

FINAL BILL REPORT

SHB 1002

C 22 L 07

Synopsis as Enacted

Brief Description: Modifying the sales and use taxation of vessels.

Sponsors: By House Committee on Finance (originally sponsored by Representatives O'Brien, Orcutt, Kessler, Condotta, McIntire, Sommers, Kenney, McDonald, Haler, Simpson, Wallace and Warnick).

House Committee on Finance
Senate Committee on Ways & Means

Background:

Sales and Use Taxes. Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or service was acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 2.4 percent, depending on the location. The average local tax rate is 2 percent, for an average combined state and local tax rate of 8.5 percent.

Sales and Use Taxes with Respect to Watercraft. Retail sales tax does not apply to sales of watercraft to nonresidents if the watercraft is not used within this state for more than 45 days and the purchaser gives the dealer an exemption certificate. If the purchaser is a resident of another state, the watercraft must also be one for which registration is required under federal law. This registration requirement does not apply to watercraft purchased by residents of foreign countries. Nonresidents may bring watercraft registered under federal law or another state into Washington for their use and enjoyment while temporarily within the state without incurring use tax. The use of the watercraft within the state may not exceed six months in any 12-month period.

Vessel Registration Exemption. Nonresident individuals may bring vessels into Washington for temporary use and enjoyment without registering the vessel with the Department of Licensing. The temporary period may not exceed six months in any 12-month period. The nonresident individual must acquire an identification document on or before the 61st day of use in the state. The identification document is valid for two months and renewable once.

Summary:

Sales Tax Exemption for Vessels. A retail sales tax exemption is provided for vessels 30 feet or longer sold to nonresident individuals. The vessel owner must purchase and display a use permit provided by the vessel dealer at the time of purchase. To qualify for the sales tax

exemption and receive a use permit, the individual must provide satisfactory proof of his or her nonresident status at the time of purchase. A vessel dealer is not required to make tax exempt retail sales to nonresidents. If a vessel dealer does make an exempt sale, the dealer must maintain records that adequately substantiate the buyer's nonresident status. The fee for a use permit is \$500 for vessels 50 feet in length or less and \$800 for vessels over 50 feet in length. The fees are deposited in the State General Fund. A use permit is valid for 12 consecutive months from the date of issuance and is nonrenewable. A vessel in Washington that remains after the permit has expired is subject to sales tax on the original selling price of the vessel. Interest applies to any tax due. A seller that makes tax exempt sales and does not maintain adequate records is liable for the sales tax. Vessel dealers who issue use permits must file tax returns electronically.

Use Tax Exemption for Vessels. A use tax exemption is provided for vessels 30 feet or longer for vessels:

- brought into the state by nonresident individuals;
- purchased in the state from a vessel dealer and having a valid use permit, as described above; or
- purchased from a person who is not a vessel dealer.

A nonresident individual who purchases a vessel in the state from a person who is not a vessel dealer, or brings a vessel into the state, must purchase and display a use permit within 14 days of the date the vessel is purchased in, or brought into, the state, to receive the exemption. The conditions and requirements for use permits for use tax exemptions are the same as the requirements and conditions for use permits for sales tax exemptions, as described above.

A nonresident may not claim the 45-day use tax exemption for a vessel within 24 months of the expiration of a use permit for the same vessel.

Vessel Registration Exemption. Nonresident individuals possessing a valid use permit do not have to acquire a vessel identification document from, or register the vessel with, the Department of Licensing during the 12 month period the permit is in effect.

Votes on Final Passage:

House	95	3
Senate	45	0

Effective: July 1, 2007