

# Property Tax Advisory

**Property Tax Advisories are interpretive statements authorized by RCW 34.05.230.**

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## ASSESSMENT OF SUPPLIES

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This Property Tax Advisory is issued as a guide in clarifying the assessment of supplies for the 2003 and subsequent assessment years. The advisory should not be used to determine the taxability of furniture and fixtures or machinery and equipment.

Taxable assets in this category, like all other assets, are valued at market value as of the assessment date. Since these assets are often consumed during the year, the average inventory method is used to determine the cost for the basis of the valuation if the year-end inventory is not representative of what is typically on hand. In many cases, one-twelfth of the annual cost for the taxable assets is a good estimate of the market value. This suggests that, on average, one month's worth of supplies is on hand at any given time during the year. When it can be shown that more or less inventory is typically on hand, a different measure of average inventory may be used. For example, divide the annual cost of supplies by 52 when only one week's worth of supplies are typically on hand.

An exception to the average inventory method is used to determine the value of spare parts, especially when they are not typically consumed within the year. If this is the case, all of the parts are listed on the personal property affidavit and valued in the same manner as other personal property, with one exception. Since the parts have not been put in service, they do not tend to depreciate. Hence, they are generally assessed at their original cost. However, trend factors may be applied if deemed appropriate to arrive at the market value. Applying a trend factor does not always equate to an increase in the replacement cost estimate; some trend factors indicate a decline in cost/value from one year to the next.

**BUSINESS SUPPLIES - GENERAL DEFINITION:** Business supplies means:

- (1) Products or materials not held for sale in the normal course of business.
- (2) Materials that do not become an ingredient or component of an article being manufactured for sale or lease (RCW 84.40.210).

As a "general" rule of thumb, items that purchasers should have paid sales or use tax on are considered consumable supplies.

**BUSINESS INVENTORIES - DEFINITION:** Business inventories are exempt from ad valorem property taxation. "Business inventories" is defined in RCW 84.36.477 and means:

- (1) All livestock;
- (2) All personal property held for sale or lease in the normal course of business; and
- (3) All property becoming an ingredient or component of any article of tangible personal property being manufactured for sale or lease.

Generally, items purchased with a resale certificate are business inventories. "Business inventories" does not include personal property acquired to lease or rent to others unless the requirements of RCW 84.36.477 are met.

The above list is not inclusive. For a more complete listing of exempt business inventories, see RCW 84.36.477.

**PACKAGING MATERIALS - DEFINITION:** "Packaging materials" means and includes all boxes, crates, bottles, cans, bags, drums, cartons, wrapping papers, cellophane, twines, gummed tapes, wire, bands, excelsior, wastepaper, and all other materials in which tangible personal property may be contained or protected within a container for transportation or delivery to a purchaser.

**DUNNAGE - DEFINITION:** The term "dunnage" means any material used for the purpose of protecting or holding cargo in place during shipping by any type of carrier. Examples of these types of materials include wood blocks, timbers, separating forms, bulkheads, double floors, or any other type of bracing or support structures.

## **EXAMPLES AMONG VARIOUS BUSINESS CATEGORIES:**

### **MANUFACTURING/PROCESSING**

**PACKAGING MATERIALS:** The location in the production stream is the determining factor whether packaging materials are inventory or supplies.

When the manufacturer or processor packages manufactured or processed products for a final sale, all packaging materials in which the product is held for sale become a part of that product and are considered inventory for resale. Examples of packaging components used to contain a product held for sale might include some or all of the following: individual wrappings of each item; cardboard used for layering; the package containing each item; the box holding numerous individual items; staples, banding, glue, or other material used to seal the box; pallets holding numerous boxes which might also be sealed in plastic and/or banded together for shipping.

If the product has not been completed and is packaged for shipment to another step in the manufacturing process where it will be repacked, the materials or containers used to ship the product from one step to another are considered supplies. Containers may be considered equipment if they are returned and are reusable by the shipper.

"Dunnage," as defined in this advisory, is always considered a supply item to the user whether it is returned to the user or not.

**CHEMICALS:** All chemicals used in processing or manufacturing of a product are considered inventory if they react chemically with, or become a component of, the product. An example of this process is chemicals used in a pulp mill for digesting and bleaching pulp. The chemicals react to the cellulose in the pulp fibers altering the fiber and also becoming an ingredient of the final product. Another example is carbon used to form a chemical reaction with alumina to remove oxygen content. This alters the final product produced in an aluminum reduction plant and, therefore, is considered a part of the end product.

**OTHER SUPPLIES:** All other materials (except packaging) **NOT** held for resale or stockpiled to become an ingredient or component in the manufactured or processed finished product are taxable supplies.

### **SERVICE**

**DEFINITION:** A "service business" means conducting any type of personal service for others that does not involve the sale of a product. Examples include, but are not limited to, attorneys, hairdressers, doctors, dentists, dry cleaners, nursing homes, accountants, etc.

**SUPPLIES:** "Supplies" means all materials consumed in the rendering of the service. Exceptions to this rule are:

- (1) Businesses that make a separate charge for material used in the service provided. An example of this type of business is custom meatpacking. The wrapping paper is considered an inventory item because the charge for cutting and wrapping is separate from the charge made for the meat.
- (2) In a business providing parts used in the repair of items of tangible personal property, the parts are considered inventory even though they are not held for resale.
- (3) Materials are considered inventory if they become a part of an item for sale in trade shops, such as newspaper publishers, printing shops, photographers, typesetters, processing for hire, etc., are considered inventory.

**INVENTORY:** Items held for sale which are not part of the rendition of the personal service are considered inventory.

### **COMMERCIAL/WHOLESALE**

For commercial/wholesale businesses, supplies are considered to be any product or material not held for sale in the normal course of business. Examples of commercial/wholesale businesses and the supplies used in such businesses include but are not limited to:

RESTAURANTS -- Paper napkins, straws, "doggie bags," cleaning supplies, and plastic silverware.

CLOTHING STORES -- Hangers, bags or boxes, wrapping paper, cash register tapes, and cleaning supplies.

MOTELS -- Cleaning supplies, advertising items, coffee, cups, and plasticware.

RETAIL STORES -- Sacks, boxes, other wrapping material, cleaning supplies, cash register tapes, computer paper, and office supplies.

GROCERY STORES -- Grocery bags, cleaning supplies, and office supplies.

WHOLESALE OUTLETS -- Packaging materials other than those enclosing the product, cleaning supplies, cash register tapes, computer paper, office supplies, fuel stored for vehicles, and fleet maintenance parts.

### **AGRICULTURE/AQUACULTURE**

Supplies are any items not influential in the growing of a crop or the raising of animals.

Items under this definition that are NOT SUBJECT TO AD VALOREM PROPERTY TAX include:

- (1) Feed, whether grown or purchased, used in the raising of livestock or water animals for meat, seafood, or dairy purposes.
- (2) Fertilizers or insecticides used to enhance the growing of a current year's crop.

TAXABLE SUPPLIES under the above definition include but are not limited to petrochemicals held in storage and used in vehicles, veterinary supplies, and cleaning supplies. Spare parts and small tools that are sometimes classified as supplies for accounting purposes are also taxable.

### **CONSTRUCTION/LOGGING**

Supplies are considered any material used in the performance of the involved activity other than materials used in the construction of an improvement to real property.

Examples of these types of supplies would include but are not limited to explosives, petrochemicals, spare parts, tires, small tools, and other cleaning supplies.

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