

Excise Tax Advisory

Excise Tax Advisories are interpretive statements authorized by RCW 34.05.230.

ETA 3112.2022

Issue Date: July 25, 2022

Processing Perishable Meat Products

Overview

This excise tax advisory (ETA) explains who is entitled to the preferential business and occupation (B&O) tax rate for slaughtering, breaking, and/or processing perishable meat products.

Background

RCW 82.04.260 provides a preferential B&O tax rate for every person engaging within this state in the business of slaughtering, breaking, and/or processing perishable meat products and/or selling these products at wholesale, commonly referred to as the “slaughter/breaking” B&O tax classification.

Definitions

- **“Carcass”** means any part, including internal organs, of a dead animal, except seafood and insects.
- **“Meat product”** refers to a product that has any part of an animal carcass as a direct ingredient. The term includes only products that are intended for human consumption as food or animal consumption as feed.
- **“Has any part of an animal carcass as a direct ingredient”** means the process for making the product involves starting with a part of an animal carcass.
- A product is **“perishable”** if it has a high risk of spoilage within a period of thirty (30) days without refrigeration or freezing.

To request this document in an alternate format, visit <http://dor.wa.gov> and click on “contact us” or call 1-800-647-7706. Teletype (TTY) users may use the Washington Relay Service by calling 711.

General tax information is available on our website at dor.wa.gov.

Questions? Complete the online form at dor.wa.gov/contact/contact-form or call 800-647-7706. If you want a binding ruling from the Department, complete the form at dor.wa.gov/contact/request-tax-ruling.

- A “**perishable meat product**” is a product that has any part of an animal carcass as a direct ingredient, is intended for human or animal consumption, and has a high risk of spoilage within thirty (30) days if it is not refrigerated or frozen.

Who qualifies for the “slaughter/breaking” B&O tax classification?

A person may qualify for the slaughter/breaking B&O tax rate if the person processes and sells at wholesale a meat product that is in a perishable state at the time of processing or sale.

The slaughter/breaking B&O tax rate does not apply to processors for hire of perishable meat products. In this context, “processor for hire” means a person who processes perishable meat that the person does not own. Processors for hire must report under the “processing for hire” B&O tax classification, unless an exemption, exclusion or deduction applies.

Note: A manufacturer who sells perishable meat products at retail does not qualify for the preferential rate with respect to the products sold at retail, and must report manufacturing B&O, retailing B&O, and retail sales tax on this income. However, the manufacturer may take a multiple activities tax credit (MATC) against the amount it reports under the retailing B&O tax classification.

A reseller of perishable meat products also does not qualify for the preferential rate on products sold at retail and must report retailing B&O and retail sales tax on this income.

The preferential rate applies to the following:

(1) Manufacturers of perishable or nonperishable products

A person who

- Takes a perishable meat product that the person owns,
- Processes it (including adding one or more non-meat ingredients), and
- Sells the resulting product at wholesale.
 - The resulting product can be nonperishable so long as the manufacturing process begins with a perishable meat product.
 - The resulting product will qualify even if meat is only a component of the finished product.

In-state manufacturers qualify for the preferential rate. Out-of-state manufacturers may qualify on their wholesale sales in Washington.

(2) Resellers of perishable meat products

A person who

- Buys a perishable meat product, and
- Sells the perishable meat product at wholesale.

Both in-state and out-of-state resellers may qualify for the preferential rate.

Examples

The following examples identify a number of facts and then state a conclusion. These examples should only be used as a general guide. The tax results of other situations must be determined after a review of all the facts and circumstances.

Example 1:

Facts:

- Reseller ABC purchases a perishable meat product from a third party and sells the same product at wholesale.

Result:

- ABC qualifies for the slaughter/breaking B&O tax classification on its wholesale sales.

Example 2:

Facts:

- ABC purchases a perishable meat product from a third party, processes it into a different perishable or nonperishable meat product, and sells the resulting product at wholesale.
- ABC's processing includes the adding of non-meat ingredients.

Result:

- ABC qualifies for the slaughter/breaking B&O classification on its activities.

Example 3:

Facts:

- Chester's Cheeses Inc., a cheesemaker, purchases animal-based liquid rennet in a perishable state. Animal-based rennet is an enzyme produced in, and then extracted from, the stomachs of some animals.
- Chester's Cheeses also purchases milk, salt, and bacteria cultures. It combines and processes these ingredients with the rennet to produce cheese, which it sells at wholesale.

Result:

- Chester's Cheeses qualifies for the slaughter/breaking B&O classification on its activity.
 - This is because Chester's Cheeses processes a perishable meat product (rennet) when it produces cheese.
 - Animal-based rennet is a "meat product" because it includes a part of an animal carcass as a direct ingredient, and is intended for human consumption.
 - Animal-based rennet "has any part of an animal carcass as a direct ingredient" because the process for making the rennet involves starting with part of an animal carcass (*i.e.*, the stomach).
-

Example 4:

Facts:

- Reseller DEF purchases and sells, at wholesale, cheese that was made through a process that involved the use of animal-based rennet.

Result:

- DEF does not qualify for the slaughter/breaking B&O tax classification because cheese is not a perishable meat product.
 - Cheese does not have any part of an animal carcass as a direct ingredient.
 - Although animal-based rennet has a part of an animal carcass as a direct ingredient, cheese made with rennet is not a meat product because it contains no part of an animal carcass as a direct ingredient. This is because the process for making the cheese involves starting with rennet, not with an animal carcass. At most, cheese made with rennet contains a part of an animal carcass as an indirect ingredient.

Example 5:

Facts:

- Tasty Treats Inc., a pet food manufacturer, purchases animal feed ingredients consisting of meat product in a perishable state from a third party. Tasty Treats Inc. then incorporates these animal feed ingredients with other non-meat ingredients into pet food and sells the resulting product at wholesale to retailers.

Result:

- Tasty Treats qualifies for the slaughter/breaking B&O tax classification because it starts with a perishable meat product, processes it, and sells the resulting product at wholesale.

Example 6:

Facts:

- Reseller XYZ purchases from a third party, broth, sauces, gravy, corn dogs, and chicken pot pies, each of which are purchased in a perishable state, and have a part of an animal carcass as a direct ingredient because the process for making these products involves starting with a part of an animal carcass.
- Reseller XYZ then 1) sells some of these products at wholesale without further processing; and 2) processes the remaining products into different meat products, which it sells at wholesale.

Result:

- XYZ qualifies for the slaughter/breaking B&O tax classification on both of its activities.

Example 7:

Facts:

- Mamma's Soup Inc. purchases perishable meat from a third party. Mamma's Soup operates a factory in Washington where it combines the perishable meat with vegetables, stock, and spices to create a unique soup. The soup is then canned and sold at wholesale to local grocery stores in Washington.

Result:

- Mamma's Soup qualifies for the slaughter/breaking B&O tax classification because it takes perishable meat, manufactures it into a different meat product (whether perishable or nonperishable), and sells the resulting product at wholesale.

Example 8:

Facts:

- Same facts as Example 7, except Mamma's Soup also opens a retail store at its factory where it sells a portion of its soup directly to consumers.

Result:

- Mamma's Soup does not qualify for the slaughter/breaking B&O tax classification with respect to the soup it manufactures and sells at retail. Instead, it must report manufacturing B&O, retailing B&O, and retail sales tax on this income.
- Mamma's Soup is eligible for a multiple activities tax credit (MATC) against the amount it reports under the retailing B&O tax classification. In effect, Mamma's Soup is subject to just the manufacturing B&O tax classification and retail sales tax for soup it sells at retail.
- Mamma's Soup still qualifies for the slaughter/breaking classification with respect to the soup it manufactures and sells at wholesale.
