



This Week in State Tax (TWIST)

June 16, 2025



Massachusetts: Appellate Board Finds Taxpayer is Manufacturer; Must Use Single Sales Factor

The Massachusetts Appellate Tax Board (Board) ruled that a shoe company qualified as a manufacturer and was therefore required to use single sales factor apportionment. The taxpayer's employees developed the product and created design prototypes before sending the prototype to a third-party factory for mass production. The taxpayer oversaw the materials used in production and inspected the product repeatedly during the creation and manufacturing processes. Once completed, the shoes were shipped to the taxpayer's distribution centers. Recall that, for tax years prior to 2025 (including the years at issue here), Massachusetts applied a three-factor formula generally, but required taxpayers within certain industries, including any "manufacturing corporation," to use a single-factor formula. Starting in 2025, the default method has changed to single-factor apportionment for all taxpayers. The taxpayer filed returns using the three-factor method available to non-manufacturers. On audit, the Commissioner of Revenue determined that the taxpayer should have been treated as a manufacturer and issued an assessment based on additional tax due under single-factor apportionment.

The Board began its analysis by noting that a manufacturing corporation is a corporation that is "engaged, in substantial part, in transforming raw or finished physical materials by hand or machinery, and through human skill and knowledge, into a new product possessing a new name, nature and adapted to a new use." Courts have construed the phrase "engaged in manufacturing" to broadly cover any "essential and integral part of a total manufacturing process" and have included the creation of blueprints or other design sheets within that scope. The taxpayer argued that its prototypes were not full designs because they did not include detailed manufacturing instructions; the Board disagreed, finding that the taxpayer's employees played a central role in the creation of a product. As there was no evidence to dispute that the taxpayer derived a substantial part of its income from the sale of footwear that it helped manufacture, it was engaged in manufacturing in substantial part and thus required to use single sales factor apportionment in computing Massachusetts taxable income. Contact [Nikhil Sequeira](#) with questions about [Skechers USA, Inc. v. Commissioner of Revenue](#).

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