

HOUSE BILL REPORT

ESHB 1906

As Passed House:
February 13, 2024

Title: An act relating to the vessel length requirement in obtaining nonresident vessel permits.

Brief Description: Changing the vessel length requirement in obtaining nonresident vessel permits.

Sponsors: House Committee on Transportation (originally sponsored by Representatives Chapman, Barkis, Bronoske, Reed, Ryu and Reeves).

Brief History:

Committee Activity:

Transportation: 1/10/24, 1/17/24 [DPS].

Floor Activity:

Passed House: 2/13/24, 97-0.

Brief Summary of Engrossed Substitute Bill

- Increases the allowable maximum length of nonresident vessels that are commercially owned or intended for chartering purposes, for the purposes of obtaining a nonresident vessel permit from the Department of Licensing, from 200 to 300 feet.
- Requires a fee for a nonresident vessel permit for commercially-owned vessels between 201 and 300 feet of \$42 per foot of vessel length, beginning May 1, 2025.

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; Donaghy, Vice Chair; Paul, Vice Chair; Timmons, Vice Chair; Barkis, Ranking Minority Member; Hutchins, Assistant

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.

Ranking Minority Member; Low, Assistant Ranking Minority Member; Robertson, Assistant Ranking Minority Member; Berry, Bronoske, Chapman, Cortes, Dent, Doglio, Duerr, Entenman, Goehner, Griffey, Hackney, Klicker, Mena, Nance, Orcutt, Ramel, Ramos, Schmidt, Volz, Walsh and Wylie.

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 Washington, if the retail sales tax was not collected when the user acquired the property or product. The use 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 the tax; and the local rate varies from 0.5 percent to 3.9 percent, depending on the location. State tax proceeds are deposited in the State General Fund.

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 Washington. Tax proceeds are deposited in the State General Fund.

Nonresident Vessel Permit Authorization.

The nonresident owner of a vessel must 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, if retail sales tax has not already been paid, along with the registration and titling fees. Watercraft excise tax may also be due.

A nonresident vessel permit may be obtained only for certain vessels and for certain activities. The vessel must be either registered in the United States (US); assigned a valid number under federal law; or have a current US Customs Service cruising license. The vessel is eligible only if it has not been brought into Washington for no more than six months in any 12-month period. A vessel is eligible only if it is used for personal use or for charters with a captain or crew, as long as each individual charter is at least three days in duration.

For a vessel owned by an entity other than a natural person, or for a vessel for which the individual owner intends to use it for charters with a captain or crew, additional conditions apply before a permit may be issued. The vessel must be at least 30 feet in length, but no more than 200 feet. The vessel may not be owned by a Washington resident, nor may a

Washington resident be a principal of a nonresident owner. Additionally, the Department of Revenue (DOR) must provide approval to the owner authorizing the permit.

The authority for an entity other than a person to obtain a nonresident vessel permit, and for the Department of Licensing (DOL) to issue such a permit, expires in 2029.

Nonresident Vessel Permit Process and Terms.

To obtain a nonresident vessel permit, the applicant must apply to the DOL via the DOL, a county auditor, or a subagent. The applicant must show an unexpired boat registration, identification, and the date that the vessel first entered Washington waters. The applicant must pay a fee, which depends on whether the vessel owner is a person or an entity other than a person. If the owner is a person, the fee is \$25. If the owner is an entity other than a person, the fee ranges from \$750 for 30 foot vessels to \$7,500 for 200 foot vessels. If the applicant intends to use the vessel for charters with a captain or crew, use tax is also due on the reasonable bare rental value of the vessel.

Once the DOL has issued a nonresident vessel permit to an entity other than a person or to a person who intends to charter the vessel with a captain or crew, 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 that both the DOR and the DOL deem relevant.

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.

Nonresident Vessel Permit Exemptions.

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, nor is it required if the vessel is used in conducting temporary business activity within Washington. In addition, no permit or registration is necessary if the vessel is in Washington exclusively for repairs, alteration, or testing. However, if the vessel is used for the purposes of chartering with a captain or crew within the first 60 days, the vessel is subject to use tax on the reasonable bare rental value of the vessel.

Summary of Engrossed Substitute Bill:

The allowable maximum length of a vessel for which a nonresident entity other than a person may obtain a nonresident vessel permit, or for which a nonresident person who intends to charter the vessel with a captain or crew may obtain such a permit, is increased from 200 to 300 feet. The fee for a nonresident vessel permit for a vessel of length between

201 and 300 feet, if the owner is an entity other than a person, is \$42 per foot of vessel length, beginning May 1, 2025.

Until May 1, 2025, the DOL must process an application and assess a fee for a nonresident vessel permit for any vessel between 201 and 300 feet in length in the same manner as that for a vessel of 200 feet in length.

The bill expires on January 1, 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) Large recreational vessels come to the shipyards in Port Angeles for work in the winters. This provides family wage maritime jobs, which support the local economy. With the World Cup in 2026, the Olympics in Los Angeles in 2028, and the 2032 Olympics in Brisbane, we and our maritime partners around the Pacific are planning to launch "Four Years of Endless Summer," to entice these types of vessels to come and stay. This will provide revenue and repair work.

While the passage of HB 1107 in 2021 was a big help, there are currently 118 vessels over 200 feet in length that could be chartered to come here if the law allowed it. In addition to providing tax revenue and repair work, the crews spend a lot of money in the state. We are missing out on a lot of revenue.

Larger vessels require greater services and levels of support. This bill will boost local economies that can provide these things. There are 108 yachts being built now that are over 200 feet in length. This is a 27 percent increase since HB 1107 passed 2021.

In 2021, the Port of Port Angeles worked with the Legislature to amend current laws to extend chartering opportunities to out-of-state vessels with captains and crews. For the Port, this bill is about economic growth, providing family wage jobs and boosting revenue in the local community. The Port has a flourishing maritime industry that repairs vessels. Several years ago, the Port worked on the remediation of a former plywood mill site and we completed a feasibility study to determine the best use of this brownfield site. The Port is now well down the path of expanding its marine trades industrial park. Annually, these chartered vessels spend about 10 percent of their value on their needs. What this means for the Port is that this would add about 461 new direct and implied jobs, equating to about \$17.6 million.

(Opposed) None.

Persons Testifying: Representative Mike Chapman, prime sponsor; Monique Webber, Pacific Yacht Management; Lindsey LaPrath and Lori Eastes, Worth Avenue Yachts; Paul Jarkiewicz, Port of Port Angeles; and Roman Daniels-Brown, Northwest Marine Trade Association.

Persons Signed In To Testify But Not Testifying: Martin Marchant, Westport Yachts.