



The Integrated Manufacturer/Contractor Rule

This publication provides general information and is not meant to be a substitute for tax laws or regulations.

Producers or manufacturers of goods that are later used 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>.

See [TSD-358](#) for more information regarding direct use.

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 product consumed or used in contracting should be equal to the selling price, at consumption or use, of products of similar 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 unrelated persons, the gross value should be the average price that the producer or manufacturer sells similar products made during the taxable year to customers.
3. When the producer or manufacturer has not made sales of similar products to customers, gross value should be determined by taking the cost of the product and adding the average markup realized by the producer or manufacturer as it was produced.

The cost of the product is determined by including every item of cost, both direct and indirect, attributable to that particular product.

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.

Use Tax Method Worksheet

The following worksheet can help determine which method should be used to calculate the gross value of products 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; Enter the price involved in these sales as the gross value for use tax calculation. Do not use Rule 2 or 3.
- No; Skip to Rule 2.

Rule 2

Do you sell similar products to unrelated customers?

- Yes; Enter the price involved in these sales as the gross value for use tax calculation. Do not use Rule 1 or 3.
- No; Skip to 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.

For more information, you can:

- Call a Taxpayer Services Representative at (304)558-3333 or toll-free at (800) 982-8297
- Email taxhelp@wv.gov
- Go Online to tax.wv.gov