

Excise Tax Advisory

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Packers of Horticultural Products and the Taxability of Storage Income

Purpose Many packers of horticultural products are organized as agricultural cooperative marketing associations that pack, market, and sell horticultural products for the growers. These packers typically perform a variety of activities for growers, including the storage of the horticultural products in cold storage. This ETA discusses how the business and occupation (B&O) tax deduction available to persons receiving, washing, sorting, and packing horticultural products applies in these cases.

Background: RCW 82.04.4287 provides the following deduction:

Available deduction

In computing tax there may be deducted from the measure of tax amounts derived by any person as compensation for the receiving, washing, sorting, and packing of fresh perishable horticultural products and the material and supplies used therein when performed for the person exempted in RCW 82.04.330, either as agent or as independent contractor.

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Compensation received for specific activities is deductible

Compensation received for the following activities is deductible when performed for the growers of such products:

- receiving,
- washing,
- sorting, and
- packing

If these activities are performed for someone other than the grower, the gross income received for performing the activities is subject to B&O tax under the service and other activities classification.

Cold storage warehousing is a separate activity

While compensation from receiving, washing, sorting, and packing horticultural products is deductible under RCW 82.04.4287 when performed for growers, cold storage warehousing is not an activity that qualifies for the deduction. Cold storage warehousing is a separate business activity and separately taxable under the warehousing B&O tax classification. Cold storage warehousing is not simply incidental to receiving, washing, sorting, and packing horticultural products. (Also refer to WAC 458-20-214.)

Note: Hauling and chemical dips of the goods are activities similarly occurring apart from the washing and sorting and are generally considered to be separate business activities and separately taxable.

Additional information: Refer to WAC 458-20-214 and *Yakima Fruit Growers Ass'n v. Henneford*, 187 Wash. 252, 254, 258-60, 60 P.2d 62 (1936) for additional information regarding cold storage warehousing as a separate activity from the receiving, washing, sorting, and packing of horticultural products.

Lump-sum charges

The taxpayer bears the burden of substantiating income that is taxable and income that is deductible under RCW 82.04.4287 when there is a lump-sum billing. If the taxpayer fails to do so, the entire lump-sum billing is taxable.

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**Reasonable
allocation is
acceptable**

A reasonable allocation between taxable income and income deductible under RCW 82.04.4287 will be accepted if, for example, the allocation corresponds, as nearly as possible, to charges for cold storage warehousing services and to charges for receiving, washing, sorting, and packing services that are of like quality, duration, and character.
