



MULTISTATE TAX COMMISSION

**Art. IV.1(g) Draft Examples**  
**April 10, 2012 --For Discussion Purposes Only**

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### Proposed Model

1(g) "Sales" means gross receipts of the taxpayer that are not allocated under paragraphs of this article, and that are received from transactions and activity in the regular course of the taxpayer's trade or business; except that receipts of a taxpayer other than a securities dealer from hedging transactions and from the maturity, redemption, sale, exchange, loan or other disposition of cash or securities, shall be excluded.

### Illustrations

1. Taxpayer manufactures a tangible product that it sells at wholesale. Taxpayer's income from these sales meets the transactional test and is treated as business income.
  - The gross receipts are "sales" for sales factor purposes.
  - The answer does not change if instead of manufacturing tangible property for sale at wholesale, Taxpayer sells or leases tangible property at retail, sells or licenses intangible property at wholesale or retail, sells or leases real property, or sells a service.
2. In the course of its manufacturing process, Taxpayer produces a byproduct that it sells at retail. Taxpayer's income from these sales meets the transactional test and is treated as business income.
  - The gross receipts are "sales" for sales factor purposes.
3. Taxpayer makes an incidental or occasional sale of a large piece of equipment that it used to manufacture its product. The income from this sale meets the functional test and is treated as business income.
  - The gross receipts are not "sales" for sales factor purposes.
4. Taxpayer routinely sells and replaces a certain type of equipment used in the production of its product before the equipment is fully depreciated (e.g., fleet vehicles). Taxpayer's income from these sales meets the transactional test and is treated as business income.
  - The gross receipts are "sales" for sales factor purposes.
5. Taxpayer is not a securities dealer, but earns interest income from short-term investment of working capital. This income meets the transactional test and is treated as business income.
  - The gross receipts are not "sales" for sales factor purposes.
6. Taxpayer is not a securities dealer, but earns income from hedging transactions which were entered into mainly to control for variation in input prices. The income from these transactions meets the transactional test and is treated as business income.
  - The gross receipts are not "sales" for sales factor purposes.

7. Taxpayer is a securities dealer, and earns income from hedging transactions, interest on securities, and gain on the sale of securities. The income from these transactions meets the transactional test and is treated as business income.
  - The gross receipts are “sales” for sales factor purposes.