



This Week in State Tax (TWIST)

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North Carolina: Contract manufacturing service fees sourced using rules for sales of tangible personal property

In a recent private letter ruling, the North Carolina Department of Revenue responded to a taxpayer's request for guidance as to the sourcing of service fees received from a related party. The service fees reimbursed and compensated the taxpayer for contract manufacturing services provided to its foreign parent corporation. The manufacturing facilities were in North Carolina. After the manufacturing process was finished, the products (tangible goods) were distributed by the parent corporation for sale both in the U.S. and globally. In North Carolina, receipts are generally sourced to the state if the taxpayer's market for the receipts is in North Carolina. A taxpayer's market for service receipts is in North Carolina if and to the extent that a service is delivered to a location in the state. Under a North Carolina rule, "where a taxpayer has receipts subject to this Subchapter from transactions with a related entity customer, information that the customer has regarding the sourcing of receipts from these transactions shall be imputed to the taxpayer." In the Department's view, this rule applied to the situation at hand because the contract manufacturing services were provided to a related entity, and the goods at issue were sales of tangible personal property. Next, the Department stated that the taxpayer must source its receipts in the same manner as the foreign parent- the related entity customer. As such, applying the rule for sourcing sales of tangible personal property, the Department concluded that the service fees should be sourced to North Carolina if the finished product was ultimately delivered by the related entity to a customer located in North Carolina, regardless of F.O.B. terms. If the taxpayer was not provided the ultimate destination and could not determine the locations where the products were ultimately delivered, the Department determined that the service fees should be sourced to North Carolina, the location where the taxpayer performed the contract manufacturing services. Please contact [Nikki Emanuel Jarrell](#) with questions on Corporate Private Letter Ruling 2023-02.

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