GRAPHIC ARTS MACHINERY AND EQUIPMENT EXEMPTION

Overview of Exemption

Briefly, any machinery and equipment, including repair and replacement parts that are used more than 50% of the time in graphic arts production will qualify as exempt M&E, including equipment used to directly produce typesetting, negatives and plates, printing presses, collators, binding and finishing equipment, rollers, blankets, blanket bar kits, multi-use printing plates, dies, numbering machines, image setters, scanners, and computer equipment that directly interfaces with the film or plate-making equipment.

Photocopy machines used in production (DocuTech, Océ, etc.) are considered graphic arts production equipment and not subject to sales tax. The exemption was expanded again and encompasses practically any piece of machinery or equipment used in production, including shrink wrap machines, labeling machines and laser printers.

Chemicals that act as catalysts on the product are also exempt from sales tax (and thus earn MPC). This expansion of the exemption includes the chemistry used in developing plates and film.

WHAT IS "PRODUCTION-RELATED TANGIBLE PERSONAL PROPERTY"?

All tangible personal property used or consumed by a graphic arts facility where graphic arts production takes place, including tangible personal property purchased for incorporation into real estate within a graphic arts facility and including, but not limited to, all tangible personal property used or consumed in activities such as graphic arts preliminary or pre-press production, pre-production material handling, receiving, quality control, inventory control, storage, staging, sorting, labeling, mailing, tying, wrapping, and packaging. Examples of covered items include: fork lift trucks, inventory shelving, pre-press computer equipment (not otherwise subject to the M&E exemption), press tables, light tables, ink totes and ink pumps (also not otherwise exempt).

Production-related items should also include consumables and safety equipment such as film, rags, solvents, fountain solutions, fixatives, safety goggles, and hand tools. Production related tangible personal property does *not* include property used in sales, purchasing, accounting, fiscal management, marketing, personnel recruitment or selection, or landscaping or tangible personal property required to be titled or registered with a government agency.

MANUFACTURER'S PURCHASE CREDIT

<u>WHY USE THE MANUFACTURER'S PURCHASE CREDIT (MPC)</u>

All Illinois graphic arts producers which include newspapers and commercial printers are eligible for the Manufacturer's Purchase Credit (MPC), which is earned by purchasing exempt graphic arts machinery and equipment (M&E) or repair and replacement parts. The MPC provides a double incentive for investing in machinery and equipment. When a graphic arts producer buys machinery and equipment that qualifies for the Illinois Graphic Arts Machinery and Equipment Exemption (M&E) from sales and use taxation, not only is the purchase tax-free, the purchaser also becomes eligible for a credit equal to a percentage of the Illinois Use or Service Use Tax that was *not* incurred because of the M&E.

This non-transferable credit can be applied to satisfy Illinois Use Tax or Service Use Tax liability on the purchase of non-exempt production-related tangible personal property used in graphic arts production. The credit is also available to lessors who buy qualifying graphic arts machinery and equipment and lease it to companies who will use the equipment in graphic arts production.

EARNING THE CREDIT

By way of example; a printer buys a $1,000,000 printing press on September 1, 2006. The Illinois Use Tax rate is 6.25%, so the printer has "saved" $62,500 (6.25% of the $1,000,000 purchase price) due to the Graphic Arts Machinery and Equipment Exemption (M&E). The available MPC is 50% of the $62,500 or $31,250. The printer now has until the end of the second calendar year following the calendar year in which the MPC is earned (that is, until December 31, 2008) to use up this credit. The MPC on installment or progress payment contracts is calculated each time the purchaser is invoiced for the installment or progress payment.

USING THE CREDIT

The MPC can be used to satisfy the purchaser's Illinois Use or Service Use Tax liability on production-related tangible personal property that does *not* qualify for the M&E. This is done by certifying to the retailer that the Use Tax liability will be satisfied via the use of the purchase credit.

CERTIFICATION

In order to claim the MPC against purchases of property used in the graphic arts production process that would otherwise be subject to Illinois sales and use tax, the purchaser must provide written certification to the supplier. The purchaser may use the State's *Form ST-16C*, create a certification form, or modify the purchase order to include a standard MPC certification statement. Any of these options is acceptable as long as the following is included:

1) Date of purchase;
2) Purchaser's and seller's Illinois Business Tax numbers (you must be registered with the State to take advantage of the MPC);
3) Amount of purchase; and
4) Amount of credit used.

The supplier is required by law to reduce the amount of Illinois sales tax due on the transaction when you present the certificate.

RECORDKEEPING

The Illinois Department of Revenue requires extensive recordkeeping when earning and using of MPC. The user will file the *annual Report of Manufacturer's Purchase Credit Earned (ST-16)* and summarizing the amount of credit earned during the preceding calendar year.

This report summarizes, by month, the preceding year's purchases of production-related tangible personal property on which the credit was used by the user to pay Use or Service Use Tax. The user is required to segregate purchases between Illinois suppliers and out-of-state suppliers. An audit by the State of Illinois will require detailed records of each qualifying purchase.

The reports for each year are to be filed by June 30 of the next year; if the report is not filed the user will lose the total credit for that year. The user is allowed, however, to amend a report that has been previously filed in order to include qualifying transactions not previously identified. The amended return must be filed prior to the date on which the credit would have expired if the transaction had been reported on the original return.