

# HOUSE BILL REPORT

## HB 1002

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**As Reported by House Committee On:**  
Finance

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

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

**Sponsors:** Representatives O'Brien, Orcutt, Kessler, Condotta, McIntire, Sommers, Kenney, McDonald, Haler, Simpson, Wallace and Warnick.

**Brief History:**

**Committee Activity:**

Finance: 1/12/07, 2/6/07 [DPS].

**Brief Summary of Substitute Bill**

- Provides a sales tax exemption for vessels purchased in Washington by nonresident individuals if the individual acquires a permit and remains in the state for no more than 12 months.
- Provides a use tax exemption for vessels brought into Washington by nonresident individuals if the individual acquires a permit and remains in the state for no more than 12 months.
- Exempts nonresident individuals in possession of a use permit from the requirement to register a vessel with the Department of Licensing for 12 months.

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**HOUSE COMMITTEE ON FINANCE**

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire, Roach and Santos.

**Staff:** Jeff Mitchell (786-7139).

**Background:**

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

*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 1.4 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.

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### **Summary of Substitute Bill:**

*Sales Tax Exemption.* 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. If a buyer has a use permit, the buyer may not also utilize the 45 day exemption for sales to nonresidents. A nonresident that uses a vessel after the permit has expired is liable for 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.* A use tax exemption is provided for vessels 30 feet or longer for vessels:

- (1) brought into the state by nonresident individuals.;
- (2) purchased in the state from a vessel dealer and having a valid use permit, as described above; or
- (3) purchased from non-vessel dealers.

A nonresident individual who purchases a vessel in the state from a non-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.

*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.

**Substitute Bill Compared to Original Bill:**

The substitute bill changes the 60 day requirement to purchase a use permit to 14 days, for nonresidents bringing their vessels into Washington. The substitute bill clarifies that a nonresident purchasing a vessel from a non-vessel dealer may purchase a use permit to receive the exemption, and this must be done within 14 days of the purchase date. The sales and use tax exemption is generalized to include residents of foreign countries. Vessel dealers are required to file tax returns electronically in order to issue use permits.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In Support) We proposed this legislation last year. We've been working hard to work out the details. There are annual boat shows that attract people from all over the United States and Canada. People buy expensive yachts at the boat shows. These people would like to remain in Washington for a year, current law prohibits that. These people are going to British Columbia and spending their money there. This would generate revenue for the marine industry as well as the State General Fund. The bill went through the Senate last year. This bill is an economic development measure. The current six month limitation interferes with people bringing their vessels to Washington for repairs, retrofits, and staying here for enjoyment.

(Opposed) None.

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

**Persons Signed In To Testify But Not Testifying: None.**