

SENATE BILL REPORT

SHB 1002

As Reported By Senate Committee On:
Ways & Means, March 20, 2007

Title: An act relating to the sales and use taxation of vessels.

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

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

Brief History: Passed House: 3/12/07, 95-3.

Committee Activity: Ways & Means: 3/20/07 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, Oemig, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Dean Carlson (786-7305)

Background: Sales tax is imposed on the retail sales of most items of tangible personal property and some services. The use tax is imposed on the privilege of using tangible personal property or services in instances where the sales tax does not apply. Sales and use taxes are levied by the state, counties, and cities, and total rates vary from 7 to 8.9 percent.

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 the state of Washington for their use and enjoyment while temporarily within the state without incurring a use tax liability and without the requirement to register the watercraft 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

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61st day of use in the state. The identification document is valid for two months and renewable once.

Summary of Substitute Bill: A retail sales tax exemption is provided for vessels 30 feet or longer sold to bona fide residents of another state or possession or province of Canada. The vessel owner must purchase and display a use permit provided by the vessel dealer at the time of purchase. 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 general fund. A use permit is valid for 12 consecutive months from the date of issuance and is nonrenewable. Once the 12 month period is up, the person receiving the exemption may not bring the vessel into the state for a period of 24 months. If a person receiving the exemption uses a vessel past the expiration date of the use permit, they will be liable for the full amount of the tax, plus interest.

A complimentary use tax exemption is also provided for nonresidents purchasing a vessel 30 feet or longer from a person other than a dealer and for a nonresident bringing their vessel to Washington for one year. For the use tax exemption, the nonresident must purchase the use permit from a vessel dealer.

To qualify for the sales and use 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. If a dealer makes a sale to a person who does not hold valid identification establishing out-of-state residency or does not maintain records of sales to nonresidents, the dealer will be liable for the tax due.

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.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2007.

Staff Summary of Public Testimony (on companion SB 5007): PRO: We strongly support the bill. During the interim we found ways to make the bill better from last year. We included the 24 month period where a vessel taking advantage of the permit can not re-enter the state. We also will be providing Department of Revenue with good information on which boats are taking the exemption. We consider this to be a good economic development bill. Our boat yard members frequently lose repair business to other west coast states and Canada because of the narrow window that boats can stay in the state.

Persons Testifying: PRO: Chuck Foster, Northwest Yacht Brokers; Cliff Webster, Northwest Marine Trade Association.