

Manufacturing guide

Manufacturing guide

Introduction

This guide is intended to help manufacturing businesses understand their tax reporting responsibilities and the various tax incentives available to them. This guide provides general tax information only and is not a substitute for laws and rules.

For more information or to get answers to specific questions, please [contact us](#).

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Extracting and manufacturing activities

Extracting and manufacturing activities

Logging

Extracting: Felling, cutting (severing), or taking of trees are extracting activities. The Extracting business and occupation (B&O) tax applies to the value of the products, which is the value of the severed trees prior to any cutting, delimbing, or other manufacturing activity.

Manufacturing: Cutting, delimbing, and measuring of felled, cut, or taken trees are manufacturing activities. The Manufacturing B&O tax applies to the value of the products, which is generally the gross proceeds of sale. This is true whether the manufactured product is sold at retail or wholesale.

Mining and quarrying

Extracting: Mining and quarrying are extracting activities. Extracting includes the following activities related to the rock, sand, stone, gravel, or ore:

- First screening.
- Sorting after first screening.
- Piling after first screening.

The Extracting B&O tax applies to the value of the products extracted.

Manufacturing: The crushing and/or blending of rock, sand, stone, gravel, or ore are manufacturing activities. These are manufacturing activities even if there is no separate first screen or sort. If crushing or blending take place at the site where the materials are taken or produced, the following activities that take place after the first screen are part of the manufacturing activity:

- Screening.

- Sorting.
- Piling.
- Washing.

If there is no separate first screen, only those activities that occur after the materials have been deposited into the screen are considered manufacturing activities.

The Manufacturing B&O tax applies to the value of the product manufactured, which is generally the gross proceeds of sale. This is true whether the manufactured product is sold at retail or wholesale.

Note: If a business both crushes rock and builds roads (public or logging), it does not qualify for the manufacturer's machinery and equipment sales/use tax exemption. This is because the crushed rock is not sold as a separate product but is instead used directly in constructing the road.

Selling

Extractors and manufacturers must also report their sales under the Wholesaling B&O or Retailing B&O and Retail Sales tax classifications.

They may take an [Interstate and Foreign Sales deduction](#) from each selling classification for goods delivered to customers outside of Washington.

Multiple activities tax credit (MATC)

Businesses that perform more than one taxable activity for the same product will report each activity under the proper classification and then take the MATC so that B&O tax is only paid once. Businesses that perform one production activity (extracting or manufacturing) and a selling activity (wholesaling or retailing) will take one MATC. However, businesses that perform two production activities and a selling activity will take two MATCs.

For more information, please see the [MATC section](#) of this guide.

References

- [RCW 82.04.100](#) "Extractor."
- [RCW 82.04.110](#) "Manufacturer."
- [RCW 82.04.120](#) "To manufacture."
- [WAC 458-20-135](#) Extracting natural products.
- [WAC 458-20-13501](#) Timber harvest operations.
- [WAC 458-20-136](#) Manufacturing, processing for hire, fabricating.
- [WAC 458-20-193](#) Interstate sales of tangible personal property.

Freight on out-of-state deliveries

Freight on out-of-state deliveries

Manufacturers may take a deduction from the manufacturing business and occupation (B&O) tax for the **actual cost** of delivering manufactured products to customers outside of Washington. The manufacturer is not required to invoice or bill the customer for delivery. However, any amounts invoiced or billed to the customer are part of gross income and must be reported. The manufacturer must be able to show that the amount deducted is the actual cost of delivering the products.

The manufacturer will:

- Report gross income (including delivery charges to the customer) under the Manufacturing B&O tax classification.
- Deduct the actual cost using the [Freight on Out-of-State Deliveries](#) classification.

Note: There is no freight deduction from the selling B&O tax (wholesaling or retailing) or the retail sales tax.

References

- [RCW 82.04.080](#) Gross income of the business.
- [WAC 458-20-112](#) Value of products.

General manufacturing

General manufacturing

Manufacturing

Persons that manufacture products in this state are generally taxable under the Manufacturing business and occupation (B&O) tax classification on the value of the products, including by-products.

Selling

Manufacturers must also report their sales under the Wholesaling B&O or Retailing B&O and Retail Sales tax classifications.

They may take an [Interstate and Foreign Sales](#) deduction from each selling classification for goods delivered to customers outside of Washington.

Multiple Activities Tax Credit (MATC)

Businesses that perform more than one taxable activity for the same product will report each activity under the proper classification and then take the MATC so that B&O tax is only paid once.

For more information, please see the [MATC](#) section of this guide.

Litter tax

[Litter tax](#) applies to manufacturing, wholesaling, and retailing of certain products in Washington. Products subject to litter tax include:

- Food for human or pet consumption.
- Groceries.
- Cigarettes and tobacco products.
- Soft drinks and carbonated waters.
- Beer and other malt beverages.
- Wine.
- Newspapers and magazines.
- Household paper and paper products.
- Glass containers.
- Metal containers.
- Plastic or fiber containers made of synthetic material.
- Cleaning agents.
- Toiletries.

- Nondrug drugstore sundry products.

References

[RCW 82.04.240](#) Tax on manufacturers.

[WAC 458-20-112](#) Value of products.

[WAC 458-20-136](#) Manufacturing, processing for hire, fabricating.

[WAC 458-20-193](#) Interstate sales of tangible personal property.

[WAC 458-20-243](#) Litter tax.

Investment casting

Investment casting

Investment casting is a foundry process where a mold (or investment) is made by applying multiple layers of ceramic material to a wax shell. Once the ceramic hardens, the mold is heated to melt and drain the wax, leaving behind a hollow ceramic shell.

Retail sales and use tax do not apply to either of the following when they are for use in industrial applications:

- Wax and ceramic materials used to create molds and consumed in the process of creating ferrous and nonferrous investment castings.
- Labor and services to create wax patterns or ceramic shells used as molds and consumed in the process of creating ferrous and nonferrous investment castings.

Documentation and reporting

To claim the exemption, the buyer must give the seller a completed [Buyer's Retail Sales Tax Exemption Certificate](#). If the seller did not charge sales tax, the buyer does not have to report use tax. However, in either case, buyers must complete the Buyer's Sales and Use Tax Preferences Addendum when filing their excise tax returns.

Sellers will report sales of these items under both the Retailing business and occupation (B&O) and the Retail Sales tax classifications. They will then use the '[Other](#)' deduction with a description such as "Investment casting materials."

References

- [RCW 82.08.983](#) Exemptions – Wax and ceramic materials.
- [RCW 82.12.983](#) Exemptions – Wax and ceramic materials.

Manufacturing – definition

Manufacturing – definition

A **manufacturer** is anyone who makes products for sale or commercial or industrial use, using their own materials or ingredients, either by doing the work themselves or hiring others.

Manufacturer does **not** include:

- Producers of aluminum master alloys, even if part of the aluminum comes from their customer's supply.
- Non-residents of Washington who own materials that are being processed within the state.
- Owners of materials used to make a nuclear fuel assembly by a processor for hire.

To manufacture means to make things—either by hand or using machines—by working with raw materials to create a new, different, or useful product that can be sold or used commercially or industrially.

To manufacture includes, but is not limited to:

- The production or fabrication of specially made or custom-made articles.
- The production or fabrication of dental appliances, devices, restorations, substitutes, or other dental laboratory products by a dental laboratory or dental technician.
- Cutting, delimbing, and measuring of felled, cut, or taken trees.
- Crushing and/or blending of rock, sand, stone, gravel, or ore.
- Cleaning (removal of the head, fins, or viscera) of fish.
 - A **manufacturing B&O tax exemption** is available for cleaning fish if the cleaning activities are limited to removing the head, fins, or viscera from fresh fish without further processing other than freezing. However, the exemption does not apply to processors for hire.

To manufacture does **not** include:

- Conditioning of seed for use in planting.
- Cubing hay or alfalfa.
- Activities that consist of cutting, grading, or ice-glazing seafood that has been cooked, frozen, or canned outside this state.
- The growing, harvesting, or producing of agricultural products.
- Packing agricultural products, including sorting, washing, rinsing, grading, waxing, treating with fungicide, packaging, chilling, or placing in controlled atmospheric storage.

References

- [RCW 82.04.110](#) Manufacturer.
- [RCW 82.04.2403](#) Manufacturer tax not applicable to cleaning fish.

Manufacturing dairy products

Manufacturing dairy products

Manufacturing

Businesses that manufacture or process for hire dairy products must report gross income from this activity under the [Manufacturing Dairy Products](#) business and occupation (B&O) tax classification. They may then take a deduction for the full amount under [*Exempt Manufactured Products](#).

Note: This deduction expires July 1, 2035 . The activity will then be subject to a reduced B&O tax rate.

Selling

Manufacturers of dairy products must also report their sales under the Wholesaling or Retailing B&O tax classification. However, they may then take a B&O tax deduction for the following sales of dairy products they manufacture:

- *Retail sales to customers who will take the products out of state - [Dairy and Seafood Manufactured Products for Transport Out of State](#).

- *Wholesale sales to customers who will take the products out of state - [Dairy, Fresh Fruit/Vegetable, and Seafood Manufactured Products for Transport Out of State](#).
- **Wholesale sales to customers who will use the products to manufacture other dairy products in Washington - [Dairy Products Used in Manufacturing Dairy Products](#).

*: These deductions expire July 1, 2035. The activities will then be subject to a reduced B&O tax rate.

**: This deduction expires July 1, 2025. These sales will then be subject to the standard Wholesaling B&O tax.

Retail sales of dairy products must also be reported under the Retail Sales tax classification. However, dairy products are generally exempt from sales tax in Washington and can be deducted as [Exempt Food Sales](#).

Cannabis is not a dairy product. Cannabis-infused products, including cannabis concentrates, are not dairy products. This means the processing of cannabis-infused products that contain dairy ingredients do not qualify for this B&O tax exemption or the reduced rate effective July 1, 2035.

Multiple Activities Tax Credit (MATC)

Businesses that perform more than one taxable activity for the same product will report each activity under the proper classification and then take the MATC so that B&O tax is only paid once.

Note: You may not claim the MATC if your manufacturing activity is exempt from B&O tax.

For more information, please see the [MATC](#) section of this guide.

Litter tax

Manufacturers of dairy products must report [litter tax](#) on products manufactured or sold (wholesale and retail) in Washington.

Reporting/documentation requirements

Businesses that claim any of the starred (*) deductions above must file an Annual Tax Performance Report by May 31 of each year following a year when they claim the deduction. This requirement will also apply to the reduced B&O tax rates that take effect after the deductions expire.

Businesses that sell dairy products to customers who will take the products out of state or customers who will use the products to make other dairy products must keep documentation to support those deductions. Generally, a letter from the customer stating their intent is enough.

Definitions

Dairy products are:

- Products, not including any cannabis-infused product, that as of Sep. 20, 2001, are identified in 21 C.F.R., chapter 1, parts 131, 133, and 135, including by-products from the manufacturing of the dairy products, such as whey and casein.
- Products comprised of not less than 70% dairy products that qualify under (A), measured by weight or volume.

Additional resources

[Food manufacturing industry incentives](#)

References

- [RCW 82.04.260](#)(1)(c) Tax on manufacturers of...dairy products...
- [RCW 82.04.4268](#) Exemptions – Dairy product businesses.
- [RCW 82.32.534](#) Annual report requirements for tax preferences.
- [WAC 458-20-193](#) Interstate sales of tangible personal property.
- [WAC 458-20-243](#) Litter tax.
- [WAC 458-20-244](#) Food and food ingredients.

Manufacturing fresh fruits and vegetables by canning, preserving, freezing, processing, or dehydrating

Manufacturing fresh fruits and vegetables by canning, preserving, freezing, processing, or dehydrating

Manufacturing

Businesses that manufacture or process for hire fresh fruits and vegetables must report gross income from this activity under the [Manufacturing Fresh Fruits and Vegetables](#) business and occupation (B&O) tax classification. They may then take a deduction for the full amount under [*Exempt Manufactured Products](#).

Note: This deduction expires July 1, 2035. The activity will then be subject to a reduced B&O tax rate.

Selling

Manufacturers of fresh fruits and vegetables must also report their sales under either the Wholesaling or Retailing B&O tax classification. However, they may then take a B&O tax deduction for the following sales of fresh fruits and vegetables they manufacture:

- *Wholesale sales to customers who will take the products out of state - [Dairy, Fresh Fruit/Vegetable, and Seafood Manufactured Products for Transport Out of State](#).

Note: This deduction expires July 1, 2035. The activity will then be subject to a reduced B&O tax rate.

Retail sales of fresh fruits and vegetables must also be reported under the Retail Sales tax classification. However, fresh fruits and vegetables are generally exempt from sales tax in Washington and can be deducted as [Exempt Food Sales](#).

Sales of fresh fruits and vegetables delivered to consumers outside of Washington may be deducted from the Retailing B&O and Retail Sales tax classifications as [Interstate and Foreign Sales](#).

Cannabis is not a fresh fruit or vegetable. Cannabis, useable cannabis, and cannabis-infused products, including cannabis concentrates, are not fresh fruits or vegetables. This means the processing of cannabis into useable cannabis, cannabis-infused products, or cannabis concentrates (including cannabis-infused products that contain fruits or vegetables) does not qualify for this B&O tax exemption or the reduced rate effective July 1, 2035.

Multiple Activities Tax Credit (MATC)

Businesses that perform more than one taxable activity for the same product will report each activity under the proper classification and then take the MATC so that B&O tax is only paid once.

Note: You may not claim the MATC if your manufacturing activity is exempt from B&O tax. For more information, please see the [MATC](#) section of this guide.

Litter tax

Manufacturers of fresh fruits and vegetables must report [Litter tax](#) on products manufactured or sold (wholesale and retail) in Washington.

Reporting/documentation requirements

Businesses that claim the starred (*) deductions must file an Annual Tax Performance Report by May 31 of each year following a year when they claim the deduction. This requirement will also apply to the reduced B&O tax rates that take effect after the deductions expire.

Businesses that sell fresh fruits and vegetables at wholesale to customers who will take the products out of state must keep documentation to support this deduction. Generally, a letter from the customer stating their intent is enough.

Additional resources

[Food manufacturing industry incentives](#)

References

- [RCW 82.04.260\(1\)\(d\)](#) Tax on manufacturers and processors of various foods and by-products.
- [RCW 82.04.4266](#) Exemptions – Fruit and vegetable businesses.
- [RCW 82.32.534](#) Annual report requirements for tax preferences.
- [WAC 458-20-193](#) Interstate sales of tangible personal property.
- [WAC 458-20-243](#) Litter tax.
- [WAC 458-20-244](#) Food and food ingredients.

Manufacturing of commercial airplanes or components

Manufacturing of commercial airplanes or components

Manufacturing

Businesses that manufacture or process for hire commercial airplanes or component parts of commercial airplanes are taxable under the [Manufacturing of Commercial Airplanes or Components](#) business and occupation (B&O) tax classification.

Selling

Businesses that manufacture commercial airplanes or their component parts must also report their sales under one of the following B&O tax classifications:

- [Wholesaling of Commercial Airplanes or Components](#).
- [Retailing of Commercial Airplanes or Components](#).

Commercial airplanes or their component that are delivered to a customer outside of Washington can be deducted from selling classifications as [Interstate and Foreign Sales](#).

Multiple Activities Tax Credit (MATC)

Businesses that perform more than one taxable activity for the same product will report each activity under the proper classification and then take the MATC so that B&O tax is only paid once.

For more information, please see the [MATC](#) section of this guide.

Definitions

Commercial airplane means an airplane certified by the Federal Aviation Administration for transporting persons or property and any military derivative of such an airplane.

Component means a part or system certified by the Federal Aviation Administration for installation or assembly into a commercial airplane.

Additional resources

[Aerospace industry incentives](#)

References

- [RCW 82.04.260\(11\)\(a\)](#) ...Commercial airplane activities...
- [RCW 82.32.534](#) Annual report requirements for tax preferences.
- [RCW 82.32.550](#) “Commercial airplane,” “component,” and “superefficient airplane” – Definitions.
- [WAC 458-20-193](#) Interstate sales of tangible personal property.

Manufacturing of commercial airplane tooling

Manufacturing of commercial airplane tooling

Manufacturing

Businesses that manufacture or process for hire tooling specifically designed for use in manufacturing commercial airplanes or their components are taxable under the [Manufacturing of Commercial Airplane Tooling](#) business and occupation (B&O) tax classification.

Selling

Businesses that manufacture commercial airplanes or their component parts must also report their sales under one of the following B&O tax classifications:

- [Wholesaling of Commercial Airplane Tooling](#).
- [Retailing of Commercial Airplane Tooling](#).

Commercial airplane tooling delivered to a customer outside of Washington can be deducted from selling classifications as [Interstate and Foreign Sales](#).

Multiple Activities Tax Credit (MATC)

When a business performs more than one taxable activity for the same product, it reports each activity under the proper classification but then takes the MATC so that B&O tax is only paid once.

For more information, please see the [MATC](#) section of this guide.

Definitions

Commercial airplane means an airplane certified by the Federal Aviation Administration for transporting persons or property and any military derivative of such an airplane.

Component means a part or system certified by the Federal Aviation Administration for installation or assembly into a commercial airplane.

Additional resources

[Aerospace industry incentives](#)

References

- [RCW 82.04.260\(11\)\(b\)](#) ...Commercial airplane activities...
- [RCW 82.32.534](#) Annual report requirements for tax preferences.
- [RCW 82.32.550](#) “Commercial airplane,” “component,” and “superefficient airplane” – Definitions.
- [WAC 458-20-193](#) Interstate sales of tangible personal property.

Manufacturing seafood products that remain in a raw, raw frozen, or raw salted state

Manufacturing seafood products that remain in a raw, raw frozen, or raw salted state

Manufacturing

Businesses that manufacture or process for hire seafood products must report gross income from this activity under the [Manufacturing Seafood Products](#) business and occupation (B&O) tax classification. They may then take a deduction for the full amount under the *[Exempt Manufactured Products](#) classification.

Note: This deduction expires July 1, 2035. The activity will then be subject to a reduced B&O tax rate.

Selling

Manufacturers of seafood products must also report their sales under either the Wholesaling or Retailing B&O tax classification. However, they may then take a B&O tax deduction for the following sales of seafood products they manufacture:

- *Wholesale sales to customers who will take the products out of state - [Dairy, Fresh Fruit/Vegetable, and Seafood Manufactured Products for Transport Out of State](#).

Note: This deduction expires July 1, 2035. The activity will then be subject to a reduced B&O tax rate.

Retail sales of seafood products must also be reported under the Retail Sales tax classification. However, seafood products are generally exempt from sales tax in Washington and can be deducted as [Exempt Food Sales](#).

Sales of seafood products delivered to consumers outside of Washington may be deducted from the Retailing B&O and Retail Sales tax classifications as [Interstate and Foreign Sales](#).

Multiple Activities Tax Credit (MATC)

When a business performs more than one taxable activity for the same product, it reports each activity under the proper classifications but then takes the MATC so that B&O tax is only paid once.

For more information, please see the [MATC](#) section of this guide.

Litter tax

Manufacturers of seafood products must report [Litter tax](#) on products manufactured or sold (wholesale and retail) in Washington.

Reporting/documentation requirements

Businesses that claim the starred (*) deductions must file an Annual Tax Performance Report by May 31 of each year following a year when they claim the deduction. This requirement will also apply to the reduced B&O tax rates that take effect after the deductions expire.

Businesses that make wholesale sales of seafood products to customers who will take the products out of state must keep documentation to support this deduction. Generally, a letter from the customer stating their intent is enough.

Additional resources

[Food manufacturing industry incentives](#)

References

- [RCW 82.04.260\(1\)\(b\)](#) Tax on manufacturers and processors of various foods and by-products....
- [RCW 82.04.4269](#) Exemptions – Seafood product businesses.
- [RCW 82.32.534](#) Annual report requirements for tax preferences.
- [WAC 458-20-193](#) Interstate sales of tangible personal property.
- [WAC 458-20-243](#) Litter tax.
- [WAC 458-20-244](#) Food and food ingredients.

Manufacturing semiconductor materials

Manufacturing semiconductor materials

Manufacturing

Businesses that manufacture or process for hire semiconductor materials are taxable under the [Manufacturers/Processors for Hire of Semiconductor Materials](#) business and occupation (B&O) tax classification at a preferential rate.

Note: The preferential tax rate expires January 1, 2034. The activity will then be taxable under the standard manufacturing B&O tax rate.

Selling

Businesses that manufacture semiconductor materials must also report their sales under either the Wholesaling B&O or Retailing B&O and Retail Sales tax classifications. They may take an [Interstate and Foreign Sales](#) deduction from each selling classification for goods delivered to customers outside of Washington.

Multiple Activities Tax Credit (MATC)

Businesses that perform more than one taxable activity for the same product will report each activity under the proper classification and then take the MATC so that B&O tax is only paid once.

For more information, please see the [MATC](#) section of this guide.

Employment requirement

Businesses that report under the preferential manufacturing rate must maintain at least 90% of their employment average for the previous three years in the year they claim the tax preference, or they must repay 50% of the preference claimed.

Reporting/documentation requirements

Businesses that report under the preferential tax rate must file an Annual Tax Performance Report by May 31 of each year following a year when they claim the preferential rate. This requirement will not apply when the preferential rate expires.

Definitions

For purposes of the preferential B&O tax rate, **semiconductor materials** means silicon crystals, silicon ingots, raw polished semiconductor wafers, and compound semiconductor wafers.

Additional resources

[Semiconductor industry incentives](#)

References

- [RCW 82.04.2404](#) Manufacturers – Processors for hire – Semiconductor materials.
- [RCW 82.32.534](#) Annual report requirements for tax preferences.
- [WAC 458-20-193](#) Interstate sales of tangible personal property.

Manufacturing solar energy systems and components of solar energy systems

Manufacturing solar energy systems and components of solar energy systems

Manufacturing

Businesses that manufacture or process for hire solar energy systems that use photovoltaic modules or stirring converters are taxable at a preferential rate under the [Manufacturing of Solar Energy](#) business and occupation (B&O) tax classification.

Businesses that manufacture or process for hire solar grade silicon, silicon solar wafers, silicon solar cells, thin film solar devices, or compound semiconductor solar wafers that are used exclusively as components of the solar energy systems above are also taxable under the [Manufacturing of Solar Energy](#) B&O tax classification.

Note: The preferential tax rate expires July 1, 2032. The activity will then be taxable under the standard manufacturing B&O tax rate.

Selling

Manufacturers of solar energy systems that use photovoltaic modules, stirling converters, or the specific components listed above who sell their products at wholesale are taxable under the [Wholesaling of Solar Energy](#) B&O tax classification at a preferential rate.

Note: The preferential tax rate expires July 1, 2032. The activity will then be taxable under standard wholesaling B&O tax rate.

Manufacturers of solar energy systems and their components who sell their products to consumers are taxable under the Retailing B&O and Retail Sales tax classifications.

Businesses that deliver solar energy systems or their components to customers outside of Washington may take an [Interstate and Foreign Sales](#) deduction from the following classifications:

- Wholesaling of Solar Energy.
- Retailing.
- Retail Sales.

Multiple Activities Tax Credit (MATC)

Businesses that perform more than one taxable activity for the same product will report each activity under the proper classification and then take the MATC so that B&O tax is only paid once.

For more information, please see the [MATC](#) section of this guide.

Reporting/documentation requirements

Businesses that report under the preferential tax rates must file an Annual Tax Performance Report by May 31 of each year following a year when they claim the preferential rate. This requirement will not apply when the preferential rates expire.

Additional resources

[Renewable energy/green incentives](#)

References

- [RCW 82.04.294](#) Tax on manufacturers or wholesalers of solar energy systems.
- [RCW 82.32.534](#) Annual report requirements for tax preferences.
- [WAC 458-20-193](#) Interstate sales of tangible personal property.

Manufacturing timber or wood products

Manufacturing timber or wood products

Manufacturing

Businesses that manufacture or process for hire timber products, wood products, or mass timber products are taxable under either the [Manufacturing of Timber or Wood Products](#) or [Processing for Hire Wood Products](#) business and occupation (B&O) tax classification at a preferential rate.

Note: The preferential tax rates expire June 30, 2045. The activities will then be taxable under the standard manufacturing or processing for hire B&O tax rates.

Selling

Manufacturers of timber products, wood products, or mass timber products are also taxable on the wholesale sales of their products under the preferential Wholesaling of Timber or Wood Products B&O tax classification.

Note: The preferential tax rates expire June 30, 2045. The activity will then be taxable under the standard wholesaling B&O tax rate.

Manufacturers of timber products, wood products, or mass timber products are taxable under the Retailing B&O and Retail Sales tax classifications on retail sales.

Businesses that deliver timber products, wood products, or mass timber products to customers outside of Washington may take an [Interstate and Foreign Sales](#) deduction from the following classifications:

- Wholesaling of Timber or Wood Products.
- Retailing.
- Retail Sales.

Multiple Activities Tax Credit (MATC)

Businesses that perform more than one taxable activity for the same product will report each activity under the proper classification and then take the MATC so that B&O tax is only paid once.

For more information, please see the [MATC](#) section of this guide.

Reporting/documentation requirements

Businesses that report under the preferential tax rates must file an Annual Tax Performance Report by May 31st of each year following a year when they claim the preferential rate. This requirement will not apply when the preferential rates expire.

Definitions

Timber product means:

- Logs, wood chips, sawdust, wood waste, and similar products obtained wholly from the processing of timber, short-rotation hardwoods, or both.
- Pulp, including market pulp and pulp derived from recovered paper products.
- Recycled paper, but only when used to manufacture biocomposite surface products.

Wood products means paper and paper products; dimensional lumber; engineered wood products such as particle board, oriented strand board, medium density fiberboard, and plywood; wood doors; wood windows; and biocomposite surface products.

Paper and paper products mean products made of interwoven cellulosic fibers held together largely by hydrogen bonding (paper and paper products does not include printed material).

Additional resources

[Extracting & timber manufacturing incentives](#)

References

- [RCW 82.04.260\(12\)](#) ...Timber product activities...
- [RCW 82.32.534](#) Annual report requirements for tax preferences.
- [WAC 458-20-13501](#) Timber harvest operations.
- [WAC 458-20-193](#) Interstate sales of tangible personal property.

Manufacturing wheat into flour, barley into pearl barley, soybeans into soybean oil, or sunflower seed into sunflower oil

Manufacturing wheat into flour, barley into pearl barley, soybeans into soybean oil, or sunflower seed into sunflower oil

Manufacturing

Businesses that manufacture wheat into flour, soybeans into soybean oil, sunflower seeds into sunflower oil, and canola into canola oil, meal or canola byproducts are taxable under the [Manufacturing Wheat into Flour, Soybean & Canola Processing](#) business and occupation (B&O) tax classification.

Selling

Manufacturers selling these products must also report under either the Wholesaling or Retailing B&O tax classifications.

Retail sales of these products must also be reported under the Retail Sales tax classification. However, these products are generally exempt from sales tax and can be deducted as [Exempt Food Sales](#). Businesses that deliver these products to customers outside of Washington may take an [Interstate and Foreign Sales](#) deduction from the following classifications:

- Wholesaling.
- Retailing.
- Retail Sales.

Multiple Activities Tax Credit (MATC)

Businesses that perform more than one taxable activity for the same product will report each activity under the proper classification and then take the MATC so that B&O tax is only paid once.

For more information, please see the [MATC](#) section of this guide.

Litter tax

Manufacturers of food for human or pet consumption must report [Litter tax](#) on products manufactured or sold (wholesale and retail) in Washington.

References

- [RCW 82.04.260\(1\)\(a\)](#) Tax on manufacturers and processors of various foods and by-products...
- [WAC 458-20-136](#) Manufacturing, processing for hire, fabricating.
- [WAC 458-20-193](#) Interstate sales of tangible personal property.
- [WAC 458-20-243](#) Litter tax.
- [WAC 458-20-244](#) Food and food ingredients.

Manufacturing wood biomass fuel

Manufacturing wood biomass fuel

Manufacturing

Businesses that manufacture wood biomass fuel are taxable under the [Manufacturing Wood Biomass Fuel](#) classification of the business and occupation (B&O) tax.

Selling

Businesses that manufacture wood biomass fuel must also report under either the Wholesaling B&O or Retailing B&O and Retail Sales tax classifications.

They may take an [Interstate and Foreign Sales](#) deduction from each selling classification for goods delivered to customers outside of Washington.

Multiple Activities Tax Credit (MATC)

Businesses that perform more than one taxable activity for the same product will report each activity under the proper classification and then take the MATC so that B&O tax is only paid once. For more information, please see the [MATC](#) section of this guide.

Definitions

Wood biomass fuel means a liquid or gaseous fuel produced from lignocellulosic feedstocks, including wood, forest, or field residue and dedicated energy crops, and that does not include wood treated with chemical preservations such as creosote, pentachlorophenol, or copper-chrome-arsenic.

References

- [RCW 82.04.260\(1\)\(e\)](#) Tax on manufacturers and processors for hire of...wood biomass fuel...
- [WAC 458-20-193](#) Interstate sales of tangible personal property.

Manufacturer's sales/use tax exemption for machinery and equipment (M&E)

Manufacturer's sales/use tax exemption for machinery and equipment (M&E)

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Basic overview

The Manufacturers' Sales and Use Tax Exemption for Machinery and Equipment (M&E exemption) provides a retail sales and use tax exemption for:

- Machinery and equipment used directly in a manufacturing operation or research and development operation by a manufacturer or processor for hire.
- Sales of, or charges made for, labor and services rendered in respect to installing, repairing, cleaning, altering, or improving qualifying machinery and equipment.
- Machinery and equipment used directly in a testing operation by a person engaged in testing for a manufacturer or processor for hire.

Generally, to be eligible for the M&E exemption, a business must report under one or more of the manufacturing business and occupation (B&O) tax classifications. This is because they are manufacturing items for commercial or industrial use (research & development or manufacturing), or they are manufacturing items for sale. Both activities result in a B&O tax liability. However, other requirements apply.

Cannabis processors: Cannabis processors must pay retail sales tax or use tax on all purchases of machinery and equipment used in the manufacturing, research and development, or testing of cannabis, useable cannabis, or cannabis-infused products, including cannabis concentrates. Cannabis businesses that perform these activities are **not** eligible for the M&E exemption.

What qualifies?

A manufacturer/processor for hire is exempt from sales and use tax on:

- Purchases of machinery and equipment.
- Purchases of machinery and equipment for repairing machinery and equipment.
- Charges for hiring someone to repair machinery and equipment.
- Renting equipment (with or without an operator) to repair or install machinery and equipment.

To qualify for the M&E sales and use tax exemption:

- The property must meet the definition of "machinery and equipment" as one of the following:
 - Device.
 - Industrial fixture.
 - Support facility.
 - Tangible personal property that becomes an ingredient or component of any of the above, including repair and replacement parts, lubricants, etc., with a useful life of one year or more.
- The purchase or use must be by a manufacturer or processor for hire or a person engaged in testing for a manufacturer or processor for hire.
- The machinery and equipment must be used directly in a manufacturing operation, research and development by a manufacturer, or testing operation,
- The machinery or equipment must have a useful life of one year or more.
- The machinery and equipment must be used more than 50% of the time on an eligible activity (majority use threshold).

Repair services and parts: Because the exemption is limited to items with a useful life of one year or more, some charges for repair, labor, services, and replacement parts may not be eligible for the exemption. In the case of labor and service charges that cover both qualifying and non-qualifying repair and replacement parts, the labor and services charges are considered exempt. If all of the parts are non-qualifying, the labor and service charge is not exempt.

Computers: Computers may qualify for the M&E exemption if they meet either of the following criteria:

- They direct or control machinery or equipment that acts upon or interacts with tangible personal property.
- If they act upon or interact with an item of tangible personal property.

Software: Computer software satisfies the definition of device because it performs a task and is not attached to a building or site. Consequently, software can qualify for the M&E exemption if it meets a used directly test. For example, a software program that controls equipment operation that cuts logs into lumber qualifies for the M&E exemption. It performs a task, the control of a piece of eligible machinery, and is used directly in the manufacturing operation. However, a CD-ROM of a repair manual for this equipment does not qualify for the M&E exemption because the software does not perform a task in the manufacturing operation.

Definitions

Machinery and equipment (M&E) means industrial fixtures, devices, support facilities, and tangible personal property that becomes an ingredient or component thereof, including repair parts. M&E also includes pollution control equipment installed and used in a qualifying operation to prevent air pollution, water pollution, or contamination that might otherwise result from the operation.

Device means an item that is not attached to the building or site.

Industrial fixture means an item attached to a building or to land. Fixtures become part of the real estate to which they are attached and, upon attachment, are classified as real property, not personal property.

A support facility is a part of a building, structure, or improvement used to contain or steady an industrial fixture or device. It must be specially designed and necessary for the proper functioning of the industrial fixture or device and must perform a function beyond being a building, structure, or improvement. It must have a function relative to an industrial fixture or device.

Manufacturing operation means the manufacturing of articles, substances, or commodities for sale as tangible personal property. It begins when the raw materials enter the manufacturing site and ends when the processed material leaves the manufacturing site. The operation includes storage of raw, in-process, and processed materials at the site. The term also includes that portion of a cogeneration project that is used to generate power for consumption within the site of which the cogeneration project is an integral part.

The manufacturing operation is defined in terms of a process occurring at a location. To be eligible as a qualifying use of M&E, the use must take place within the manufacturing operation, unless specifically exempted by law. The statute specifically allows testing to occur away from the site.

Research and development operation means engaging in research and development as defined in [RCW 82.63.010](#) by a manufacturer or processor for hire.

Testing means activities performed to establish or determine the properties, qualities, and limitations of tangible personal property.

Testing operation means the testing of tangible personal property for a manufacturer or processor for hire. It starts when the tangible personal property enters the testing site and ends when the tangible personal property leaves the testing site. The term also includes that portion of a cogeneration project that generates power for use within the site. The testing operation is defined in terms of a process occurring at a location. To be eligible as a qualifying use of M&E, the use must take place within the testing operation, unless specifically exempted by law.

What doesn't qualify?

In addition to items that are not eligible because they do not meet the used directly test or fail to overcome the majority use threshold, there are four categories of items that are excluded from eligibility by statute. The

following property is **not** eligible for the M&E exemption:

1. Hand-powered tools. Screwdrivers, hammers, clamps, tape measures, and wrenches are examples of hand-powered tools. Electric-powered, including cordless tools, are not hand-powered tools, nor are calipers, plugs used in measuring, or calculators.
2. Property with a **useful life of less than one year**. All eligible machinery and equipment must satisfy the useful life criteria, including repair and replacement parts. For example, items such as blades and bits are generally not eligible for the exemption because, while they may become component parts of eligible machinery and equipment, they generally have a useful life of less than one year. Blades generally having a useful life of one year or more, such as certain sawmill blades, are eligible. (See subsection on thresholds to determine useful life.)
3. Buildings, other than machinery and equipment that is permanently affixed to or becomes a physical part of a building. Buildings provide workspace for people, shelter machinery and equipment, or tangible personal property. The building itself, and some of its components, such as walls, partitions, floors, ceilings, windows, and doors, are not eligible for the exemption. The industrial fixtures and support facilities that become affixed to or part of the building might be eligible. The subsequent real property status of industrial fixtures and support facilities does not affect eligibility for the exemption.
4. Building fixtures that are not integral to the manufacturing operation, testing operation, or research and development operation that are permanently affixed to and become a physical part of a building, such as utility systems for heating, ventilation, air conditioning, communications, plumbing, or electrical. Examples of nonqualifying fixtures are: Fire sprinklers, building electrical systems, or washroom fixtures. Fixtures that are integral to the manufacturing operation might be eligible, depending on whether the item meets the other requirements for eligibility, such as the used directly test.

Books: To be eligible for the M&E exemption as a device, the property must perform a task and do work. Books are used for reference and to assist in, guide, or control decision-making, but they are not used by a person in the same manner as machinery and equipment, which have an applied function. Therefore, books do not qualify for the M&E exemption.

Determining “used directly”

The machinery & equipment must be **used directly** in a manufacturing operation, testing operation, or research and development operation.

The law provides eight descriptions of the phrase used directly. The way a person uses an item of machinery and equipment must match one of these descriptions. If machinery and equipment is not used directly it is not eligible for the exemption.

Machinery and equipment is used directly in a manufacturing operation, testing operation, or research and development operation if the machinery and equipment meet any one of the following criteria:

1. **Acts upon or interacts with an item of tangible personal property.** Examples of this are drill presses, cement mixers (agitators), ready-mix concrete trucks, hot steel rolling machines, rock crushers, and band saws. Machinery and equipment used to repair, maintain, or install tangible personal property are also included.
2. **Conveys, transports, handles, or temporarily stores an item of tangible personal property at the manufacturing site or the testing site.** Examples of this are wheelbarrows, handcars, storage racks, forklifts, tanks, vats, robotic arms, piping, and concrete storage pads. Floor space in buildings does not qualify.
3. **Controls, guides, measures, verifies, aligns, regulates, or tests tangible personal property at the site or away from the site.** Examples of "away from the site" are road testing of trucks, air testing of planes, or water testing of boats, with the machinery and equipment used off-site in the testing eligible under this criteria. Machinery and equipment used to take readings or measurements is eligible under this criterion.

4. **Provides physical support for or access to tangible personal property.** Examples of this are catwalks adjacent to production equipment, scaffolding around tanks, braces under vats, and ladders near controls. Machinery and equipment used for access to the building or to provide a workspace for people or a space for tangible personal property or machinery and equipment, such as stairways or doors, is not eligible.
5. **Produces power for or lubricates machinery and equipment.** An example of this is a generator providing power to a sander. Lubricating devices, such as hoses, oil guns, pumps, and meters, are eligible even if they are not attached to machinery and equipment. An electrical generating plant that provides power for a building is **not** eligible.
6. **Produces another item of tangible personal property for use in the manufacturing operation, testing operation, or research and development operation.** Examples include machinery and equipment that makes dies, jigs, or molds, and printers that produce camera-ready images.
7. **Places tangible personal property in the container, package, or wrapping in which the tangible personal property is normally sold or transported.**
8. **Is integral to research and development.** Integral means the machinery and equipment is necessary for research and development. **Example:** An electrical apparatus used directly in a research and development operation need only be “integral” to the research and development operation to be entitled to the M&E exemption. There is no requirement that it act upon or interact with an item of tangible personal property or produce power for machinery and equipment.

Examples of items that are **not** used directly in a qualifying operation include, but are not limited to:

- Cafeteria furniture.
- Safety equipment not part of qualifying M&E.
- Packaging materials.
- Shipping materials.
- Administrative or office equipment.

Determining useful life

Property with a useful life of less than one year is not eligible for the M&E exemption. The useful life threshold identifies items that do not qualify for the exemption, such as supplies, consumables, and other classes of items that are not expected or intended to last a year or more.

For example, tangible personal property that is acquired for a one-time use and is discarded upon use, such as a mold or a form, has a useful life of less than one year and is not eligible.

If it is clear from taxpayer records or practice that an item is not used for at least one year, the item is not eligible, regardless of the answers to the four threshold questions.

Generally, if the machinery and equipment meet all of the other M&E exemption requirements, useful life can be determined by answering the following questions for an individual piece of machinery and equipment:

1. Is the machinery and equipment capitalized for either federal tax purposes or accounting purposes?
 - If the answer is "yes," it qualifies for the exemption.
 - If the answer is "no," go to the next question.
2. Is the machinery and equipment warranted by the manufacturer to last at least one year?
 - If the answer is "yes," it qualifies for the exemption.
 - If the answer is "no," go to the next question.
3. Is the machinery and equipment normally replaced at intervals of one year or more, as established by industry or business practice? (This is commonly based on the actual experience of the person claiming the exemption.)
 - If the answer is "yes," it qualifies for the exemption.
 - If the answer is "no," go to the next question.

4. Is the machinery and equipment expected at the time of purchase to last at least one year, as established by industry or business practice? (This is commonly based on the actual experience of the person claiming the exemption.)
 - If the answer is "yes," it qualifies for the exemption.
 - If the answer is "no," it does not qualify for the exemption.

Determining majority use

Machinery and equipment both used directly in a qualifying operation and used in a non-qualifying manner is eligible for the exemption only if the qualifying use satisfies the majority use requirement. Examples of situations in which an item of machinery and equipment is used for qualifying and non-qualifying purposes include:

- The use of machinery and equipment in manufacturing and repair activities, such as using a power saw to make cabinets in a shop versus using it to make cabinets at a customer location.
- The use of machinery and equipment in manufacturing and constructing activities, such as using a forklift to move finished sheet rock at the manufacturing site versus using it to unload sheet rock at a customer location.
- The use of machinery and equipment in manufacturing and transportation activities, such as using a mixer truck to make concrete at a manufacturing site versus using it to deliver concrete to a customer.

Majority use can be expressed as a percentage, with the minimum required amount of qualifying use being greater than 50% compared to overall use. To determine whether the majority use requirement has been satisfied, the person claiming the exemption must retain records documenting the measurement used to substantiate a claim for exemption. Majority use is measured by looking at the use of an item during a calendar year using any of the following:

1. **Time.** Time is measured using hours, days, or another unit of time, with qualifying use of the M&E the numerator, and total time used the denominator. Suitable records for time measurement include employee time sheets or equipment time use logs.
2. **Value.** Value means the value to the person, measured by revenue if the qualifying and non-qualifying uses both produce revenue. Value is measured using gross revenue, with revenue from qualifying use of the M&E the numerator, and total revenue from use of the M&E the denominator. If there is no revenue associated with the use of the M&E, such as in-house accounting use of a computer system, the value basis may not be used. Suitable records for value measurement include taxpayer sales journals, ledgers, account books, invoices, and other summary records.
3. **Volume.** Volume is measured using amount of product, with volume from qualifying use of the M&E the numerator and total volume from use of the M&E the denominator. Suitable records for volume measurement include production numbers, tonnage, and dimensions.
4. **Other comparable measurement for comparison.** The department may agree to allow a taxpayer to use another measure for comparison, provided that the method results in a comparison between qualifying and non-qualifying uses. For example, if work patterns or routines demonstrate typical behavior, the taxpayer can satisfy the majority use test using work site surveys as proof.

Each piece of M&E does not require a separate record if the taxpayer can establish that it is reasonable to bundle M&E into classes. Classes may be created only from similar pieces of machinery and equipment and only if the uses of the pieces are the same.

For example, forklifts of various sizes and models can be bundled together if the forklifts are doing the same work, such as moving wrapped product from the assembly line to a storage area. An example of when not to bundle classes of M&E for purposes of the majority use threshold is the use of a computer that controls a machine through numerical control versus use of a computer that creates a camera-ready page for printing.

Generally, whether the majority use threshold is met is decided on a case-by-case basis, looking at the specific manufacturing operation in which the item is being used. However, for purposes of applying the majority use threshold, the department may develop industry-wide standards.

For example, the aggregate industry uses concrete mixer trucks in a consistent manner across the industry. Based on a comparison of selling prices and delivery prices the department has determined that concrete trucks generally overcome the majority use threshold and can qualify for the M&E exemption. Only in those limited instances where it is apparent that the use of the concrete truck is atypical for the industry would the taxpayer be required to provide recordkeeping on the use of the truck to support the exemption.

Manufacturing sites

What is a site?

A site is one or more immediately adjacent parcels of real property. The property's ownership status is irrelevant – a parcel can be owned, rented, or leased by the manufacturer or processor for hire. Adjacent parcels of real property separated only by a public road comprise a single “site.” The public road dividing the site is an incidental separation of what would otherwise be one site.

Temporary manufacturing sites

A manufacturing operation can exist where the manufacturing site is temporary and where the manufacturing equipment is mobile. For example, operations using portable sawmills or rock-crushing equipment are considered "manufacturing operations" if the activity in which the person is engaged is manufacturing.

- Rock-crushing equipment that deposits material onto a roadway is not used in a manufacturing operation because this is a part of the constructing activity, not a manufacturing activity.
- A portable cement mixer at a construction site is **not** used in a manufacturing operation because the activity is constructing, not manufacturing.
- Other portable equipment used in non-manufacturing activities, such as continuous gutter trucks or trucks designed to deliver and combine aggregate or specialized carpentry tools, do **not** qualify for the same reasons.

Multiple manufacturing sites

Manufacturing tangible personal property for sale can occur in stages. Each stage can take place at different manufacturing sites. For example, if a taxpayer processes pulp from wood at one site and transfers the resulting pulp to another site that further manufactures the product into paper, two separate qualifying manufacturing operations exist if the end product is sold as tangible personal property.

At the site or away from the site

Generally, machinery and equipment must be used at the manufacturing site to qualify for the M&E exemption.

However, machinery and equipment that meets the used directly test for “controls, guides, measures, verifies, aligns, regulates, or tests tangible personal property at the site or away from the site” is the exception. This exception commonly applies to M&E used at a testing operation or an R&D operation.

Research & development operations

The M&E exemption applies to sales of machinery and equipment used directly in an R&D operation by a manufacturer or processor for hire. Machinery and equipment is used directly in an R&D operation if it is

integral to R&D.

Examples of machinery and equipment used in R&D operations that may qualify for the exemption if all other requirements are met include:

- Computer hardware and software.
- Data processing equipment.
- Laboratory equipment.

Integral to research and development operation

Machinery and equipment must be integral to the R&D operation to qualify for the M&E exemption. This means the R&D cannot be accomplished without such machinery and equipment.

Examples of machinery and equipment that **are** integral to an R&D operation include:

- A laboratory table in a lab.
- A chair used in a laboratory workstation.
- Telephones, computer hardware (e.g., cables, scanners, printers, etc.), and computer software (e.g., Word, Excel, Windows, Adobe, etc.) used in a typical workstation for an R&D personnel.

Examples of items that are **not** integral to an R&D operation include:

- Decorative artwork.
- A chair in a lobby area or conference room.
- Computer hardware and software used by the accounting department.

Research and development activities Machinery and equipment used by a manufacturer or processor for hire to perform R&D may still qualify for the M&E exemption when R&D is performed away from a manufacturing site. R&D **includes** the following activities:

- Activities performed to discover technological information.
- Technical and non-routine activities concerned with translating technological information into new or improved products, processes, techniques, formulas, inventions, or software.
- Exploration of a new use for an existing drug, device, or biological product if the new use requires separate licensing by the Federal Food and Drug Administration under Chapter 21, C.F.R., as amended.

R&D does **not** include the following activities:

- Adaptation or duplication of existing products without substantial improvement by application of the technology.
- Surveys and studies.
- Social science and humanities research.
- Market research or testing.
- Quality control.
- Sale promotion and service.
- Computer software developed for internal use.
- Research to improve style, taste, or seasonal design.

Majority use requirement for machinery and equipment used in research and development

Machinery and equipment used in a R&D operation must satisfy the majority use threshold to qualify for the M&E exemption. Machinery and equipment that does not satisfy the majority use threshold is subject to use tax

at the time the majority use threshold is no longer met. For example, a laboratory table used solely for qualifying R&D purposes and then converted solely to non-qualifying uses is subject to use tax at the time of conversion.

Design and product development

The department distinguishes between activities that take place within the manufacturing operation and activities that happen before or after the manufacturing operation. The M&E exemption does not apply to machinery and equipment exclusively used in design and product development because those activities take place before the manufacturing operation. However, property that is used both in product development and in manufacturing of tangible personal property may be eligible for the M&E exemption if all other requirements of the exemption are met.

Examples of non-qualifying design and product development activities that take place before the manufacturing operation include:

- Composition of a book or the writing of a newspaper article.
- Design of an automobile or engineering of a piston.

Examples of qualifying activities that take place during the manufacturing operation include:

- Taking a completed manuscript and preparing it for printing.
- Layout and pagination of a newspaper.

Essentially, the creation of the information is not manufacturing or part of the manufacturing operation.

The department will presume that design activity is not part of the manufacturing operation, and the machinery and equipment used is not eligible for the M&E exemption.

Equipment used in redesign or refinement of a product after manufacturing has begun is not eligible for the M&E exemption. This presumption can be overcome by showing that the design decisions and the application of labor and skills to the raw materials are the same activity.

Electrical apparatus and utility systems

Electrical apparatus and utility systems are generally considered industrial fixtures or devices. Industrial fixtures and devices may be eligible for the M&E exemption if they meet all of the other requirements. However, some utility systems are building fixtures that only serve a building purpose and as such do not qualify.

Electrical apparatus

Electrical apparatuses such as motor control centers, starters, switches, regulators, and exciters “act upon or interact with” tangible personal property, often in a sequential manner. For example, the motor control center produces an action that results in a reaction by the motor. Switches and exciters work in much the same way. Similarly, circuit breakers and comparable equipment react to an event in another item, and this cause-and-effect behavior falls under the “acts upon or interacts with” criteria.

Converters, transformers, and other equipment on site that alter the characteristics of the electricity “produce power” for machinery and equipment.

Apparatuses that are part of a utility system used for qualifying and non-qualifying purposes should be examined using an appropriate allocation standard. Transmission and distribution systems located off-site do **not** qualify for the M&E exemption.

Utility systems used for qualifying and nonqualifying purposes

Utility systems that are building fixtures **and** are integral to the manufacturing operation, testing operation, or research and development operation qualify for the M&E exemption if they meet all of the other requirements.

Utility systems that only serve a building purpose do not qualify for the exemption. For example, a utility system used to perform a general building purpose, such as an HVAC system controlling the air temperature or air quality in general, is not eligible for the M&E exemption.

If a utility system is used for both qualifying and non-qualifying purposes, it should be allocated so that only the qualifying portion of the system receives the exemption, and the building portion does not.

Allocating utility systems

One way of allocating a utility system is by applying the ratio of the qualifying use of the system to the total use of the system. The manufacturer must support this ratio with documentation, such as engineering analyses and power bills. This means if the manufacturer can document that 30% of a system is used for the manufacturing activity (e.g., 30% of the system is dedicated to manufacturing frozen raspberries vs. 70% dedicated to cold storage), then this 30% qualifies for the exemption.

Note: The concept of allocating based on qualifying or non-qualifying for purposes of the M&E exemption is limited to utility system machinery and equipment considered a building fixture that is used to support **both** manufacturing machinery and equipment and the building systems. All other areas dealing with qualifying and non-qualifying use of machinery and equipment must use the majority use threshold.

Renting or leasing tangible personal property

Bare rentals: The “renting or leasing of tangible personal property”, sometimes referred to as a bare rental or true lease, is eligible for the M&E exemption if all other conditions of the exemption are met. For example, the rental of a crane on a bare rental basis to a manufacturer whose employee operates the crane to move equipment to the top of a building may be eligible for the M&E exemption.

Rental of equipment with an operator: The “rental of equipment with an operator” is a separate and distinct activity from the “renting or leasing of tangible personal property.” The “rental of equipment with an operator” is a sale of a service and not a sale of tangible personal property. While the seller is providing equipment along with the equipment operator, the customer is purchasing the knowledge, skills, and expertise of an operator needed to operate the equipment at the customer’s direction. The rental of equipment with an operator may not be eligible for the M&E exemption. The facts and circumstances of each situation must be considered.

For example, a manufacturer hires a company to provide a crane with an operator to move qualifying equipment to the top of a building. While the company’s employee operates the crane, the equipment is actually installed by manufacturer’s employees. The purchase of the crane with an operator service is **not** eligible for the M&E exemption.

However, if a manufacturer hires a company to provide a crane with an operator to move qualifying equipment to the top of a building and the personnel to install the equipment the purchased service **is** eligible for the M&E exemption. This is because the company hired by the manufacturer is responsible for installing the equipment.

Prototypes

Property that is the object of the manufacturing activity does not itself qualify for the M&E exemption. The thing being made is the object of the activity and, as such, is not machinery and equipment, as that phrase is used in the M&E exemption. To qualify for the M&E exemption, a prototype must be used in one of the following ways:

- To make, build, or test a different product.
- In some supportive capacity (used directly) in stages of the manufacturing operation.

Any product made by a manufacturer and used in a qualifying manner may qualify for exemption if it is not the object of the activity itself. Examples of products that may qualify for the M&E exemption include:

- A prototype used as a manufacturing mockup to calibrate tools.
- A prototype used as a “test bed”.

The phrase “test bed” means that the prototype is used to test **other** property and not the prototype itself. A test bed typically evaluates how property operates under a range of working conditions. The manufacturer must be able to show that the information gained from the test bed will be used for a different product or process.

Assumptions

The department assumes both of the following regarding prototypes:

- The product that is being developed or manufactured will not be used in a manner eligible for the M&E exemption.
- The product and all its components are the thing being tested.

To overcome these assumptions, the manufacturer must keep documentation showing that the item is being used to test something other than itself. Such documentation must reflect the basis for the activity and the manufacturer's intent. Eligibility for the M&E exemption will be determined on a case-by-case basis.

Reporting/documentation

Buyers must give the seller a properly completed [Manufacturer’s Sales and Use Tax Exemption Certificate](#).

Sellers must report all sales of machinery and equipment under the Retailing B&O and Retail Sales tax classifications. They may then use one of the following deductions:

- [Sales of Manufacturing Machinery/Equipment and Installation Labor](#) from the Retail Sales tax classification for delivery/installation in Washington.
- [Interstate and Foreign Sales](#) from both classifications for delivery/installation outside of Washington.

The seller must keep a copy of the Manufacturer’s Sales and Use Tax Exemption certificate or proof of delivery in their records.

References

- [RCW 82.08.02565](#) Exemptions – Sales of machinery and equipment for manufacturing...
- [RCW 82.12.02565](#) Exemptions – Machinery and equipment used for manufacturing...
- [WAC 458-20-13601](#) Manufacturers and processors for hire – Sales and use tax exemption for machinery and equipment.
- [WAC 458-20-211](#) Leases or rentals of tangible personal property, bailments.
- [WAC 458-20-24003](#) Tax incentives for high technology businesses.
- [ETA 3118](#) Manufacturers’ Machinery and Equipment Exemption – Rental of tangible personal property and providing tangible personal property along with an operator
- [ETA 3119](#) Manufacturers’ Machinery and Equipment Exemption – Pollution control equipment
- [ETA 3120](#) Manufacturers’ Machinery and Equipment Exemption – Electrical apparatus and utility systems
- [ETA 3121](#) Manufacturers’ Machinery and Equipment Exemption – Devices
- [ETA 3122](#) Manufacturers’ Machinery and Equipment Exemption – Design and product development
- [ETA 3123](#) Manufacturers’ Machinery and Equipment Exemption – Manufacturing site

- [ETA 3124](#) Manufacturers' Machinery and Equipment Exemption – Buildings, fixtures, and support facilities
- [ETA 3125](#) Manufacturers' Machinery and Equipment Exemption – Computers
- [ETA 3126](#) Manufacturers' Machinery and Equipment Exemption – Prototypes
- [ETA 3127](#) Manufacturers' Machinery and Equipment Exemption – Research and development

Multiple activities tax credit (MATC)

Multiple activities tax credit (MATC)

When a business performs more than one taxable activity for the same product, it may take an MATC so tax is not paid twice on the same amount. This credit applies to Washington's business and occupation (B&O) tax (internal) and gross receipts taxes paid to other states (external). Both the internal and the external MATC are subject to the following requirements:

- The amount of credit cannot exceed the Washington tax liability.
- The person claiming the credit must be the same person who is legally obligated to pay both taxes that create the credit situation.
- The taxes must actually be paid before the credit may be claimed.
- The taxable business activity which creates the credit situation must involve the same ingredients or products.

Internal MATC

Businesses must report each activity under the proper B&O tax classification. They may then take an internal MATC credit for each of the following situations:

- Products are extracted and sold in Washington.
- Products are extracted and manufactured in Washington.
- Products are manufactured and sold in Washington+.

External MATC

External credits arise when activities are taxed in Washington, and similar activities related to the same product are also subject to a gross receipts tax outside this state. Businesses must report each activity that occurs in Washington under the proper B&O tax classification. They may then take an external MATC credit for each of the following situations where the other state imposes a gross receipts tax:

- Products are extracted in Washington and manufactured or sold and delivered in another state.
- Products are manufactured, in whole or in part, in Washington and sold and delivered to another state.
- Products or ingredients are extracted in another state and are then sold and delivered to a buyer in Washington.
- Products are manufactured, in whole or in part, in another state and are then sold and delivered to a buyer in Washington.
- Products are partly manufactured in Washington and partly in another state and are then sold and delivered to buyers in Washington or another state.

Other states' qualifying taxes

Gross receipts taxes generally include:

- Business and occupation tax privileges taxes upon extracting, manufacturing, and selling activities, which are similar to those imposed in Washington state.

- Severance taxes measured by the selling price of ingredients or products severed, such as oil, logs, minerals, natural products, etc.
- Business franchise or licensing taxes measured by the gross volume of business in terms of gross receipts.

Gross receipts taxes do **not** include:

- Income taxes.
- Value-added taxes.
- Retail sales or use taxes.
- Other consumer taxes, which are generally stated separately from the selling price.

Definitions

Gross receipts tax means a tax:

1. Which is imposed on or measured by the gross volume of business, in terms of gross receipts or in other terms, and in the determination of which the deductions allowed would not constitute the tax an income tax or value added tax.
2. Which is not, pursuant to law or custom, separately stated from the selling price.

References

- [WAC 458-20-19301](#) Multiple activities tax credits.
- [ETA 3085](#) Eligibility of Taxes for Multiple Activities Tax Credits (MATC).

Personal property tax

Personal property tax

Everyone who uses personal property in a business must complete a personal property tax listing form. This listing must be filed with your [county assessor's office](#) by April 30 of each year. Examples of personal property used in conducting business include, but are not limited to:

- Machinery and equipment.
- Computer hardware and software.
- Furniture and fixtures.
- Supplies.

For more information, please see our [Personal Property Tax brochure](#) and our [How my business property is valued web page](#).

Printing and publishing – general

Printing and publishing – general

Businesses that print and/or publish magazines, periodicals, and other printed materials are generally taxable under the [Printing and Publishing](#) business and occupation (B&O) tax classification.

Businesses reporting under printing and publishing do not have to report under the Wholesaling or Retailing B&O tax classification. However, they must collect retail sales tax on sales of printed and/or published materials to Washington consumers.

Advertising income

Printers and publishers must report advertising income as follows:

- Businesses that print and/or publish magazines and periodicals - under the Printing and Publishing B&O tax classification.
- Businesses that both print and publish books, music, circulars, etc. - under the Printing and Publishing B&O tax classification.
- Businesses that only publish books, music, circulars, etc. - under the Service and Other Activities B&O tax classification.

Litter tax

Printers and publishers of magazines must report [Litter tax](#) on the total value of magazines printed or sold (wholesale and retail) in Washington.

References

- [RCW 82.04.280\(1\)\(a\)](#) Tax on printers, publishers...
- [WAC 458-20-143](#) Printers and publishers of newspapers, magazines, and periodicals.
- [WAC 458-20-243](#) Litter tax.

Printing and publishing – newspapers

Printing and publishing – newspapers

For filing periods ending before January 1, 2024, businesses that print and/or publish newspapers are generally taxable under the [Publication of Newspapers](#) business and occupation (B&O) tax classification at a preferential rate.

Businesses reporting under the publication of newspapers classification do not have to report under the Wholesaling or Retailing B&O tax classification. Additionally, newspapers are exempt from retail sales tax.

Starting January 1, 2024, businesses primarily engaged in printing or publishing of newspapers or eligible digital content are exempt from B&O tax.

Note: The exemption for printing or publishing of newspapers or eligible digital content does not apply to expenditures. These amounts must be reported based on the activity conducted.

Litter tax

Printers and publishers of newspapers must report [Litter tax](#) on the total value of printed newspapers printed or sold (wholesale and retail) in Washington.

Reporting/documentation requirements

Businesses reporting under the Publication of Newspapers B&O tax classification or claiming the exemption for printing or publishing of newspapers or eligible digital content must file an Annual Tax Performance report by May 31st of each year after a year when they claim the preferential rate or the exemption.

Definitions

Eligible digital content means a publication that is all the following:

- Published at regularly stated intervals of at least once per month.
- Features written content, the largest category of which, as determined by word count, contains material that identifies the author or the original source of the material.
- Made available to readers exclusively in an electronic format.

Expenditure includes a payment, contribution, subscription, distribution, loan, advance, deposit, or gift of money or anything of value, and includes a contract, promise, or agreement to make an expenditure, whether or not legally enforceable. "Expenditure" also includes a promise to pay, a payment, or a transfer of anything of value in exchange for goods, services, property, facilities, or anything of value for the purpose of assisting, benefiting, or honoring any public official or candidate, or assisting in furthering or opposing any election campaign. Agreements to make expenditures, contracts, and promises to pay may be reported as estimated obligations until actual payment is made. "Expenditure" shall not include the partial or complete repayment by a candidate or political or incidental committee of the principal of a loan, the receipt of which loan has been properly reported.

Newspaper means both:

- A publication issued regularly at stated intervals at least twice a month and printed on newsprint in tabloid or broadsheet format folded loosely together without stapling, glue, or any other binding of any kind, including any supplement of a printed newspaper.
- An electronic version of a printed newspaper that both:
 - Shares content with the printed newspaper.
 - Is prominently identified by the same name as the printed newspaper or otherwise conspicuously indicates that it is a complement to the printed newspaper.

Primarily means more than 50% of the business's gross worldwide income from all business activities results from printing or publishing newspapers or eligible digital content.

Additional resources

[Miscellaneous incentive programs](#)

References

- [RCW 82.04.214](#) "Newspaper."
- [RCW 82.04.260](#)(14).
- [RCW 82.04.759](#) Exemptions – Newspapers – Eligible digital content.
- [RCW 82.32.534](#) Annual report requirements for tax preferences.
- [WAC 458-20-143](#) Printers and publishers of newspapers, magazines, and periodicals.
- [WAC 458-20-243](#) Litter tax.

Processing for hire

Processing for hire

Generally, businesses that process for hire are taxable under the [Processing for Hire](#) business and occupation (B&O) tax classification upon the total charge made for those services, including any charge for materials they furnish.

Businesses reporting under processing for hire do not have to report under the Wholesaling or Retailing B&O tax classifications.

Note: If you are providing services for a consumer, you are not processing for hire; you are merely altering tangible personal property. In such cases, you are taxable under the Retailing B&O tax classification, and you

must collect sales tax.

Definitions

Processing for hire means performing labor or mechanical services on property belonging to others so that a new, different, or useful article of tangible personal property is produced for sale or commercial or industrial use.

Note: If the business performing labor or mechanical services provides materials worth more than 20% of the value of all materials, they are a manufacturer.

References

- [RCW 82.04.280\(1\)\(c\)](#) Tax on...processing for hire...
- [WAC 458-20-136](#) Manufacturing, processing for hire, fabricating.

Purchases – assets (not M&E) and consumables

Purchases – assets (not M&E) and consumables

Businesses must pay retail sales or use tax on purchases of tangible personal property used in conducting their business activities and retail services. Examples of taxable purchases include, but are not limited to:

- Supplies (office and shop).
- Computer hardware and software.
- Furniture and fixtures.
- Building improvements.
- Landscaping.

References

- [WAC 458-20-135](#) Extracting natural products.
- [WAC 458-20-136](#) Manufacturing, processing for hire, fabricating.
- [WAC 458-20-178](#) Use tax and the use of tangible personal property.

Purchases – ingredients and components

Purchases – ingredients and components

Manufacturers registered with Washington may use a [reseller permit](#) when purchasing ingredients or components that physically enter into and become part of the new article or substance produced for sale.

Manufacturers **not required** to register with Washington may use either of the following exemption certificates when purchasing ingredients or components:

- [Streamlined Sales Tax \(SST\) Exemption Certificate](#).
- [Multi-State Tax \(MTC\) Exemption Certificate](#).

References

- [WAC 458-20-102](#) Reseller permits.

Slaughtering, breaking and/or processing perishable meat products and/or selling the same at wholesale

Slaughtering, breaking and/or processing perishable meat products and/or selling the same at wholesale

Manufacturing/wholesaling

Businesses that slaughter, break, or process perishable meat products and sell them at wholesale are taxable under the [Slaughtering, Breaking, and Processing Perishable Meat](#) classification of the business and occupation (B&O) tax. This classification includes both the manufacturing and the wholesaling activity. This classification also applies to meat processing that results in a non-perishable product such as canned food.

Butchers

Businesses that slaughter, break, and/or process perishable meat products and sell them at retail must report under all the following classifications:

- Manufacturing B&O.
- Retailing B&O.
- Retail Sales.

Sales of perishable meat products for human consumption may be deducted from the Retail Sales tax classification as [Exempt Food Sales](#).

Note: If the customer owns the animal that is being slaughtered, cut, processed, etc., then you are only taxable under the Retailing and Retail Sales tax classifications because you are providing a retail service. There is no exempt food sales deduction because you are not selling food or food ingredients.

Multiple Activities Tax Credit (MATC)

Businesses that perform more than one taxable activity for the same product will report each activity under the proper classification, and then take the MATC so B&O tax is only paid once.

For more information, please see the [MATC](#) section of this guide.

Litter tax

Businesses that process perishable meat products must report [Litter tax](#) on the total value of meat products processed or sold (wholesale and retail) in Washington.

References

- [RCW 82.04.260\(4\)](#).
- [WAC 458-20-136](#) Manufacturing, processing for hire, fabricating.
- [WAC 458-20-243](#) Litter tax.
- [ETA 3112](#) Processing Perishable Meat Products.

Splitting or processing dried peas

Splitting or processing dried peas

Manufacturing

Businesses that split or process dried peas are taxable under the [Splitting/Processing of Dried Peas classification](#) of the business and occupation (B&O) tax.

Selling

Businesses that split or process dried peas must also report their sales under either the Wholesaling or Retailing B&O tax classification.

Retail sales of split or processed dried peas must also be reported under the Retail Sales tax classification. However, split or processed dried peas are generally exempt from sales tax in Washington and can be deducted as [Exempt Food Sales](#).

Sales of split or processed dried peas delivered to customers outside of Washington may be deducted from selling activities as [Interstate and Foreign Sales](#).

Multiple Activities Tax Credit (MATC)

Businesses that perform more than one taxable activity for the same product will report each activity under the proper classification and then take the MATC so that B&O tax is only paid once.

For more information, please see the [MATC](#) section of this guide.

Litter tax

Splitters and processors of dried peas must report Litter tax on products processed or sold (wholesale and retail) in Washington.

References

- [RCW 82.04.260\(2\)](#).
- [WAC 458-20-136](#) Manufacturing, processing for hire, fabricating.
- [WAC 458-20-193](#) Interstate sales of tangible personal property.
- [WAC 458-20-243](#) Litter tax.
- [WAC 458-20-244](#) Food and food ingredients.