

City and County of Denver, Colorado

TAX GUIDE

Topic No. 88

GRAPHIC DESIGN AND COMPOSITION

The trade of typesetting has evolved from setting metal type to creating graphics using computer equipment. Today's services may include a wide range of graphic production such as halftones, typesetting, desktop publishing products and other labor-intensive products manufactured by graphic designers.

When tangible personal property is produced for sale, the taxable price includes the entire cost of labor or services. Also included in the taxable base of the sale-of-property transaction would be: minimum charges, rush charges, delivery or transportation charges, and service charges that involve elements or components of the product including such charges as for pre-press preparation, even if separately stated on the invoice.

Pure time charges for personal services, if not a component element of the charge for the product and if separately stated on the invoice, is not subject to tax. Such charges could include proofreading and file preparation.

Many of the products sold by graphic designers could fall under the category of pre-press preparation material, which, if certain conditions are met, may be exempt from sales/use tax. In order for the pre-press transaction to qualify for the exemption, the sale of pre-press materials must be directly related to the final printed product upon which sales tax will be collected. Pre-press materials sold to a purchaser for the purchaser's own use, are subject to tax. Such purchasers could include advertising agencies or retailers who might produce or purchase pre-press materials for their own advertising publications.

TAX TO BE PAID BY THE GRAPHIC DESIGNER

Materials and supplies used or consumed in the process cannot be purchased tax-free for resale and are subject to sales/use tax to be paid by the graphic designer to the vendor or as consumer's use tax.

EXAMPLE

Nuco, a new company, engages One-stop Graphics to help design and produce its self-promotion brochure. Nuco has submitted several pages of copy for the brochure and has some ideas regarding the design and photos (or illustrations) for the piece.

Mary, a One-stop employee, is assigned to the Nuco brochure. After meeting with her client and learning their wishes for the brochure, Mary begins to work on the piece. First, she opens the client's disk to review the copy that has been submitted, then she proofreads and edits the copy where necessary. This service is billed separately at an hourly rate.

Mary then enters the text into the appropriate software application, and works in the accompanying design elements. The client approves the body of the brochure, but decides that a unique illustration of the product should be made for the cover. Mary, the client, and One-Stop's illustrator discuss the concept. The illustrator makes several composites and submits them to

Nuco for approval. The illustrator's work is also billed separately at an hourly rate. Mary then incorporates the illustration the client selects into the cover of the brochure; the charge for this is also billed separately at an hourly rate. The completed design is provided to Nuco on a computer disk that their printer will use to produce the finished brochures.

In the above example, all of the charges to Nuco are for labor billed on an hourly basis, and are not an element of tangible personal property transferred to the customer. As a result, no Denver sales tax would be due for the above labor charges.

If One-Stop also provided film outputs or composites to Nuco, sales tax should be charged on the total charges related to the tangible personal property sold, provided that the charges for labor are separately stated on the invoice. In the event that the charges are not segregated, sales tax should be charged on the entire invoice.

One-Stop should have paid sales tax on any supplies (software, disks, illustration materials, etc.) used to produce the design for Nuco. If no sales tax was paid to the vendor by One-Stop at the time of purchase, use tax should be remitted on their sales/use tax return.

RELATED TAX GUIDE TOPICS

Advertising Agencies
Printing Industry
Use Tax

- * DRMC Section 53-24(19) Definitions – Prepress Preparation Material - Sales
- * DRMC Section 53-24(21) Purchase Price - Sales
- * DRMC Section 53-24(26) Retail Sale - Sales
- * DRMC Section 53-24(40) Wholesale Sale - Sales
- * DRMC Section 53-25(1) Imposition of Tax - Sales
- * DRMC Section 53-26(17) Exemptions - Prepress Preparation Material - Sales
- * DRMC Section 53-95(22) Definitions - Prepress Preparation Material - Use
- * DRMC Section 53-95(24) Purchase Price - Use
- * DRMC Section 53-95(30) Retail Sale - Use
- * DRMC Section 53-95(31) Retailer - Use
- * DRMC Section 53-95(46) Wholesale Sale - Use
- * DRMC Section 53-96(1) Imposition of Tax - Use
- * DRMC Section 53-97(18) Exemptions - Prepress Preparation Material - Use

THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT DENVER TAX LAW FOR THIS INDUSTRY OR BUSINESS SEGMENT. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE DRMC AND APPLICABLE RULES AND REGULATIONS.

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