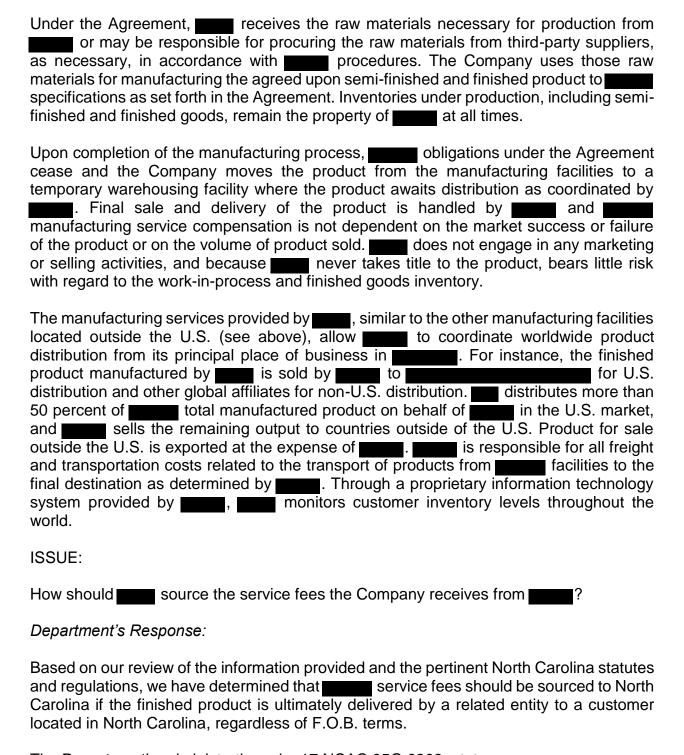


North Carolina Department of Revenue

Roy Cooper Ronald G. Penny Governor Secretary June 20, 2023 Request for Private Letter Ruling Re: Dear This letter is a response to your request for a private letter ruling dated wherein you requested on behalf of our client, or "the Company"), that the North Carolina Department of Revenue ("Department") provide a written ruling regarding the proper allocation and apportionment of the Company's contract manufacturing service fees. Specifically, your client is requesting clarification regarding the sourcing of service fees received from its foreign in accordance with the North Carolina statutes associated with market based sourcing for tax years beginning on or after January 1, 2020. The statement of facts submitted for the Department's consideration of your request is summarized as follows: is organized as a limited partnership electing to be treated as a corporation for federal tax purposes. The Company is indirectly wholly owned by _____, a multinational company based in the utilizes affiliate owned and operated strategic production facilities located in five countries: operates three separate manufacturing facilities in NC and primary source for products manufactured and sold in the U.S. serves as Although manufacturing facilities are located in NC, the Company has employees conducting business activities related to its manufacturing operations in a number of other states. In 2020, these states included | . For example, in I employees perform Human Relations functions. The Company also leases equipment storage space, is registered to do business, and files a corporate income tax return in

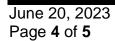
	Manufacturing Services Agreement with
	dance with the Manufacturing Services Agreement (the "Agreement"), the following service fees from as described below:
1.	Production Cost Reimbursement Fee - an amount equal to actual production costs of manufacturing and related cost of the product manufactured.
2.	Service Fee - an amount equal to an arms-length rate of return on capital employed ("ROCE"), to be determined and finally settled each year on an annual basis. The ROCE is defined as operating income divided by its operating assets.
3.	Fee Upon Termination of Services - an amount equal to the difference between the realized value and the net book value of all assets owned by related to manufacturing services agreed to under the Agreement. This amount is payable to required in the event the Company ceases to do business or is no longer required to provide manufacturing services to
fees") re sourcing Pricing	duction cost reimbursement fee and the service fee (collectively the "service present the annual revenue stream for which seeks to determine the proper. The service fees are deemed to be at arm's-length per the current Advance Agreement with the IRS and constitute compensation for the sturing services the Company provides to
manufac a multir pharmac strategic plans an produce aforeme	principal place of business in turn, primary objective is to sture product in order to be sold to third parties worldwide. As the global parent of national organization, owns intellectual property related to certain seutical products it manufactures. Globally, the maintains production facilities in five different countries and oversees the production of capacity of these subsidiaries in order to exploit its intellectual property and finished goods. On this premise, and entered into the nationed Agreement to have produce certain finished goods according to ations and protocols as provided by
all Stand record	dance with the Agreement, is responsible for establishing and maintaining dard Operating Procedures ("SOPs") for organizing, monitoring and controlling nanufacturing process. The SOPs are sets of clearly written instructions, which he exact steps and tasks needed to complete a job, operation, or operate a piece nery as part of the agreement manufacturing process. The SOPs utilized by eveloped by and reflect the same processes used in other other other operations, including the utilization of the same raw materials.

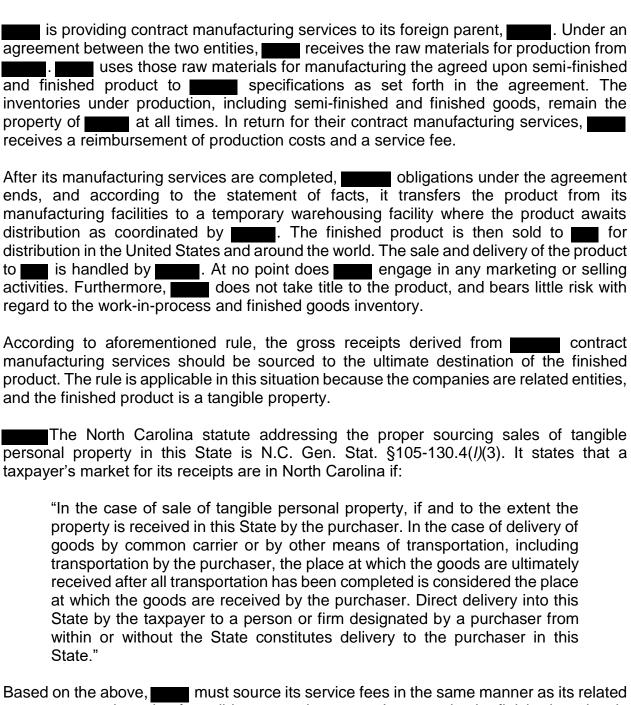
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The Department's administrative rule, 17 NCAC 05G.0303, states:

"Where a taxpayer has receipts subject to this Subchapter from transactions with a related entity customer, information that the customer has regarding the sourcing of receipts from these transactions shall be imputed to the taxpayer."





Based on the above, must source its service fees in the same manner as its related customer – as the sale of tangible personal property. Importantly, the finished product is sold in the United States and other countries. Since these products are ultimately shipped and delivered after it is sold to , should source the service fees derived from its contract manufacturing services based on information provided by its related customer pertaining to its sales and the ultimate destination of the finished products to the ultimate purchaser. If so not provided the ultimate destination and cannot determine the locations where the products are ultimately delivered, then the service fees in this situation should be sourced to North Carolina, the location where performs the contract manufacturing services.

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This ruling answers the question presented in the ruling request and does not address any other issues unrelated to the questions. It is based solely on the facts submitted to the Department of Revenue for consideration of the transactions described. Your statement of facts and our findings are subject to audit verification. If a taxpayer relies on this ruling and the Department discovers, upon examination, that the fact situation of the taxpayer is different in any material aspect from the facts and circumstances given in this ruling, then the ruling will not afford the taxpayer any protection. It should be noted that this document is not to be cited as precedent and that a change in statute, a regulation, or case law could void this ruling.

Should you have any questions, please contact me.

Very truly yours,

Administrative Officer

Corporate Tax Division

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