

**Illinois Department of Revenue
Regulations**

Title 86 Part 130 Section 130.325 Graphic Arts Machinery and Equipment Exemption

**TITLE 86: REVENUE
CHAPTER I: DEPARTMENT OF REVENUE**

**PART 130
RETAILERS' OCCUPATION TAX**

Section 130.325 Graphic Arts Machinery and Equipment Exemption

- a) General. Through June 30, 2003, and beginning again on September 1, 2004 through August 30, 2014, notwithstanding the fact that sales may be at retail, the Retailers' Occupation Tax does not apply to the sale of machinery and equipment, including repair and replacement parts, both new and used and including that manufactured on special order to be used primarily in graphic arts production. The exemption extends to purchases by lessors who will lease the property for use primarily in graphic arts production. Taxpayers must certify the use of the equipment they are purchasing to their suppliers. (See subsection (i) of this Section.) By statute, this exemption was repealed June 30, 2003 (Public Act 93-24; effective June 20, 2003). Pursuant to Public Act 93-840, effective July 30, 2004, this exemption was reenacted without any specific sunset date. Subsequently, Public Act 96-116 added a sunset date for this exemption of August 30, 2014.
- b) Graphic Arts Production. This term defines the types of entities eligible to claim this exemption. Beginning July 30, 2009, in addition to the requirements contained in subsection (b)(1)(A), an additional requirement was added as set forth in subsection (b)(1)(B). Provisions effective August 13, 1999 through June 30, 2003, and beginning again on September 1, 2004 through August 30, 2014:
 - 1) Graphic arts production has the following meanings and applications:
 - A) *Graphic arts production means printing, including ink jet printing, by one or more of the processes described in Groups 323110 through 323122 of Subsector 323, Groups 511110 through 511199 of Subsector 511, and Group 512230 of Subsector 512 of the North American Industry Classification System (NAICS) published by the U.S. Office of Management and Budget, 1997 edition (no subsequent amendments or editions are included). Graphic arts production does not include the transfer of images onto paper or other tangible personal property by means of photocopying or final printed products in electronic or audio form, including the production of software or audio-books.* (Section 2-30 of the Act) Groups 323110 through 323122 of Subsector 323, Groups 511110 through 511199 of Subsector 511, and Group 512230 of Subsector 512 include printing upon apparel and textile products, paper, metal, glass, plastics, and other materials except fabric (grey goods). Printing upon grey goods is part of the process of finishing fabric and is included in the NAICS Textile Mills subsector in Industry 31331, Textile

and Fabric Finishing Mills.

- B) On and after July 30, 2009, in addition to the requirements contained in subsection (b)(1)(A), P.A. 96-116 imposes the additional requirement that the qualifying graphic arts machinery and equipment be used primarily in *the production of tangible personal property for wholesale or retail sale or lease. Persons engaged primarily in the business of printing or publishing newspapers or magazines that qualify as newsprint and ink, by one or more of the processes described in Groups 511110 through 511199 of subsector 511 of the North American Industry Classification System published by the U.S. Office of Management and Budget, 1997 edition, are deemed to be engaged in graphic arts production.* [35 ILCS 120/2-30]. This additional requirement extends to and applies to repair and replacement parts, both new and used and including equipment that is manufactured on special order to be used primarily in graphic arts production. The following are examples of activities that illustrate the new requirement that the machinery must also be used primarily (over 50%) in the production of tangible personal property for wholesale or retail sale or lease:
- i) A company that purchases graphic arts machinery and equipment used to print materials for its internal consumption is not deemed to be engaged in graphic arts production because the printed materials it prints are not for sale.
 - ii) A manufacturer that prints catalogs of its products and distributes them without charge to potential customers is not deemed to be engaged in graphic arts production because the catalogs it prints are not for sale.
 - iii) A printer who prints bulletins as part of its sale of service to a church is engaged in graphic arts production.
 - iv) Printer A subcontracts with Printer B to print greeting cards that Printer A sells to retailers. Printer B is engaged in graphic arts production.
 - v) An engineering firm is conducting a seminar for local businesses and contracts with Printer to print materials that are distributed to seminar participants. Printer is engaged in graphic arts production because it is printing tangible personal property for sale as part of its sale of service.
 - vi) Company A is in the business of printing the local weekly newspaper that qualifies as newsprint and ink. (See Section 130.2105 for what qualifies as newsprint and ink.) Company A is engaged in graphic arts production.
 - vii) A retailer contracts with a printer to print holiday catalogs to be sold at retail. Printer is engaged in graphic arts production because it is printing tangible personal property for sale as part of its sale of service.

- viii) A retailer prints its own sale fliers and distributes them to potential customers. Retailer is not engaged in graphic arts because it is not printing the fliers for sale.
 - ix) A manufacturer purchases graphic arts machinery and equipment to be used primarily for the production of office manuals and materials for internal use only. Occasionally, the manufacturer will print catalogs to be sold to promote its year-end inventory sale. The manufacturer is not engaged in graphic arts production because it does not use its equipment primarily (over 50%) in the production of tangible personal property for sale.
 - x) Book Binding. Company A is in the business of binding books in the personal collections of individuals and entities. A law firm contracts with Company A to rebind its collection of old law books. Company A is engaged in graphic arts production because it is engaged in an activity involving the binding, collating or finishing of the graphic arts product as part of its sale of service. (See subsection (c)(4)(C).)
 - xi) Company A is printing a "How To Manual" to be sold at retail and contracts with Printer to have the manual bound. Printer is engaged in graphic arts production both because the manual being bound is being printed to be sold, and, also, the activity involves the binding, collating or finishing of the graphic arts product as part of its sale of service.
 - xii) A law firm binds and collates its legal briefs and office manuals in-house. Law firm is not engaged in graphic arts production because the legal briefs and office manuals are not for sale.
- C) The North American Industry Classification System referenced in subsection (b)(1) can be obtained from the U.S. Department of Commerce, National Technical Information Service, 5285 Port Royal Road, Springfield, Virginia 22161 (Phone: 1-800-553-6847). The Department also maintains a copy of this information, which may be obtained upon request and at cost, from the Legal Services Office, 5-500, 101 West Jefferson Street, Springfield, Illinois 62794.
- D) The exemption applies to machinery and equipment used in graphic arts production processes, as those processes are described in the NAICS. While the NAICS subsectors referenced in subsection (b)(1)(A) describe types of graphic arts establishments that typically engage in graphic arts production, the exemption is not limited to qualifying machinery and equipment used by the establishments described in the NAICS, but rather, to qualifying machinery and equipment used in the printing processes described in the NAICS (for example, lithography, gravure, flexography, screen printing, quick printing, digital printing and trade services such as prepress and binding and finishing services).
- E) The exemption includes printing by methods of engraving, letterpress,

lithography, gravure, flexography, screen, quick and digital printing. It also includes the printing of manifold business forms, blankbooks, looseleaf binders, books, periodicals and newspapers. Included in the exemption are prepress services described in Subsector 323122 of the NAICS (e.g., the creation and preparation of negative or positive film from which plates are produced, plate production, cylinder engraving, typesetting and imagesetting). The exemption also includes trade binding and related printing support activities set forth in Subsector 323121 of the NAICS (e.g., tradebinding, sample mounting and postpress services, such as book or paper bronzing, edging, embossing, folding, gilding, gluing, die cutting, finishing, tabbing and indexing).

- F) "Digital printing and quick printing" mean the printing of graphical text or images by a process utilizing digital technology, as provided in subsection (b)(4) of this Section. It also includes the printing of what is commonly known as "digital photography" (e.g., use of a qualifying integrated computer and printer system to print a digital image). The exemption extends only to machinery and equipment, including repair and replacement parts, used in the act of production. Accordingly, no other type or kind of tangible personal property will qualify for the exemption, even though it may be used primarily in the graphic arts business.
- 2) Machinery means major mechanical machines or major components of machines contributing to graphic arts production. Equipment means any independent device or tool separate from any machinery but essential to the graphic arts production process; or any sub-unit or assembly comprising a component of any machinery or auxiliary, adjunct, or attachment parts of machinery. Beginning August 23, 2001, equipment includes chemicals or chemicals acting as catalysts but only if the chemicals or chemicals acting as catalysts effect a direct and immediate change upon a graphic arts product.
- A) The exemption does not include hand tools, supplies such as rags, lubricants, adhesives, solvents, ink, dyes, chemicals except as described in this subsection (b)(2), negatives, acids or solutions, fuels, electricity and steam or water. The exemption also does not include items of personal apparel, such as gloves, shoes, glasses, goggles, coveralls, aprons and masks.
- B) This exemption does not include the sale of materials to a purchaser who manufactures those materials into an otherwise exempted type of graphic arts machinery or equipment.
- C) Machinery and equipment does not include foundations or special purpose buildings to house or support graphic arts machinery and equipment.
- D) Machinery and equipment does not include computer software unless purchased preinstalled in qualifying computer equipment. Computer software not purchased preinstalled in qualifying computer equipment, including upgrades or new software, is subject to tax.
- 3) Primary Use. The law requires that machinery and equipment be used primarily in graphic arts production.

- A) Therefore, machinery that is used primarily in an exempt process and partially in a nonexempt manner would qualify for the exemption. However, the purchaser must be able to establish through adequate records that the machinery or equipment is used over 50% in an exempt manner in order to claim the exemption.
 - B) The fact that particular machinery or equipment may be considered essential to the conduct of the business of graphic arts production because its use is required by law or practical necessity does not, of itself, mean the machinery or equipment is used primarily in graphic arts production.
- 4) By way of illustration and not limitation, the following activities will generally be considered graphic arts production:
- A) Prepress or preliminary processes. Prepress or preliminary processes include the steps required to transform an original into a state that is ready for reproduction by printing. Prepress or preliminary processes include typesetting, film production, color separation, final photocomposition (e.g., image assembly and imposition (stripping)) and platemaking. Prepress or preliminary processes include the manipulation of images or text in preparation for printing for the purpose of conforming those images to the specific requirements of the printing process being utilized. For example, the images must be conformed for a specific signature layout and formatted to a specific paper size. In addition, colors must be calibrated to the specific type of paper or printing process utilized, so that they conform to customer specifications. Prepress or preliminary processes do not, however, include the creation or artistic enhancement of images that will later be reproduced in printed form by a graphic arts process. For example, the creation of an advertisement pursuant to customer direction, or enhancement of a photograph received from a customer by adding a border, text or rearranging the placement of images in the photograph, is not the performance of a qualifying prepress or preliminary process. Prepress or preliminary processes can be performed at the printing facility, a separate prepress or preliminary facility, the customer's location, or other location. The following are examples of equipment used in qualifying prepress or preliminary activities:
 - i) Large scale, fixed-position cameras used to photograph two dimensional copy to produce negatives or positives used in the production of plates; film processors; scanners; imposetters; RIP (raster image processor) equipment; proofing equipment; imagesetters, plate processors, helioklischographs and computer-to-plate and computer-to-press equipment.
 - ii) Computers that qualify include computers used primarily to receive, store and manipulate images to conform them to the requirements of a specific printing process that will later be performed. Computers used in connection with what is commonly referred to as "digital photography" will qualify if used primarily to format the graphic image that will be printed (e.g., used to format the size and

layout of images to be printed). If the computers are primarily used, however, to apply background colors, borders or other artistic enhancements, or to view and select particular digital images to be printed, they will not qualify for the exemption.

- iii) Digital cameras do not qualify if they are used primarily to create an original image that will later be reproduced by a graphic arts process.
 - iv) Servers used primarily to transfer images and text to qualifying equipment qualify, but do not qualify if used primarily in a non-exempt activity (for example, servers used to maintain an in-house email system).
 - v) Scanners used primarily to input previously created images or text that will be reproduced by a graphic arts process qualify for the exemption.
- B) The transfer of images or text from computers, plates, cylinders or blankets to paper or other stock to be printed. This process begins when paper is introduced on the press. Examples of qualifying equipment used in this activity include printing plates, printing presses, blankets and rollers, automatic blanket washers, scorers and dies, folders, punchers, stackers, strappers used in the pressroom for signatures, dryers, chillers and cooling towers. Laser or ink jet printers used to print on paper or other stock are also included in this exemption.
- i) Equipment used to handle or convey printed materials between production stations in an integrated on-line graphic arts process is included in the exemption (e.g., a forklift or bindery cart will qualify for the exemption if it is primarily used to convey book covers that have been printed and cut to binding and finishing equipment).
 - ii) Computer equipment used to operate exempt graphic arts equipment also qualifies for the exemption.
 - iii) Equipment, such as transformers, used primarily to provide power to qualifying printing presses or bindery lines, qualifies for the exemption. Similarly, heating and cooling machinery or equipment used to produce an environment necessary for the production of printed material qualifies for the exemption. For example, humidity-control equipment used to reduce static during the printing process qualifies for the exemption.
- C) Activities involving the binding, collating or finishing of the graphic arts product. Equipment used in these activities includes, for instance, binders, packers, gatherers, joggers, trimmers, selectronic equipment, blow-in card feeders, inserters, stitchers, gluers, spiral binders, addressing machines, labelers and ink-jet printers.
- i) Machinery or equipment used to convey materials to packaging areas after the graphic arts product has been printed, bound and

finished qualifies for the exemption. That equipment includes, for instance, conveyor systems, hoists or other conveyance mechanisms used to direct the final printed product into packaging areas.

- ii) Machinery or equipment used to package materials after the graphic arts product has been printed, bound and finished qualifies for the exemption. Packaging equipment includes, for instance, cartoning systems, palletizers, stretch wrappers, strappers, shrink tunnels and similar equipment.
- 5) By way of illustration and not limitation, the following activities will generally not be considered to be graphic arts production:
- A) The use of machinery and equipment in general maintenance or repair work on production machinery or equipment. This includes hand tools, welding tools, racks, and other machinery and equipment used in the maintenance area.
 - B) The use of machinery and equipment (e.g., fork lifts, roll clamps and roll grabbers) to convey raw materials to the press does not qualify for the exemption.
 - C) The use of machinery or equipment to convey materials to final storage or shipping areas. That equipment includes, for instance, fork lifts used primarily to place the packaged printed product into final storage or shipping areas.
 - D) The use of machinery or equipment to gather information, track jobs or to perform data-related functions prior to a qualifying prepress activity (e.g., computers used primarily to edit or create text, data, or other copy). That equipment includes items such as inventory tracking devices and bar-code readers.
 - E) The use of machinery or equipment to photocopy printed matter. A copier that is capable of printing images or text transmitted to it in digital form will qualify. However, a copier that produces photocopies by means of xerographic technology is subject to tax.
 - F) The use of machinery or equipment in managerial, sales or other non-production, non-operational activities including inventory control, production scheduling, purchasing, receiving, accounting, physical management, general communications, plant security, marketing, or personnel recruitment, selection or training. Waste disposal equipment (e.g., equipment used to contain and recapture paper dust) does not qualify for the exemption. However, for information regarding the pollution control exemption, see Section 130.335 of this Part. Similarly, baling equipment used to recycle paper waste does not qualify under this exemption. However, the manufacturing machinery and equipment exemption may be applicable. (See Section 130.330 of this Part.)
 - G) The use of machinery and equipment to prevent or fight fires or to protect

employees, such as protective masks, respirators, first-aid kits, gloves, coveralls and goggles, or for safety, accident protection or first-aid, even though that machinery or equipment may be required by federal, State or local law.

- H) The use of machinery or equipment for general ventilation, heating, cooling, climate control or general illumination, except when the machinery or equipment is used to produce an environment necessary for the production of printed material.
- 6) An item of machinery or equipment that initially is used primarily in graphic arts production and having been so used for less than one-half of the useful life and is converted to primarily nonexempt uses will become subject to the tax at the time of the conversion. The tax will be collected on that portion of the price of the machinery or equipment as was excluded from tax at the time the sale or purchase was made.
 - 7) Sales to Lessors of Graphic Arts Equipment. The statute provides for the purchase of graphic arts machinery and equipment by lessors who will lease that machinery and equipment for use in graphic arts production. Therefore, if the purchaser of the machinery or equipment leases the machinery and equipment to a lessee who uses it in an exempt manner, the sale to the purchaser-lessor will be exempt from tax. A supplier may exclude these sales from his or her taxable gross receipts provided that the purchaser-lessor provides to him or her a properly completed exemption certificate and the information contained in the certificate would support an exemption if the sale were made directly to the lessee. Should a purchaser-lessor subsequently lease the machinery or equipment to a lessee who does not use it in an exempt manner that would qualify directly for the exemption, the purchaser-lessor will become liable for the tax from which he or she was previously exempted.
 - 8) Exemption Certification. Purchasers wishing to claim the exemption must certify to their suppliers that the machinery and equipment will be used primarily for graphic arts production. Retailers must maintain the certificates in their books and records. The use of blanket certificates of exemption will be permitted. The certificate must include the seller's name and address, the purchaser's name and address and a statement that the property purchased will be used primarily in graphic arts production. So long as the retailer obtains a certificate of exemption that contains all the information required in this subsection (b)(8), the retailer need not verify that the equipment he or she sells is actually used as graphic arts production equipment. If a graphic arts producer or lessor purchases at retail from a vendor who is not registered to collect Illinois Use Tax, the purchaser must maintain a copy of the certification in his or her records to support the deduction taken on the return.
- c) Graphic Arts Production. Provisions in effect until August 13, 1999:
 - 1) *Graphic arts production means printing by one or more of the common processes or graphic arts production services as those processes and services are defined in Major Group 27 of the U.S. Standard Industrial Classification Manual. (Section 2-30 of the Act)* The exemption includes printing by letterpress, lithography, gravure, screen, engraving and flexography and includes printing trade services

as typesetting, negative production, plate production, bookbinding, finishing, looseleaf binder production and other services set forth in Major Group 27. The exemption extends only to machinery and equipment used in the act of production. Accordingly, no other type or kind of tangible personal property will qualify for the exemption, even though it may be used primarily in the graphic arts business.

- 2) Machinery means major mechanical machines or major components of machines contributing to graphic arts production. Equipment means any independent device or tool separate from any machinery but essential to the graphic arts production process; or any sub-unit or assembly comprising a component of any machinery or auxiliary, adjunct or attachment or parts of machinery. The exemption does not include hand tools, supplies, lubricants, adhesives or solvents, ink, chemicals, dyes, acids or solutions, fuels, electricity, steam or water, items of personal apparel such as gloves, shoes, glasses, goggles, coveralls, aprons and masks, or such items as negatives, one-time use printing plates as opposed to multiple use cylinders or lithographic plates, dies, etc., that are expendable supplies. This exemption does not include the sale of materials to a purchaser who manufactures these materials into an otherwise exempted type of graphic arts machinery or equipment.
- 3) Machinery and equipment does not include foundations for or special purpose buildings to house or support graphic arts machinery and equipment.
- 4) Primary Use.
 - A) The law requires that machinery and equipment be used primarily in graphic arts production. Therefore, machinery that is used primarily in an exempt process and partially in a nonexempt manner, would qualify for the exemption. However, the purchaser must be able to establish adequate records that the machinery or equipment is used over 50% in an exempt manner in order to claim the deduction.
 - B) The fact that particular machinery or equipment may be considered essential to the conduct of the business of graphic arts production because its use is required by law or practical necessity does not, of itself, mean the machinery or equipment is used primarily in graphic arts production.
 - C) By way of illustration and not limitation, the following activities will generally be considered to constitute an exempt use:
 - i) Machinery and equipment to directly produce typesetting, negatives and plates including final photo-composition and color separation processes.
 - ii) The use of machinery and equipment to transfer images or text from type or plates or image carriers to paper or other stock to be printed.
 - iii) Equipment to collate, bind or finish the graphic arts product covered in subsection (c)(2).

iv) Large scale, fixed-position cameras used to photograph two dimensional copy to produce negatives or positives used in the production of plates.

D) By way of illustration and not limitation, the following activities will generally not be considered to be graphic arts production:

i) The use of machinery and equipment in general maintenance or repair work on production machinery or equipment.

ii) The use of machinery or equipment to store, convey, handle or transport materials.

iii) The use of machinery or equipment to place the printed product in the container package or wrapping in which the property is normally sold to the ultimate consumer of the property.

iv) The use of machinery or equipment to gather information, photograph, transmit data, edit text, prepare drafts or copy or perform other data-related functions prior to final composition, typesetting, engraving or other preparation of the image carrier.

v) Xerographic or photocopying machines do not qualify for the exemption.

vi) Word processing, text editing machinery or computerized equipment unless it is an integral part of a final graphic arts operation, such as a computer-controlled typesetting machine or equivalent that is used primarily in graphic arts production.

vii) Computers used to store data and generate text, maps, graphs or other print-out formats unless the product is an image carrier to be used to repetitively transfer images by printing. For example, a computer that generates an image that may later be reproduced by a graphic arts process would not qualify while a computer-controlled engraving system that produces printing cylinders and computer-controlled digital typesetting equipment would qualify.

viii) The use of machinery or equipment in managerial, sales or other non-production, non-operational activities including disposal of waste, inventory control, production scheduling, purchasing, receiving, accounting, physical management, general communications, plant security, sales, marketing, product exhibition and promotion, or personnel recruitment, selection or training.

ix) The use of machinery and equipment to prevent or fight fires or to protect employees, such as protective masks, gloves, coveralls and goggles or for safety, accident protection or first-aid even though the machinery or equipment may be required by law.

x) The use of machinery or equipment for general ventilation, heating,

cooling, climate control or general illumination.

E) An item of machinery or equipment that initially is used primarily in graphic arts production and having been so used for less than one-half of the useful life is converted to primarily nonexempt uses, will become subject to the tax at the time of the conversion. The tax will be collected on the portion of the purchase price of the machinery or equipment as was excluded from tax at the time the sale or purchase was made.

5) Sales to Lessors of Graphic Arts Equipment.

The statute provides for the purchase of graphic arts machinery and equipment by lessors who will lease the machinery and equipment for use in graphic arts production. Therefore, if the purchaser of the machinery or equipment leases the machinery and equipment to a lessee who uses it in an exempt manner, the sale to the purchaser-lessor will be exempt from tax. A supplier may exclude such sales from his or her taxable gross receipts provided that the purchaser-lessor provides to him or her a properly completed exemption certificate and the information contained therein would support an exemption if the sale were made directly to the lessee. Should a purchaser-lessor subsequently lease the machinery or equipment to a lessee who does not use it in an exempt manner that would qualify directly for the exemption, the purchaser-lessor will become liable for the tax from which he or she was previously exempted.

6) Exemption Certification.

Purchasers wishing to claim the exemption must certify to their suppliers that the machinery and equipment will be used primarily for graphic arts production. Retailers must maintain the certificates in their books and records. The use of blanket certificates of exemption will be permitted. If a graphic arts producer or lessor purchases at retail from a vendor who is not registered to collect Illinois Use Tax, the purchaser must maintain a copy of the certification in his or her records to support the deduction taken on the return. The certificate must include the seller's name and address, the purchaser's name and address and a statement that the property purchased will be used primarily in graphic arts production.

7) For the purpose of determining the portion of the proceeds or cost that may be excluded from tax, a sale of property will be deemed to be made as of the date of delivery of the property. If a single sale of property is made that calls for multiple deliveries unrelated to payments and a portion of the sold property is delivered when one fraction of the proceeds or cost is excludable and the remainder of the property is delivered when a different fraction of the proceeds or cost is excludable, the earliest date of delivery of any of the property will determine the portion of the proceeds or cost of the entire sale that may be excluded in computing the tax that is due on that entire sale. However, even when a contract provides for multiple deliveries, if a payment is closely related in time and quantity to the property delivered, the date of each delivery will determine the portion of the proceeds or cost that may be excluded in computing the tax that is due on that payment.

(Source: Amended at 35 Ill. Reg. 2169, effective January 24, 2011)