

# HOUSE BILL REPORT

## HB 1267

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### As Reported By House Committee On:

Finance

**Title:** An act relating to a use tax exemption for vessel manufacturers and dealers.

**Brief Description:** Providing a use tax exemption for vessel manufacturers and dealers.

**Sponsors:** Representatives B. Thomas, Zellinsky and Dickerson.

### Brief History:

#### Committee Activity:

Finance: 2/4/97, 3/6/97 [DP].

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 14 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Butler; Conway; Kastama; Mason; Morris; Pennington; Schoesler and Thompson.

**Staff:** Linda Brooks (786-7153).

**Background:** The sales tax is imposed on retail sales of most items of tangible personal property and some services. The state tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales taxes apply. The total tax rate is between 7 percent and 8.6 percent, depending on location. Sales tax applies when items are purchased at retail in state. Sales tax is paid by the purchaser and collected by the seller.

Use tax is imposed on the use of an item in this state, when the acquisition of the item has not been subject to sales tax. Use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the Department of Revenue.

The use tax does not apply to the display of inventory by a seller. However, if a seller purchases property without paying retail sales tax and uses the property as a

demonstrator, for personal use, or for any purpose other than display as inventory for sale, the use tax applies even if the property may later be sold.

**Summary of Bill:** Manufacturers and dealers of vessels (watercraft) are exempt from use tax when a vessel or vessel trailer is used for the following purposes, as defined in the bill: testing, training, sales promotion, loaning to a nonprofit organization for up to 72 hours, displaying or demonstrating at a show, delivery to a buyer or person involved in the manufacture or sale of the vessel, and demonstration to a potential buyer. If the manufacturer or dealer uses the vessel for personal use, the use tax must be based on the reasonable rental value of the vessel used, but only if the vessel is truly held for sale.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** Recreational boating is an industry worth \$2.1 billion per year in Washington. Vessel dealers need a set of rules that clarifies how use tax applies to the operation of vessels for demonstration purposes. For example, a dealer might sail the vessel to a coastal community where the vessel may be temporarily moored and displayed to potential buyers. Presently, sailing a vessel to another port for display or taking a potential buyer out for a run could subject the vessel to use tax.

Vessel dealers have discussed with the Department of Revenue the preparation of administrative rules that would govern the application of use tax to vessels owned by a dealer. Special administrative rules do exist for automobile dealers that outline how use tax applies to automobiles operated for demonstration purposes. Vessel dealers indicate that no administrative rules have been prepared for vessels, because the Department of Revenue desires policy guidance from the Legislature.

**Testimony Against:** None.

**Testified:** (Pro) Rick Spellman, citizen; and John Woodring, Northwest Marine Manufacturing Association.