

## Income/Franchise:

### Maine High Court Holds Sourcing is Determined Using Market Member Method Rather than Market Client Method

*Case No. BCD-22-331, Me. (11/7/23).* In a market-based sourcing case involving a pharmacy benefit management company and its unitary Maine affiliates, the Maine Supreme Judicial Court (Court) affirmed summary judgment in favor of the Maine State Tax Assessor, concluding that the record established that the taxpayer's claims-processing services were received by members at retail pharmacies in Maine, and the receipts at issue were derived from the performance of these claims-processing services. As a result, the Court held that the receipts at issue must be sourced to Maine for state corporate income tax purposes. In doing so, the Court explained that the sourcing dispute centered on the difference between the market member method (in this case, where the prescription drugs were filled and dispensed at retail pharmacies) versus the market client method (in this case, where the clients who hired the taxpayer to handle its pharmacy benefit plans were based) of apportioning income, and it reasoned that the market member method was the proper way to source the receipts at hand. The taxpayer unsuccessfully argued that because it contracts only with its clients and not the individual members, the ultimate recipients of its services are its clients, even if it is a member who initiates the claim at a retail pharmacy – and therefore the services were received at the commercial and administrative headquarters of its clients rather than the retail pharmacies. Please contact us with any questions.

**URL:** <https://www.courts.maine.gov/courts/sjc/lawcourt/2023/23me068.pdf>

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