



State of Washington
Department of Revenue

Excise Tax Advisory

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**This ETA is cancelled effective February 2, 2009 and reissued under the 3000 series.
See ETA 3001 for a cross-reference to the new series.**

REIMBURSEMENT OF A VENTURER IN A JOINT VENTURE

Issued July 22, 1966

Is reimbursement to partners for equipment furnished and other efforts undertaken by a partner on behalf of the partnership taxable under the Sales Tax?

The taxpayer, a joint venture, was assessed a Sales Tax upon payment to a joint venturer for equipment furnished by the venturer to the joint venture on the ground that it constituted a rental of equipment. The equipment was furnished pursuant to the joint venture agreement and was an integral factor motivating the joint venture to bid on a work contract since they had equipment available and suitable for use in connection with the contract. Therefore, the furnishing of the equipment, the taxpayer contended, was not a transaction between a partner and the partnership, but was an accomplishment by a partner of a portion of the work undertaken by the joint venture. This accomplishment was based on the joint venture agreement under which the parties had chosen to divide the contract proceeds, and the equipment furnished was merely a factor in dividing said proceeds. Among the joint venturers, payment to another joint venturer for the equipment was a way of making a portion of the distribution proportionate to the effort expended or contribution made toward the accomplishment of the contract work.

The Tax Commission held that the reimbursement to partners for equipment furnished or for other efforts undertaken by the partner on behalf of the joint venture were not taxable transactions, and therefore, the rental involved here was not taxable provided the payment of "rental" was not absolute.

Rental is "absolute," and, therefore, taxable when it is payable in any event, regardless of whether or not the profits of the venture are adequate to meet the payments. The division of the assets or profits of a

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partnership is not subject to tax, but the payment of a firm debt or an account payable for services performed for the partnership is subject to tax even though the services have been performed by a partner.

In this case, the Commission held that the joint venture contract did not constitute an "absolute" rental contract and, therefore, the reimbursement to the joint venturer was not taxable.