THE INTEGRATED MANUFACTURER/CONTRACTOR RULE

The purpose of this publication is to provide guidance regarding the rule for calculating use tax under the integrated manufacturer/contractor rule. This publication provides general information. It is not a substitute for tax laws or regulations.

GENERAL INFORMATION

- Producers or manufacturers of goods that they later use in contracting activities must pay use tax on the "gross value" of such goods. This rule also applies to producers of natural resources and manufacturers who also engage in contracting activities.

- An additional municipal tax may also apply. For a list of municipalities, effective dates and rates, visit our website at:

  https://tax.wv.gov/Business/SalesAndUseTax/Pages/SalesAndUseTax.aspx

EXAMPLE:

A kitchen cabinet manufacturer, ABC Company, enters into a contract to remodel a kitchen, including supplying cabinets that are manufactured in its plant facility. Although the purchases of the raw materials and equipment used to manufacture the cabinets are exempt since these items would be directly used in manufacturing, ABC Company must pay use tax on the "gross value" of the cabinets utilized in the kitchen remodeling.

See TSD-358 for more information regarding direct use.

WHAT IS "GROSS VALUE"?

- Gross value should correspond, as closely as possible, to the gross proceeds that would be received by a producer or manufacturer selling similar products and quantities to another party in an arms length transaction.

- Gross value is determined by applying the following rules in the order stated:

  1. The gross value of the natural resource product or manufactured product consumed or used in contracting shall be equal to the selling price, at the place of consumption or use, of similar products of like quality and character offered for sale in similar quantities by persons unrelated to the taxpayer.

  2. In the absence of sales of similar products by other persons, gross value shall be equal to the average price at which sales of the same or similar products are made during the taxable year to customers of the producer or manufacturer.

  3. In the absence of sales to customers of the producer or manufacturer as a guide to value, gross value shall be determined by first deterring the cost of the product and adding thereto the average markup realized by the producer or manufacturer of the product being produced. The cost of the product shall include every item of cost attributable to that particular product including all direct and indirect overhead costs.

- A worksheet is provided on the next page to assist in computing the "gross value" for use tax calculation.

EXCEPTION FOR ON-SITE PRODUCTION OR MANUFACTURING

- If the production or manufacturing takes place at the job site, the producer or manufacturer is treated solely as a contractor. In this case, use tax is calculated on the materials and equipment consumed or used in the production or manufacturing process.

- The gross value of the completed product is not separately taxed.

EXAMPLE:

A kitchen cabinet manufacturer enters into a contract to remodel a kitchen, including custom cabinets to be built at the site. The kitchen cabinet manufacturer will be treated as a contractor in this situation. That means he must pay tax on the lumber and tools used to construct the custom cabinets. However, the "gross value" of the finished custom cabinets is not separately taxed.
EXAMPLE:

XYZ Company, an asphalt producer, agrees to pave a driveway for an individual. XYZ Company moves its portable asphalt plant to the site to produce asphalt for the driveway. The asphalt producer will be treated as a contractor in this situation because the asphalt is being produced on site. Therefore, the asphalt producer will pay tax on the raw materials and equipment used in producing the asphalt at the site. Also, any repairs on equipment used at the site to produce or manufacture goods used in contracting would be taxable.

WORKSHEET

- Use this worksheet to determine the method you must use to calculate the gross value of products you produced or manufactured and later used in contracting activity.

Rule 1

Are there sales between parties unrelated to you of products of like quality and character in similar quantities?

Yes [ ] No [ ]

If yes, enter the price involved in these sales as the gross value for use tax calculation.

$ _______________

Calculate use tax on this amount

STOP - You may not use Rule 2 or 3

Rule 2

Do you sell similar products to unrelated customers?

Yes [ ] No [ ]

If yes, enter the price involved in these sales as the gross value for use tax purposes

$ _______________

Calculate use tax on this amount

STOP - You may not use Rule 3

Rule 3

Compute the costs involved in producing or manufacturing the product.

a. Direct costs (materials, labor, etc.)
   a. $ _______________

b. Indirect costs (overhead, administrative costs, etc.)
   b. $ _______________

c. Total manufacturing cost. Add lines a. and b.
   c. $ _______________

d. Markup (average markup on similar products)
   d. $ _______________

Total product value. Add lines c. and d.

$ _______________

Calculate use tax on this amount

ASSISTANCE AND ADDITIONAL INFORMATION

- For assistance or additional information, you may call a Taxpayer Service Representative at:
  1-800-WVA-TAXS
  (1-800-982-8297)

Or visit our website at:
www.tax.wv.gov

File and pay taxes online at:
www.mytaxes.gov