

THE CITY OF SEATTLE
DIRECTOR'S RULE
IMPLEMENTING SEATTLE BUSINESS TAX ORDINANCE
RULE 5-100

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CITY OF SEATTLE
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Seattle Rule 5-100 **Extracting natural products.**

- (1) **Introduction.** This rule explains the application of the business license tax to persons extracting natural products. Persons extracting natural products often use the same extracted products in a manufacturing process. This rule provides guidance for determining when an extracting activity ends and the manufacturing activity begins.
- (2) **Definition.** The term "extractor" means every person who, from the person's own land or from the land of another under a right or license granted by lease or contract, either directly or by contracting with others for the necessary labor or mechanical services, for sale or for commercial or industrial use mines, quarries, takes or produces coal, oil, natural gas, ore, stone, sand, gravel, clay, mineral, or other natural resource product. The term includes a person who fells, cuts, or takes timber, Christmas trees other than plantation Christmas trees, or other natural products. It also includes any person who takes fish, shellfish, or other sea or inland water foods or products.
- (a) Persons excluded from the definition of "extractor." The term "extractor" does not include:
- (i) Persons performing under contract the necessary labor or mechanical services for others (these persons are extractors for hire, see subsection (4) below); or
 - (ii) Persons who cultivate products (farmers), or raise fish, entirely within confined rearing areas on the person's own land, or on land in which the person has a present right of possession.
- (b) When an extractor is also a manufacturer. An extractor may subsequently take an extracted product and use it as a raw material in a manufacturing process. The following examples explain when an extracting process ends and a manufacturing process begins for various situations. These examples should be used only as a general guide. A determination of when extracting ends and manufacturing begins for other situations can be made only after a review of all of the facts and circumstances.
- (i) Mining and quarrying. Mining and quarrying operations are extracting activities, and generally include the screening, sorting, and piling of rock, sand, stone, gravel, or ore. For example, an operation that extracts rock, then screens, sorts, and with no further processing places the rock into piles for sale, is an extracting operation.
 - (A) The crushing and/or blending of rock, sand, stone, gravel, or ore are manufacturing activities. These are manufacturing activities whether or not the materials were previously screened or sorted.
 - (B) Screening, sorting, piling, or washing of the material, when the activity takes place in conjunction with crushing or blending at the site where the materials are taken or produced, is considered a part of the manufacturing operation if it takes place after the first screen. If there is no separate first screen, only those activities subsequent to the materials being deposited into the screen are considered a part of the manufacturing operation.
 - (ii) Commercial fishing. Commercial fishing operations, including the taking of any fish in Seattle waters (within the statutory limits of the City of Seattle) and the taking of shellfish or other sea or inland water foods or products, are extracting activities. These activities often include the removal of meat from the

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shell and the icing of fish or sea products.

- (A) A person growing, raising, or producing a product of aquaculture as defined in RCW 15.85.020 on the person's own land or on land in which the person has a present right of possession is not an extractor, but a farmer.
- (B) Cleaning (removal of the head, fins, or viscera), filleting, and/or steaking fish are manufacturing activities. The cooking of fish or seafood is also a manufacturing activity.
- (C) The removal of meat from the shell or the icing of fish or sea products, when the activity is performed in conjunction with and at the site where manufacturing takes place (e.g., cooking the fish or seafood), is considered a part of the manufacturing operation.

- (3) **Tax-reporting responsibilities for income received by extractors.** Extractors are subject to the extracting business license tax upon the value of the extracted products. Extractors who sell the products at retail or wholesale in Seattle are subject to either the retailing or wholesaling business license tax, as the case may be. In such cases, the extractor must report under both the "production" (extracting) and "selling" (wholesaling or retailing) classifications of the business license tax, and claim a tax credit under the multiple activities tax credit (MATC) pursuant to SMC 5.45.070.

For example, Corporation quarries rock without further processing. Corporation sells and delivers the rock to Landscaper, who is located in Seattle. Landscaper provides Corporation with a resale certificate. Corporation should report under both the extracting and wholesaling business license tax classifications, and claim a MATC. Had Corporation delivered the quarried rock to an out-of-state location, Corporation would have incurred only an extracting business license tax liability.

- (a) When extractors use their products in a manufacturing process. Persons who extract products, use these extracted products in a manufacturing process, and then sell the products all within Seattle are subject to both "production" taxes (extracting and manufacturing) and the "selling" tax (wholesaling or retailing), and may claim the appropriate credits under the MATC.

For example, Company quarries rock (an extracting activity), crushes and blends the rock (a manufacturing activity), and sells the resulting product at retail. The taxable value of the extracted rock is \$50,000 (the amount subject to the extracting business license tax). The taxable value of the crushed and blended rock is \$140,000 (the amount subject to the manufacturing business license tax). The crushed and blended rock is sold for \$140,000 (the amount subject to the retailing business license tax). Assume the tax rates for the extracting, manufacturing, and retailing business license taxes are each .00215. Company should compute its tax liability as follows:

- (i) Computing the business license tax due on the combined excise tax return:
- (A) Extracting Line - \$50,000 subject to tax at .00215 = tax of \$107.50;
 - (B) Manufacturing Line - \$140,000 subject to tax at .00215 = tax of \$301;
and
 - (C) Retailing Line - \$140,000 subject to tax at .00215 = tax of \$301.

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- (ii) Completing the Multiple Activities Tax Credit Form (MATC Form):

Part II - INTERNAL CREDITS

Use Part II if you have paid taxes to Seattle under two or more classifications on the same product.

Activity resulting in a tax credit.	Column 1	Column 2	Column 3	Column 4a	Column 4b	Credit
	Taxable Amount	Extracting Tax Paid	Manufacturing Or Printing Tax Paid	Wholesaling Tax Paid	Retailing Tax Paid	
C. Manufacturing activities on products extracted in Seattle.	\$50,000	107.50	107.50			107.50
D. Selling in Seattle products extracted, manufactured, or printed in Seattle.	\$140,000		301.00		301.00	301.50

Total External & Internal Credits From Part I Column 4 and Part II Column 5: Transfer this amount to the multiple tax credit line on business tax return.	\$407.50
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The MATC Form helps taxpayers calculate and claim the multiple activities tax credit provided by SMC 5.45.070. In the MATC Form example above, materials that a person extracts and then uses in a manufacturing process in Seattle are entered at their value when extracting ceases and manufacturing begins (\$50,000 shown on the "Manufacturing activities on products extracted in Seattle" line of the MATC Form). The taxable amount reported on the "Selling in Seattle products extracted, manufactured, or printed in Seattle" line of the MATC Form is the value of products at the point that manufacturing ceases (\$140,000), not simply the value added by the manufacturing activity.

- (4) **Tax-reporting responsibilities for income received by extractors for hire.** Persons performing extracting activities for extractors are subject to the extracting for hire business license tax upon their gross income from those services.

For example, a person removing ore, waste, or overburden at a mining pit for the operator of the mining operation is an extractor for hire. Likewise, a person drilling to locate or provide access to a satisfactory grade of ore at the mining pit for the operator is also an extractor for hire. The gross income derived from these activities is subject to the extracting for hire business license tax classification. Extractors for hire who also haul the products over private or public roads are subject to the motor carrier business license tax on that portion of their gross income properly attributable to such hauling. (See Seattle Rule 5-481.)

- (5) **Mining or mineral rights.** Royalties or charges in the nature of royalties for granting another the privilege or right to remove minerals, rock, sand, or other natural resource product are subject to the service and other activities business license tax. Such royalties should be assigned to the person's headquarters.

Income derived from the sale or rental of real property, whether designated as royalties or another term, is exempt from the business license tax.

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- (6) **Property extracted and then manufactured for commercial or industrial use.** Persons extracting and then manufacturing tangible personal property for commercial or industrial use are subject to both the extracting and manufacturing business license tax upon the value of the property extracted and manufactured, unless a specific exemption applies. (See also Seattle Rule 5-112 on commercial or industrial use.)

If the person also extracts materials used in the manufacturing process, the extracting business license tax is due on the value of the extracted materials and a MATC may be taken.

For example, Quarry extracts rock, crushes the rock into desired size, and then uses the crushed rock in its parking lot. The use of the crushed rock by Quarry in its parking lot is a commercial or industrial use. Quarry is subject to the extracting and manufacturing business license taxes and may claim a MATC.

Effective: July 15, 2005

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DIRECTOR'S CERTIFICATION

I Kenneth J. Nakatsu, Director of the Department of Executive Administration of the City of Seattle, do hereby certify under penalty of perjury of law, that the within and foregoing is a true and correct copy as adopted by the City of Seattle, Department of Executive Administration.

DATED this 15th day of July, 2005.

CITY OF SEATTLE,
a Washington municipality

By:


Kenneth J. Nakatsu, Director
Department of Executive Administration

STATE OF WASHINGTON - KING COUNTY

--SS.

183390
CITY OF SEATTLE:Revenue &

No.

Affidavit of Publication

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT:RULE MAKING HEARING

was published on

3/21/2005

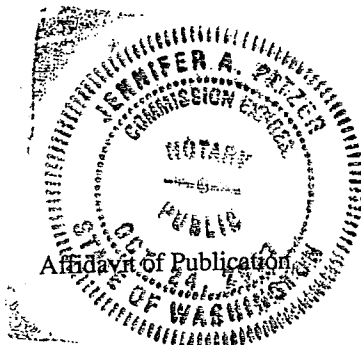
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Subscribed and sworn to before me on

3/21/2005

Jennifer A. Patzer

Notary public for the State of Washington,
residing in Seattle



State of Washington, King County
City of Seattle

NOTICE OF PROPOSED RULE
MAKING HEARING AND
OPPORTUNITY TO COMMENT

The Director of Finance, acting under the authority of Seattle Municipal Code Chapters 5.02 and 5.55, proposes to adopt new rules for implementing the Seattle Business and Occupation Tax Ordinance (Seattle Municipal Code, Chapter 5.45). Please note that although these rules are applicable to SMC 5.45, the individual rules may also apply to other chapters of the City's Tax Code, including, but not limited to, SMC 5.30 (Definitions), SMC 5.32 (Revenue Code), SMC 5.40 (Admissions Tax), SMC 5.48 (Business Tax - Utilities) and SMC 5.62 (Gambling Tax). The following rules are proposed for adoption and will become effective as of April 30, 2005:

Seattle Rule 5-006 -- Tax Returns -- Filing and Payment

Seattle Rule 5-007 -- Penalties

Seattle Rule 5-031 -- Measure of Tax -- Retailers and Wholesalers

Seattle Rule 5-032 -- Measure of Tax -- Service and other business activities

Seattle Rule 5-035 -- Freight and Delivery Charges

Seattle Rule 5-040 -- Corporations, Massachusetts trusts

Seattle Rule 5-043 -- Engaging in Business

Seattle Rule 5-063 -- Returned goods, allowances, cash discounts

Seattle Rule 5-100 -- Extracting natural products

Seattle Rule 5-112 -- Commercial or industrial use

Seattle Rule 5-127 -- Sales to and by the State of Washington, counties, cities, school districts, and municipal subdivisions

Seattle Rule 5-130 -- Selling price -- Advertised prices including sales tax

Seattle Rule 5-131 -- Trade-ins, selling price, sellers' tax measures

Seattle Rule 5-132 -- Leased departments

Seattle Rule 5-133 -- Warranties and maintenance agreements

Seattle Rule 5-702 -- Coin operated vending machines; amusement devices and service machines

Seattle Rule 5-404 -- Sales of meals

Seattle Rule 5-405 -- Restaurants, cocktail bars, taverns and similar businesses

Seattle Rule 5-481 -- Motor carriers -- Trucking

Seattle Rule 5-523 -- Sales of precious metal bullion and monetized bullion

Seattle Rule 5-530 -- Sale or rental of real estate, license to use real estate

Seattle Rule 5-531 -- Sales of real property, standing timber, minerals, natural resources

Seattle Rule 5-532 -- Real estate brokers and salesman

Seattle Rule 5-600 -- Educational institutions, school districts, student organizations, and private schools

Seattle Rule 5-700 -- Amusement, Recreation, and Physical Fitness Services

Seattle Rule 5-720 -- Hotels, motels, boarding houses, rooming houses, resorts, summer camps, trailer camps, etc.

Seattle Rule 5-803 -- Consignees, bailees, factors, agents, and auctioneers

Seattle Rule 5-806 -- Advertising agencies

Seattle Rule 5-807 -- Outdoor advertising and advertising display services

PUBLIC HEARING AND COMMENT:
The Department of Executive Administration has scheduled a public hearing on the proposed rule changes for 1:00 p.m. to 3:00 p.m., on Monday, April 4, 2005. The hearing will be held in a conference room on the 40th floor of the Seattle Municipal Tower, Suite 4096, located at 700 5th Avenue. All interested persons are invited to present data, views, or arguments, with regard to the proposed rules, orally at the hearing, or in writing at or before the hearing.

Written comments should be mailed or delivered to:

Department of Executive Administration, Attn.: Mel McDonald, Director, Revenue and Consumer Affairs, 700 5th Avenue - Suite 4250, Seattle, Washington 98104-5020.

The public may inspect copies of the proposed rules at the Revenue and Consumer Affairs offices, 700 5th Avenue, Suite 4200. If you would like a copy of the proposed rules, please call (206) 684-8300, FAX (206) 684-5170, email rca.bizlctx@cl.seattle.wa.us, or submit a written request to the address above.

Dated: March 21, 2005.

DWIGHT D. DIVELY,

Director, Department of Finance.

Date of publication in the Seattle Daily Journal of Commerce, March 21, 2005.

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