

## Income/Franchise:

### Texas Comptroller of Public Accounts Issues Guidance on Revised Policy for Printing Activities

*Accession No. 202204004L*, Texas Comptroller of Public Accounts (4/21/22). The Texas Comptroller of Public Accounts (Comptroller) issued guidance on how certain printers must treat ancillary services for purposes of the cost of goods sold (COGS) deduction and apportionment under the Texas franchise (margin) tax, reflecting a policy change from previously issued guidance. Under the revised policy, the Comptroller explains that printers only own and produce goods when the printer custom-manufactures and sells tangible personal property to customers. To the extent the printer owns and produces the goods, the Texas COGS includes handling costs, along with those costs associated with assembling products for sale. Furthermore, the Comptroller explains that handling costs may include kitting, folding, inserting, addressing, affixing postage, sorting, and delivering goods to a third-party carrier. According to the new guidance, Texas may also include costs related to storing raw materials, work-in-process inventory, and goods waiting for shipment. The following examples as provided by the Comptroller provide additional guidance as to how “handling and storage costs” should be treated:

**URL:** <https://star.comptroller.texas.gov/view/202204004L>

- Handling costs for delivery of printed material to customers or third parties without delay, and handling costs before delivery of printed material to the printer’s storage facility, may be included in Texas COGS;
- Storage costs for more than a necessary delay in transit, and handling costs after this storage, generally are post-production costs and should be excluded from Texas COGS; and
- Handling costs for printed material not produced and sold to the customer generally should be excluded from Texas COGS.

From an apportionment perspective, the Comptroller explains the revised policy requires the following:

- Gross receipts from the sale of printed material for delivery without delay, including handling fees and other fees to effectuate the sale, generally are receipts from the sale of tangible personal property and sourced to the location the purchaser takes possession (i.e., the destination);
- Gross receipts from the sale of the printed material that is stored for more than a necessary delay in transit generally are sourced to the storage location; storage fees and subsequent handling fees to effectuate the delivery generally are receipts from a service and are sourced to where the service is performed (i.e., the storage location); and
- Gross receipts from handling of printed material not sold by the printer generally are receipts from the sale of a service and are sourced to where the service is performed (i.e., the location where the handling activities take place).

The Comptroller’s publication provides additional examples to illustrate these policy changes given the variety of potential nuances involved. The Comptroller also notes that these changes apply to “all open and future periods.” Please contact us with any questions.

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