipment including CPU, monitor, keyboard, mouse and scanner for use *mainly* in these editing or formatting activities tax free by quoting your sales tax registration number to your supplier.

The exemption however does not apply to goods used as *author/secretary equipment*.

What is author/secretary equipment?

Author/secretary equipment refers to those goods used by a person *mainly* in editing and formatting text or images which that person has created. The 'person' is the individual who does the editing and formatting and not the legal entity contracted to do the work. Therefore the exclusion for *author/secretary equipment* will not apply to a computer used by you *mainly* in editing and formatting text or images created by someone else in your organisation.

Who is the author of text or images?

The author of text or images is the creator or originator of the text or images. The author and the copyright owner are not necessarily the same person. For example, where you design a company logo for a client you would probably pass copyright in the logo to the client. This passing of copyright does not alter the fact that you are the author of the logo.

If it can be established that your client is the author of the text or images, any equipment you use in editing or formatting that text or images would not be excluded from exemption as *author/secretary equipment*. However, for a client to be regarded as the author of text or images they must supply more than merely ideas or verbal instructions. Rough designs of images or the text of manuscripts supplied by a client in hard copy or electronic form may assist in demonstrating that the client, rather than you, is the author.

A client may provide you with text or images which you alter to the extent that the finished text or images bears little or no resemblance to the original. In this situation you have not merely edited or formatted someone else's text or images, but have created new text or images which may incorporate none of the original design or such a small amount as to be insignificant. Computer equipment used by you *mainly* in this activity is *author/secretary equipment* because the activity is carried out in relation to text or images you have created. Sales tax exemption therefore does not apply to the computer equipment.

The following examples will help you understand how the exemption for goods used in editing and formatting activities applies.

Example 5: A registered graphic artist designing company logos is creating original images. This will be the case even where clients provide guidelines as to the type of logo they require. A computer used for this design work is used *mainly* for creation purposes and exemption will not apply.

Example 6: A computer is used by a registered desktop publisher to prepare a magazine for publication. It is used to write editorials and occasional articles as well as to edit and format the pages of the magazine. Provided the computer is used *mainly* in editing or formatting text or images contributed by other persons it may be bought free of sales tax by the desktop publisher quoting their sales tax registration number.

- Example 7: If a registered graphic artist is refining an image created by another person by manipulation of size, colour, placement, etc. they are editing and formatting another person's design. They may buy a computer for use *mainly* in this activity free of sales tax by quoting their sales tax registration number.
- Example 8: A registered graphic artist receives text and images from a client which they then format so as to design a letterhead, business card, label, front cover, etc. As the graphic artist is engaged in the layout or formatting of text or images which they have not created, they may buy equipment used *mainly* in this activity free of sales tax by quoting their sales tax registration number.
- Example 9: A client requires a registered graphic artist to alter an existing press advertisement by specifying alterations, e.g., particular words to appear in a different type face or certain content to be given greater prominence. The graphic artist is not creating text or images but merely editing and formatting. Equipment for use *mainly* in this activity may be bought free of sales tax by the graphic artist quoting their sales tax registration number.
- Example 10: A client has written the text of a publication and supplied it on a disk to a graphic artist whose task is to prepare it for the printer, i.e., to proof read it and design the layout including font size, font type, borders, chapter headings, etc. As the graphic artist is editing and formatting text created by someone else they may quote their sales tax registration number when buying equipment for use *mainly* for this purpose.
- Example 11: A computer is used by one employee to create text and another employee in the company uses the same computer to edit and format that text. The main use of the computer is in the editing and formatting activity. The computer is not *author/secretary equipment* because the person editing the text is not the author of that text. The computer qualifies for exemption.
- Example 12: A registered graphic artist, in the course of editing and formatting text and images they have not created, may produce proofs or visuals from a laser or other printer to monitor the progress of the job. The printer and paper for use *mainly* in this activity may be bought free of sales tax by the graphic artist quoting their sales tax registration number.

What can't I buy free of sales tax?

There is a range of goods which do not qualify for exemption. You should not quote your sales tax registration number when buying these goods. They include:

- *Author/secretary equipment* (see page 3);
- Goods used in connection with domestic or staff amenities;
- Goods used in connection with administration;
- Fax machines used to communicate ideas with your clients or to receive instructions; and
- Disks or modems.

Where you also arrange the printing of taxable printed matter by an outside printer you should not quote your sales tax registration number, unless you are going to resell the printed matter:

- by wholesale, i.e., to a broker or reseller; or
- to someone who has quoted their sales tax registration number or an exemption declaration.

Do I have to lodge sales tax returns?

Where you manufacture taxable printed matter or hard copies of final artwork or bromides for sale to persons who do not quote sales tax numbers or exemption declarations you are required to charge sales tax and lodge returns. If you sell exclusively under quote you will not be required to lodge any returns.

If you are a registered graphic artist who edits and formats text and images in electronic form (i.e., you provide information on disk or via modem) you have no sales tax liability and do not need to lodge sales tax returns.

Small business exemption

There is a small business exemption for people who have only a small annual sales tax liability. If you qualify for this exemption you pay sales tax when buying your raw materials and equipment, but you don't have to charge sales tax on the goods you sell. To be eligible for the small business exemption you must:

- have been liable for \$10,000 or less sales tax during the last 12 months;
- expect to be liable for \$10,000 or less sales tax during the next 12 months; and
- have paid sales tax on all raw materials and equipment used in making your taxable products.

Do you need more information?

If you have any questions or need more information about how sales tax applies to you, please contact your local Tax Office:

- **by phone** on our national enquiry number **13 28 66**. You can ring this number from anywhere in Australia for the cost of a local call; or
- **in person** by visiting the enquiry counter at your local Tax Office. Addresses for your local Tax Office are listed in TaxPack, as well as in the White Pages telephone directory¹.

¹ Produced by the Withholding and Indirect Taxes Program of the Australian Taxation Office.