

HOUSE BILL REPORT

SHB 1107

As Amended by the Senate

Title: An act relating to expanding certain nonresident vessel permit provisions.

Brief Description: Expanding certain nonresident vessel permit provisions.

Sponsors: House Committee on Transportation (originally sponsored by Representatives Chapman, Barkis, Corry, Tharinger and Graham).

Brief History:

Committee Activity:

Transportation: 1/25/21, 2/11/21 [DPS].

Floor Activity:

Passed House: 3/1/21, 97-0.

Senate Amended.

Passed Senate: 4/6/21, 48-1.

Brief Summary of Substitute Bill

- Expands the authorization that allows an entity other than a person to obtain nonresident vessel permits: increases the length of the vessel that may be permitted from 164 feet to 200 feet; provides that the entities eligible for such permits include an owner or entity chartering a vessel with a captain or crew, as long as individual charters are for at least three or more consecutive days; removes the restriction that limits the number of nonresident vessel permits that may be received by a nonresident entity to two within any 36-month period; and extends the authority, originally set to terminate at the end of 2025, to the end of 2030.

HOUSE COMMITTEE ON TRANSPORTATION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 29 members: Representatives Fey, Chair; Wylie, 1st Vice Chair; Bronoske, 2nd

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Vice Chair; Ramos, 2nd Vice Chair; Barkis, Ranking Minority Member; Eslick, Assistant Ranking Minority Member; Robertson, Assistant Ranking Minority Member; Volz, Assistant Ranking Minority Member; Berry, Chapman, Dent, Duerr, Entenman, Goehner, Griffey, Hackney, Klicker, Lovick, McCaslin, Orcutt, Paul, Ramel, Riccelli, Slatter, Sutherland, Taylor, Valdez, Walsh and Wicks.

Staff: Mark Matteson (786-7145).

Background:

The Use Tax and Watercraft Excise Tax. The use tax applies to the value of property, digital products, and certain services when used in this state, if the retail sales tax was not collected when the user acquired the property or product. The tax is imposed at both the state and local levels. The state rate is 6.5 percent for most items of property, digital products, and services subject to tax; the local rate varies from 0.5 percent to 3.9 percent, depending on the location.

An annual excise tax of 0.5 percent of the fair market value, but not less than \$5, is imposed on watercraft for the privilege of using a vessel upon the waters of the state. Tax proceeds are deposited to the State General Fund.

Nonresident Vessel Permits. The owner of a vessel who is a nonresident individual or other entity is required to obtain a nonresident vessel permit to operate the vessel on the waters of Washington under certain conditions. If the owner wants to operate the vessel on Washington waters for more than 60 days, the owner must apply for a permit on or before the sixtieth day of the visit to remain in the state for an additional 60 days. The owner may renew the permit once for an additional 60 days. When the permit expires, the vessel owner must either register the vessel in Washington or remove the vessel from Washington waters. If the owner registers the vessel in Washington, the owner must pay use tax in addition to the registration and titling fees, if retail sales tax has not already been paid, and watercraft excise tax may be due.

A nonresident vessel permit is not required for the use of the vessel in Washington for the first 60 days, if the vessel is currently registered in another state or the vessel has a current United States Coast Guard Documentation paper. In addition, no permit or registration is necessary if the vessel is in Washington exclusively for repairs, alteration, or testing.

The process to apply for a nonresident vessel permit depends on whether the owner is a person or an entity other than a person. If a person seeks a permit, that person must apply to the Department of Licensing (DOL) via the DOL, a county auditor, or a subagent. The person must show an unexpired boat registration, identification, and the date that the vessel first entered Washington waters. The person must pay a fee of \$25. If the owner is an entity other than a person, the entity must also be approved first by the Department of Revenue (DOR); the vessel for which the entity is seeking a permit must be no less than 30

feet in length and no greater than 164 feet; and the fee that must be paid to the DOL is from \$750 to \$6,150, depending on the length of the vessel.

Before an entity other than a person may apply to the DOL for a nonresident vessel permit, the entity must obtain approval from the DOR. The entity must submit to the DOR the name of the record owner of the vessel; the name, address, and telephone number of the individual that is seeking authorization on behalf of the entity; the address of the record owner; the vessel's hull identification number; the vessel year, make, and model; the vessel length; the vessel's registration information; proof of the entity's nonresident status; proof of the identity and current residency of all principals of the entity; an affidavit signed by a principal of the entity certifying that no Washington resident is a principal of the entity; and any other information the DOR may require. If the entity appears eligible, the DOR must provide written approval to the entity and provide a copy of the approval to the DOL. The DOR may not provide approval for a permit to such entities after November 30, 2025.

Once the DOL has issued a nonresident vessel permit to an entity other than a person, the DOL must maintain a record of certain vessel information, and provide the information periodically to the DOR. The information includes the name of the record owner of the vessel; the vessel's hull identification number; the amount of fees paid for the permit; the date that the vessel first entered Washington waters; the expiration date of the permit; and any other information mutually agreed to with the DOR. The DOL may not issue more than two nonresident vessel permits within any 36-month period to an entity other than a person.

If, after the DOL has issued a permit to an entity other than a person, the DOR finds the entity ineligible for the permit, the DOR must assess state and local use tax on the value of the vessel, as well as any watercraft excise tax due.

The authority for an entity other than a person to obtain a nonresident vessel permit, and for the DOL to issue such a permit, expires in 2026.

Summary of Substitute Bill:

The authorization that allows an entity other than a person to obtain nonresident vessel permits is expanded. The length of the vessel that may be permitted is increased from 164 feet to 200 feet. The entities eligible for such permits may include an owner or entity chartering a vessel with a captain or crew, as long as individual charters are for at least three or more consecutive days, not including transit time to or from the charter starting or ending locations. The restriction that limits the number of nonresident vessel permits that may be received by a entity other than a person is removed. The authority for an entity other than a person to obtain a nonresident vessel permit, and for the DOL to issue such a permit, is extended to the end of 2030.

EFFECT OF SENATE AMENDMENT(S):

The Senate amendment:

- expands the vessels that are potentially eligible for a nonresident vessel permit to include foreign vessels, if the vessel is properly registered in the nation of origin or has a valid United States Customs Service cruising license;
- modifies the current limitations and requirements that apply to nonresident entities other than individuals when applying for a nonresident vessel permit, such that the limitations and requirements would also apply to a nonresident individual who intends to charter the vessel with a captain or crew;
- modifies the terms under which the DOR may authorize the issuance of a nonresident vessel permit, such that the authorization must be issued if the DOR has established by clear, cogent, and convincing evidence that the owner is eligible for the permit, and that, if otherwise, the DOR must deny authorization;
- requires the DOR to submit a report to the Governor and Legislature by January 2026 that provides details of the use of nonresident vessel permits authorized since September 2015;
- subjects to the use tax a nonresident vessel that is within Washington waters for up to 180 days of a year as allowed by law and that is chartered with a captain or crew, based on the reasonable bare rental value of the vessel; and
- advances the expiration of the authority to obtain a nonresident vessel permit by an entity other than an individual, or by an individual chartering a vessel with a captain or crew, and for the DOL to issue such a permit, from January 2031 to January 2029.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) Out-of-state folks love our waterways and love to have work done on their boats here. But after 60 days, they do not want to pay the fee—a captain of a large vessel went back to Oregon. The wealth that is involved is staggering; the owner might even have a second boat. At the same time, the owner will not pay the fee and chooses to leave the state. This is simply a fairness thing. For small communities like Port Angeles, these are real jobs, jobs that would otherwise go to Oregon. There are great tradespeople here and an effort should be made to continue to grow Washington rural communities.

This is about economic growth, generating new tax revenues, and creating high-wage jobs, with over 400 new jobs and \$1.3 million in state and local taxes. Maritime businesses are crucial pillars of the local economy. Port Angeles has redeveloped a site for these out-of-state charters and nonresident vessel businesses.

Anacortes depends on boats staying in marinas. This bill is all about maritime careers. This bill is designed to attract boats to support a number of high-paying jobs. It would help support international marine tourism here. It is about growing the sector.

Ten percent of the value of each vessel is spent on repairs. The work should stay here. Oregon and Alaska do not have a sales tax and so do not have the problem Washington does.

(Opposed) None.

Persons Testifying: Representative Chapman, prime sponsor; Colleen McAleer, Clallam County Economic Development Council; Amanda Kennedy, Platypus Marine Shipyard; Dan Worra, Port of Anacortes; Amy Wachmann; and Peter Schrappen, Northwest Marine Trade Association.

Persons Signed In To Testify But Not Testifying: None.