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Measure of Manufacturing Tax on Articles Produced Partly Within and Partly Outside the State

What is the measure of the manufacturing business and occupation (B&O) tax?

The manufacturing B&O tax is imposed on the “value of the products,” which is determined by the gross proceeds from the sale of such products with no deduction for expenses. (RCW 82.04.240, RCW 82.04.450, RCW 82.04.070.) However, when the product manufactured is not sold or is sold under conditions where the selling price is not representative of the value, then value of the product is determined by the selling price of similar items.

When a taxpayer partially manufactures an article outside the state and then brings the article into the state for further manufacturing, what is measure of the manufacturing B&O tax?

Example: A manufacturer is engaged in manufacturing gadgets. The gadgets are partially manufactured outside the state and subjected to taxation in that state. After the first stage is completed, the partially manufactured gadgets are brought into Washington where they combined with other parts to create a complete gadget. Does the tax base exclude all values except those added by the manufacturing processes actually conducted within the state?

No. The measure of the manufacturing B&O tax is the value of the products at the time the manufacturing in Washington is completed. The creation of the complete gadgets is “manufacturing” within the definition of RCW 82.04.120 and the measure of the tax is the value of the products manufactured, which is usually the gross receipts from sales of the product. This is not a tax on the activities that took place outside the state. The manufacturing B&O tax is on the local activities and the measure of the tax is the value of the product manufactured. Thus, it is immaterial that another state may have taxed some activities taking place in that other state. See Crown Zellerbach Corp. v. State, 53 Wn. 2d 813, and Reynolds Metals Co. v. State, 65 Wn. 2d 882.

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When a taxpayer partially manufactures an article in the state and then takes the partially manufactured article outside the state for further manufacturing, what is measure of the manufacturing B&O tax?

As stated above, the measure of the manufacturing B&O tax is the value of the products, which is generally the selling price of the item. When there is no sale, the value of the products must correspond as nearly as possible to the gross proceeds from other sales at comparable locations of similar products of like quality and character, in similar quantities, under comparable conditions of sale. In the absence of sales of similar products as a guide to value, the value may be determined upon a cost basis (including direct and indirect overhead costs).

Under these circumstances, the value must be determined at the time the product is transferred outside of the state. Any further processing/manufacturing occurring outside of Washington is not relevant to determining the measure of the manufacturing B&O tax (WAC 458-20-112.)
