Department of Revenue Washington State

Excise Tax Advisory

Excise Tax Advisories are interpretive statements authorized by RCW 34.05.230.

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Transfer of Capital Assets to Joint Ventures

Does the transfer of capital assets to a joint venture qualify for exemption from the use tax where the interests received are not in proportion to the assets contributed?

Assume a joint venture received equipment and cash from some members of the venture as a contribution to its capital. The equipment contributions were credited to a special accounts payable, and the cash contributions to a separate contribution account. Only members' cash contributions to the joint venture resulted in the member being entitled to a share of the profit and loss ratio of the joint venture. However, the contributors of equipment were paid for these contributions as money was received from the construction contract. No funds were paid out to all members according to their profit and loss ratio until all the payments for equipment had been made.

WAC 458-20-106 provides an exemption from the use tax where there has been a transfer of the capital assets of a business in exchange for a beneficial interest in the joint venture or partnership.

The equipment contributions were in fact sales to the joint venture rather than contributions in exchange for a beneficial interest. Thus, no exemption from use tax was allowed for the transfer of the equipment to the joint venture.

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