

**Prop. Reg. Section 1.199-3(f)(1)**

Domestic gross production receipts

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(f)

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(1)

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If a qualifying activity under paragraph (e)(1), (k)(1), or (l)(1) of this section is performed under a contract, then the party to the contract that is the taxpayer for purposes of this paragraph (f) during the period in which the qualifying activity occurs is the party performing the qualifying activity.

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(4)

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Example (1). X designs machines that it sells to customers. X contracts with Y, an unrelated person, for the manufacture of the machines. The contract between X and Y is a fixed-price contract. To manufacture the machines, Y purchases components and raw materials. Y tests the purchased components. Y manufactures the raw materials into additional components and Y physically performs the assembly of the components into machines. Y oversees and directs the activities under which the machines are manufactured by its employees. X also has employees onsite during the manufacturing for quality control. Y packages the finished machines and ships them to X's customers. Pursuant to paragraph (f)(1) of this section, Y is the taxpayer during the period the manufacturing of the machines occurs and, as a result, Y is treated as the manufacturer of the machines.

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