

**M e m o r a n d u m****295.1507.150**

To: Toni Eaton, Tax Representative  
Headquarters – Return Review Section

March 12, 1992

From: Elizabeth Abreu  
Tax Counsel

Subject: A--- B---, Inc.  
SY -- XX-XXXXXX

This is in response to your memorandum dated January 22, 1992, in which you inquired about the handling fees and cutting fees described in A--- B---' letter dated November 18, 1991.

According to this letter, the handling fees are shipping fees that A--- B--- incurs when it orders special order posters for its customers. These shipping fees are charged to A--- B--- by the individual print vendors from which it orders prints for its customers. A--- B--- passes these fees, which range from \$7.50 to \$12.00 per item, to the customer that places the order.

Sales tax is measured by gross receipts which are the total amount of the sale price of the retail sales of retailers without any deduction for costs of labor, service costs, or any other expense. Rev. & Tax. Code § 6012(a). The handling fees are merely an expense and therefore not deductible. Nor can they come under the transportation costs from the retailer's place of business to the customer. Rev. & Tax. Code § 6012(c)(7).

With respect to the cutting fees, the letter from A--- B--- states that these are labor costs it charges its customers for being a chop service. When a customer purchases a poster board, illustration board, or paper from A--- B---s or brings in his own item and wants it cut into smaller pieces, A--- B--- charges a fee for the labor of cutting the item up. The first three cuts are free, and every cut after that is twenty five cents.

These charges are taxable but for different reasons, depending upon when the cuts are made. For cuts to items sold by A--- B--- to the customer, these charges are nondeductible labor costs if the cuts are made by A--- B--- before the sale. If the cuts are made after the sale of it the customer brings in his own item, the cuts and the charges to the customer for such cuts constitute another sale under Revenue and Taxation Code 6006(b) which provides that a sale includes the

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fabrication of tangible personal property for a consideration for consumers who furnish the materials used in the fabricating.

If you have any further questions on this matter, feel free to call me at 324-8208.

EA:cl  
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cc: Arcadia District Administrator