

12-36-2120(17)

**In SUPPORT of the Exemption for
Machines used in Manufacturing and Processing
Tangible Personal Property for Sale**

Good morning. I'm Jim Faulkenberry from Colonial Printing here in Columbia, and I am speaking on behalf of the printing industry in South Carolina. Our industry employs 10,208 people, working in 337 companies, generating \$1.8 Billion in sales each year. The average printing company in South Carolina employs less than 30 people, confirming its claim as a small business. Most printing companies in this state have fewer than 20 employees however. Overwhelmingly our printing industry is one of custom manufacturing, where each client and each job is different, requiring significant capital investment on the part of the printing company.

Today small printing companies are being challenged to remain competitive like never before. It is not uncommon for smaller companies to be a target for acquisition by larger competitors or conglomerates. Our competitive status comes in to play when a multi-state conglomerate has the option to send work out of South Carolina due to less favorable pricing, thus costing the state jobs and residual revenue.

To remain competitive within South Carolina and surrounding states, it's essential that we maintain the manufacturing exemptions currently in place in the sales and use tax code, such as machinery, electricity, etc. It would also be helpful to be able to consider exempt from tax the materials directly used in the printing and finishing processes, as they are essential components to the overall printing process.

As a small business owner, I encourage you to protect exemptions that will directly benefit the workers and businesses in South Carolina by keeping us competitive with our neighboring states.

1. Adequacy

The manufacturing equipment exemption is adequate per se. However, the manufacturing exemption needs to be expanded for the printing industry to include machinery and chemicals used in the manufacturing process. Per South Carolina Regulation 117-309.3, supplies, materials and equipment not becoming a component of the manufactured product to be sold are subject to tax. Following is suggested language to add to the exemption:

Machinery utilized in the pre-press and press operations in the business of printing, including plates and cylinders, and including the component parts and fluids or chemicals necessary for the specific mechanical or chemical actions or operations of such machinery, plates and cylinders, regardless of whether or not the operations occur at the point of retail sales.

The above language is taken verbatim from Tennessee Section 67-1-102(42)(C) but is common in other states. Industrial supplies used in the manufacturing process should be included in the exemption:

Film, including negatives, used in the business of printing, or provided to a business of printing to obtain the services of the business; or typesetting used in the business of printing and materials necessary for the typesetting, or typesetting, or materials necessary for typesetting provided to a business of printing to obtain the services of the business;

The above language is taken verbatim from Tennessee Section 67-6-329(a)(14). In addition, digital print technology should clearly be included in the manufacturing equipment exemption. The equitable and efficiency aspects of the expanded exemption are discussed below. The estimated fiscal impact of the expansion of the exemption has not been estimated but can be provided on request.

2. Equitable

- a. The exemption is equitable among traditional print companies in the printing industry. We note that newspapers are allowed exemption for plates, cylinders, fluids and chemicals and that such exemption is allowed for the printing of advertising

- material distributed as an insert in the newspaper. It is also possible that mats or plates for advertisements may be re-purposed to produce printed advertisements not distributed as an insert in the newspaper. Expansion of the exemption would put newspaper printers on a level playing field with commercial contract printers.
- b. Equipment used in digital print technologies should be considered eligible for the manufacturing equipment exemption.

3. Efficiency

- a. Printing is capital intensive and technology is rapidly changing. Allowing an exemption for supplies and plates used in the manufacturing process will free more capital and allow printers to invest in both new technology to increase efficiency and new equipment to expand product lines.
- b. Due to the traditional small-business nature of the industry, consolidation is expected and is occurring in South Carolina and other states. The taxation of industrial supplies, machinery and digital technology will place South Carolina manufacturing operations at a disadvantage when compared to print operations in other states and may incentivize the shifting of pre-press and manufacturing processes to locations in other states. In addition, digital print technology accelerates the ability to shift production among states, since proofs may be sent electronically, and may lead to increased exportation of print manufacturing out of the state.
- c. South Carolina has significant natural resources to support the print manufacture industry and these resources should be complemented by competitive tax policy with regard to manufacturing processes.
- d. Printing is capital intensive and adds to the property tax base.

4. Additional Information

For additional information, please contact Jeff Stoudt, The Printing Industry of the Carolinas, jstoudt@picanet.org or 800/849-7422.

