

# 2016 DOR VESSEL GUIDE

*As used in this publication, the terms “boat”, “vessel” and “watercraft” are used interchangeably.*

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### **Registration process**

The Unified Business Identifier (UBI) program simplifies Washington's registration and licensing requirements. Completing the [business license application](#) enables the business owner to register or apply for licenses with several state agencies, including the Department of Revenue, using a single form.

Business license applications are available [online](#) at: <http://bls.dor.wa.gov/file.aspx>.

### **Display of registration**

Taxpayers must display the registration certificate in a conspicuous location at the place of business.

**References:** RCW [82.32.030](#), WAC [458-20-101](#)

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### **Multiple locations**

A registration certificate is required for each place of business at which the taxpayer engages in business activities.

A taxpayer wishing to report all tax liability on a single excise tax return may request a separate registration certificate for each location. All registration certificates will reflect the same registration number.

A taxpayer wanting to file a separate excise tax return covering a branch location may apply for a separate registration number. A registration certificate will be issued for each location and will represent a separate account.

To obtain a separate registration certificate, Revenue registration number, or additional business license for a new location, a new business license application is required.

**Reference:** WAC [458-20-101](#)

### **Change in ownership**

When a change in ownership or legal entity occurs, a new business license application must be completed and filed. The original certificate must be destroyed. Any further use of the prior owner's registration number after closing and final tax reporting is prohibited.

### **Address/location change**

If a business moves to a new location, the taxpayer must file a new [Business License Application](#). A new registration certificate will be issued.

### **Tax return reporting frequency**

Unless otherwise provided by the Department of Revenue, a taxpayer must report and pay taxes due according to the following schedule:

- Monthly: Over \$4,800 annual estimated tax liability

- Quarterly: \$1,050 to 4,800 annual estimated tax liability
- Annually: Less than \$1,050 annual estimated tax liability

Business must file based on their filing frequency assigned by the Department of Revenue. Most businesses file monthly or quarterly.

The Department of Revenue regularly reviews the filing frequency and notifies taxpayers when changes are necessary. Taxpayers can also request a change of reporting frequency. The Department of Revenue will provide at least 30 days advance written notice before a filing frequency is changed.

**References:**

WAC [458-20-228](#)

WAC [458-20-22801](#)

## **Reseller permits**

[Reseller permits](#) are free for businesses that make wholesale purchases, including qualified repair businesses. The permits allow businesses to purchase items or services for resale without paying sales tax. Qualifying businesses are automatically issued a reseller permit; if a business isn't issued one, you must [apply online](#) for a reseller permit.

### **How long is a reseller permit valid?**

Reseller permits are generally valid for four years. However, permits are valid for only two years if the business:

- is a contractor
- has been open for less than 12 months
- has not reported gross income in the last 12 months
- was on active non-reporting status at the time the application was received
- has failed to file tax returns any time during the last 12 months

If your business's permit is not automatically renewed, you will receive a notice to apply for a new reseller permit about 90 days before your permit expires.

### **Keep a copy of the permit**

The reseller permit must be received at the time of sale. Permits received after the sale may not be accepted during an audit. The seller must receive a reseller permit or charge sales tax on the purchase.

A seller may accept a facsimile copy of a reseller permit.

### **Tax registration/UBI number on invoice**

The tax registration/UBI number on an invoice is not sufficient. The seller must receive a DOR-issued reseller permit.

### **Update/how long to keep/retention**

Sellers must maintain proper documentation to support wholesale sales for five years after the date of sale. Sellers must retain copies of reseller permits on file for five years after the date of sale.

### **Misusing reseller permits**

Businesses may not use a reseller permit to buy:

- Items for personal or household use
- Items to be given away
- Items used in the business, such as supplies and equipment
- Items used by the business in performing the business activity even if billed to customers
- Tools or equipment, (unless you are in the business of directly reselling or renting out such items)
- Equipment rentals

The Department of Revenue routinely examines purchases made with reseller permits to verify permits are used appropriately. Anyone found using a permit inappropriately will owe the tax due and a 50 percent penalty, even if there was no fraud intended, and may have their permit revoked.

**Possible reclassification of sale**

During an audit, failure to have a valid, current reseller permit or documentation on file may result in the reclassification of the sale from wholesaling to retailing B&O tax. The business will owe sales tax for that sale.

References:

[Special Notice: Reseller Permits to Replace Resale Certificates](#)

[WAC 458-20-102](#)

[Excise Tax Advisory \(ETA\) 3005.2009](#)

## **Sales tax**

Retail sales tax applies to the selling price of taxable transactions and must be separately stated on the customer's billing.

**Reference:** RCW [82.08.040](#)

### **When a retail sale occurs**

Sales tax is imposed when tangible personal property is sold and delivered from the seller to the buyer (consumer). Sales tax also applies on the charges for retail services performed for or provided to a consumer (including the improvement or repair of real or personal property), recreational services and certain other services and activities.

**Reference:** RCW [82.04.050](#)

### **Who collects sales tax?**

The buyer must pay sales tax to the seller, and each seller must collect from the buyer the full amount of the tax. Vessel brokers and dealers are sellers under the law (RCW [82.08.050](#)) and are required to collect and remit sales tax to the Department of Revenue with their excise tax returns.

### **Question 1: Is a Washington dealer/broker required to collect sales tax if a boat is delivered to a Washington resident at an out-of-state location?**

The dealer/broker is not required to collect Washington sales tax when delivery occurs at an out-of-state location. Sellers must maintain documentation of out-of-state delivery. For more information, see [WAC 458-20-193](#).

### **Question 2: Are escrow agents required to collect and remit sales tax?**

No. The vessel broker or dealer is considered the seller and is the one responsible for the collection and remittance of the sales tax. Generally, an escrow agent is not required to collect and remit sales tax because they are not defined as a "seller" under RCW [82.08.010](#).

### **Question 3: When a third-party acts as a closer in a vessel sale and collects and remits sales tax on the sale at the time of registration, is the vessel dealer/broker relieved of the tax collection liability?**

Brokers are relieved from liability for the collection of the sales tax from buyers when they only receive a commission on the sale and the entire transaction is closed directly between the owner and the buyer. These sales must be reported to the Department of Revenue on the [Broker's/Agent's Transaction Report](#). After receiving compensation from the transaction, brokers have 10 days to report the sale to the Department of Revenue. This provision applies to both listing brokers and selling brokers.

Sales closed in the presence and/or control of the selling broker who receives compensation from the sale are not exempted from the obligation to collect retail sales tax.

## **Retail sales tax rates**

Brokers/dealers must collect sales tax based on the sales tax rate for the place of sale. If you are unsure about which local code should be used, use our [tax rate lookup tool](#).

### **Place of sale**

With sales of watercraft, the place of sale is the place at which or from which delivery of the watercraft is made to the buyer. Vessel sales are specifically excluded from destination based sales tax.

The location of a third-party closer does not affect the place of sale.

*Example:* The dealer or broker and vessel are located in Seattle. An Anacortes resident purchases and takes delivery of the vessel in Bellingham. The place of sale and the sales tax rate that applies to the transaction is Seattle.

### **Out-of-state sellers**

When a vessel is delivered into Washington from outside the state and an in-state facility, office, outlet, agent or other representative (even though not formally characterized as a "salesperson") of the seller participates in the transaction in some way, such as by taking the order, then the location of the local facility, etc., will determine the place of sale for purposes of the local sales tax.

However, if the seller, the seller's agent or the seller's representative maintains no local in-state facility, office, outlet or residence from which business in some manner is conducted, the tax rate is based on the customer's location.

**Reference:** WAC [458-20-145](#)

### **Freight and delivery charges**

Freight and delivery costs charged to the buyer are considered part of the selling price. These charges are subject to retail sales tax and B&O tax.

### **Sales tax exemptions**

There are various sales tax exemptions. See [Exemptions to sales/use tax](#) in this guide.

## **Use tax**

Use tax is imposed on the use of goods in Washington where sales tax has not been paid. Goods used in Washington are subject to either the sales or use tax, but not both, regardless of where or from whom the property was purchased or acquired. Like sales tax, use tax is a combination of state and local rates and is the same rate as sales tax for the same location.

**References:** Chapter [82.12](#) RCW and WAC [458-20-178](#)

### **When use tax is due**

Use tax applies at the time of first use within Washington if Washington sales tax wasn't paid when the item was acquired.

### **Amount subject to use tax**

Generally, use tax applies to the fair market value of the goods when they are first put to use in Washington. The use tax applies to the value of the article used which includes any charges paid to the seller for freight, delivery or shipping ([WAC 458-20-110](#)).

First use is generally the time at which property first comes to rest in Washington (e.g., moorage location). Items which are purchased without paying sales tax and are immediately put to use in Washington are generally subject to the use tax on the purchase price. The amount subject to use tax includes any freight, shipping and delivery charges paid to the seller.

For use tax purposes, the value of the goods is the current fair market value when use occurs prior to entering Washington. In some instances, the purchase price does not represent fair market value. In such cases, the taxable value will be adjusted upward to reflect the fair market value. Value is generally determined by comparing the selling price to similar products of like quality and character, valuation guides, or appraisal of the property.

The value subject to use tax for vessel dealers and vessel manufacturers for their intervening use of a vessel otherwise held for sale is the fair rental value of the vessel for the time of such intervening use.

**References:** WAC [458-20-178](#), RCW [82.12.802](#)

### **Sales or use tax previously paid**

When tangible personal property is purchased and used outside Washington and sales or use tax was paid where the purchase occurred, a dollar-for-dollar credit may be taken to reduce the amount of use tax owed in Washington.

**Reference:** RCW [82.12.035](#)

### **Rate of use tax**

Like retail sales tax, use tax is a combination of state and local rates. See our online [Tax Rate Look-Up Tool](#) to find the rate for the first place of use.

### **Intervening/personal use**

Property purchased without paying sales tax is subject to use tax (or deferred sales tax) when there is intervening use of the property even if the property is subsequently sold.

### **Use tax on display items**

As a general guide, tangible personal property will be deemed to have been used on an intervening basis and therefore subject to the use tax, when such items are carried in the taxpayer's books of account as demonstrator or display merchandise, or when so extensively used for demonstration or display purposes that they can no longer be sold as new merchandise.

Use tax does not apply to the brief and superficial use which occurs when articles held for sale are displayed in single trade shows (boat shows, home shows, auto shows, agricultural fairs, conventions, etc.) for short periods, or are used in floor or window displays, and are then sold as new merchandise.

**Reference:** [ETA 3005: Intervening use](#)

### **Use tax on supplies**

Use tax (or deferred sales tax) applies on items of tangible personal property acquired without payment of sales tax for which there is intervening use. This is true even when the cost for the property is itemized or subsequently billed to the customer. Examples include such items as shop rags and masking tape.

### **Reporting and paying use tax**

Use tax on licensed property, such as vessels, is collected at the time of licensing or registration.

This commonly occurs when a vessel is brought into this state from outside Washington or is acquired from a private party where a broker was not involved.

Generally, consumers should pay use tax on unlicensed property with their Excise Tax Return (for a registered businesses) or by using a Consumer Use Tax Return (for an individual).

### **Boat sales - dealers and brokers**

#### **Definitions**

**Boat dealer:** one who is engaged in selling boats it owns.

**Boat broker:** a person who, for a commission or fee, brings buyers and sellers together and assists in negotiating transactions on behalf of others.

**Reference:** WAC [458-20-159](#)

### **Reporting requirements**

Reporting requirements of dealers selling vessels they own can differ from those for brokers selling vessels owned by others.

## **Dealers**

Dealers making retail sales to consumers report under the retailing B&O tax classification and collect retail sales tax.

Dealers selling boats for subsequent resale (without intervening use by the buyer) may accept a valid reseller permit from the wholesale buyer. In this case, the sale is reported under the wholesaling B&O tax classification and sales tax is not collected.

## **Brokers**

Whether selling in their own name or in the name of the boat's owner, in virtually all cases, brokers are responsible for collecting from the buyer and remitting sales tax directly to the Department of Revenue on all sales of boats to consumers where they are involved in the consummation of the transaction and are paid a commission based on the transaction.

Brokers report their commissions under the service and other activities B&O tax classification. They may also have other reporting requirements depending on how the vessel is sold.

Brokers selling property **in their own name**: report the sales under either the retailing or wholesaling B&O tax classification (based on whether a valid reseller permit is received) on the full amount of the sale (selling price).

Brokers making retail sales of property **in the boat owner's name** and who maintain records distinguishing such transactions in accordance with WAC [458-20-159](#) (Consignees, bailees, factors, agents, and auctioneers), must report such income under the retailing B&O tax classification. In this case, the broker is allowed to take a deduction under the retailing classification for the same amounts (identify as "income reported as an agent"). The net effect is that only the commission income will be subject to the B&O tax under the Service and Other Activities classification. See WAC [458-20-159](#).

In addition, brokers must report sales to consumers under the retail sales tax classification (or the use tax classification if there was no instate participation in the sale).

In all cases, for the Department of Revenue to recognize a valid broker or agent relationship, the books, records, and sales contracts or agreements must meet the conditions explained in WAC [458-20-159](#) which defines "agent" and "broker." The records must show all of the following:

- the transactions were made in the name and for the actual account of the principal
- the name of the actual owner of the property for whom the sale was made, or the actual buyer for whom the purchase was made
- the amount of gross sales, the amount of commissions and any other incidental income derived by the broker or agent from these sales

## **Exceptions to the sales tax collection obligation**

Brokers will be relieved from liability for the collection of the sales tax from buyers when they receive a commission on the sale and the entire transaction is closed directly between the owner and the buyer. These sales must be reported to the Department of Revenue on the [Broker's/Agent's Transaction Report](#). After receiving compensation from the transaction, brokers have 10 days to report the sale to the Department of Revenue. This provision applies to both listing brokers and selling brokers.

Sales closing in the presence and/or control of the selling broker who receives compensation from the sale are not exempted from the obligation to collect retail sales tax.

### **Brokered sales of vessels—determining the place of sale**

The place of sale on a brokered vessel transaction is the broker's in-state office location. RCW 82.32.730(7) requires vessel sales to be sourced to the location "from which delivery is made to the consumer." See [Special Notice: Brokered Sales of Vessels - Determining the Place of Sale](#).

### **Trade-ins**

#### **Trade-in of like kind property**

A trade-in of like kind property reduces the measure of sales tax or use tax by the value of the property traded in. A valid trade-in is a transaction between a buyer and seller (a dealer or broker can act as a buyer of the traded-in property). A wrecked vessel may be traded-in toward the purchase of a working vessel. (Note - The measure of the business and occupation tax is not reduced by the value of the traded-in property.)

#### **Value of property traded-in**

The seller and buyer must agree to the value of property traded-in property and the sales agreement must show that agreed upon value. However, the parties may not overstate the value of the property traded-in in order to artificially lower the amount of sales or use tax due. Without proof of a higher value, value must be determined by the fair market value of similar property of like quality, quantity, and age, sold or traded under comparable conditions.

**Reference:** WAC [458-20-247](#)

#### **Documenting a valid trade-in**

The property traded-in must be specifically identified and clearly indicated as "trade-in" by model, serial number and year of manufacture where applicable. The full trade-in value must be shown on the sales agreement or invoice given to the purchaser, with a copy retained in the seller's records.

Any and all documents or accounting entries created by a sale are subject to examination and review by the Department. To substantiate a valid trade-in for sales tax credit, the broker or dealer should retain documents/records for five years. These records should include copies of documentation verifying that the traded-in vessel, and all underlying obligations associated with it, were transferred to the party accepting the trade-in.

Vessel dealers and brokers must keep bills of sale for traded-in boats and are not required to

transfer title while it is held for resale.

Acceptable documentation includes, but is not limited to, copies of the following:

- sales agreements between parties
- bill of sale
- commission or listing agreements between parties
- financing agreements and transfers of obligation by lending institutions
- title and transfer documents required by government agencies
- evidence of transfer fees being paid
- evidence of funds being transferred between parties or through escrow accounts

**References:** WAC [458-20-247](#), RCW [82.32.070](#)

### **Encumbered property**

Encumbered property can be a trade-in provided that the encumbered property will actually be transferred to the seller of the new or used property for which it is traded. The value of the trade-in property will be the fair market value regardless of liens.

### **Broker sales and trade-ins**

Valid like-kind trade-ins reduce the amount subject to sales tax when the owner or the broker/dealer accepts the traded-in property as payment or consideration. The trade-in does not have to happen simultaneously as long as the broker/dealer accepts the traded-in property as payment or consideration against the vessel being purchased.

#### ***Scenario 1:***

Buyer Jones makes an offer on an Ocean Alexander boat through Honest Yacht Brokerage. Mr. Jones wants to trade-in his Sea Ray. The seller of the Ocean Alexander, Mr. Smith, does not want the trade-in, so Honest Yacht Brokerage agrees to take it.

Mr. Jones buys the Ocean Alexander on the same day he passes ownership of the trade-in to Honest Yacht Brokerage which accepts the Sea Ray into its inventory. The Ocean Alexander is purchased for \$500,000, and the value of the traded boat is set at \$100,000. Sales tax is collected by Honest Yacht Brokerage on \$400,000. Mr. Smith receives \$400,000 from Mr. Jones and \$100,000 from Honest Yacht Brokerage for a total of \$500,000.

#### ***Scenario 2:***

Same facts as Scenario 1, except the broker found a buyer for the Sea Ray prior to the completion of the purchase of the Ocean Alexander. Mr. Jones trades the Sea Ray into the brokerage; the brokerage sells the Sea Ray to Mr. Anderson and keeps the proceeds in its' trust account until the completion of the purchase of the Ocean Alexander. One week after the Sea Ray transferred from Mr. Jones to Honest Yacht Brokerage and then to Mr. Anderson, Mr. Jones' purchase of the Ocean Alexander is completed. Mr. Smith receives \$400,000 from Mr. Jones and \$100,000 from the broker. Honest Yacht Brokerage collects and remits sales tax on \$400,000 and allows a \$100,000 trade-in credit to Mr. Jones for the value of the traded-in Sea Ray. The fact that the traded-in Sea Ray is sold prior to the completion of the sale of the Ocean Alexander does **not** disqualify the trade-in allowance.

***Scenario 3:***

Same facts as Scenario 2, except the purchase of the Ocean Alexander is delayed. There are engine problems that need to be addressed. The purchase and sales agreement is extended. The sale is completed 90 days after the sale of the Sea Ray to Mr. Anderson. Mr. Smith receives \$400,000 from Mr. Jones and \$100,000 from the broker. The fact that there is a delay in the transfer of the Ocean Alexander does **not** disqualify the trade-in allowance as long as there is a timely contract extension covering the delay so that there is no lapsed period from the original sale/purchase agreement.

***Scenario 4:***

Buyer Jones makes an offer on an Ocean Alexander through Honest Yacht Brokerage. Mr. Jones wants to trade-in his Sea Ray. The seller of the Ocean Alexander, Mr. Smith, does not want the trade-in, and so, Honest Yacht Brokerage agrees to take it. Mr. Anderson makes an offer on the Sea Ray and wants to buy it before the purchase of the Ocean Alexander is complete. Mr. Jones transfers ownership of the Sea Ray to Honest Yacht Brokerage, who sells it to Mr. Anderson and holds the proceeds in its' trust account pending the completion of the purchase of the Ocean Alexander.

However, the purchase of the Ocean Alexander does not go through; there are engine issues and Mr. Jones chooses not to buy the boat. He finds another boat that he would like to buy instead and he requests that the broker substitute a different Ocean Alexander for the same sales price. Mr. Jones gives the seller of the second Ocean Alexander \$400,000 and the broker gives him the remaining \$100,000 (the original agreed upon trade-in valuation). However, the purchase of the second Ocean Alexander boat does **not** qualify for a trade-in reduction because the Sea Ray was not accepted as payment towards the purchase of the second Ocean Alexander boat.

***Scenario 5:***

Buyer Mr. Jones makes an offer on an Ocean Alexander through ZXY Yacht Brokerage. Mr. Jones wants to trade-in his Sea Ray. The seller of the Ocean Alexander, Mr. Smith, does not want the trade-in, so ZXY agrees to take the Sea Ray in on trade; however, they inform Mr. Jones that the amount of the trade-in is dependent on them being able to sell the Sea Ray within 45 days and if they do sell, they will credit him 80 percent of the selling price of the Sea Ray against the purchase of Ocean Alexander. This scenario does **not** qualify for the trade-in reduction. Although ZXY has "taken the vessel in on trade," there is no set (agreed upon in contract) trade-in value (it is dependent on what it eventually sales for); therefore, the trade-in does not qualify for the trade-in allowance.

**Out-of-state brokers**

Brokers located outside of Washington, but with Washington nexus, must register and report the same way as in-state businesses.

**Reference:** WAC [458-20-193](#)

**Dealer/Broker reporting requirements when there is a trade-in**

The vessel dealer/broker must pay B&O tax on the full amount of the sale. The trade-in credit doesn't apply to the B&O tax. Sales tax is collected on the adjusted value of transactions after applicable trade-ins.

Vessel brokers report their gross commissions or fees under the service and other activities classification of the B&O tax. Sales tax is collected and remitted by the broker, on the adjusted value of a transaction after applicable trade-in or other exemptions or deductions.

**Reference:** WAC [458-20-224](#)

### **Tax paid on trade-in**

To qualify for the sales tax trade-in exclusion, there is no requirement for tax to have been paid on the item traded-in.

### **More Trade-in examples**

**Example 1:** Broker enters into a consignment sales contract with Susan Smith to sell her Boat A. John Doe contacts Broker expressing interest in purchasing Boat A, provided his Boat B is accepted as a trade-in on the purchase. John Doe executes a purchase agreement with Broker which specifically identifies both Boat A being purchased and the trade-in. Susan Smith declines to accept the trade-in, but Broker accepts delivery and ownership of Boat B and places Boat B into Broker's own inventory. The Broker arranges delivery of the vessel purchased to John Doe.

The buyer (John Doe) has delivered the trade-in property (Boat B) to the Seller (Broker), who takes ownership of Boat B. There is no requirement that Broker purchase Boat A from Susan prior to selling Boat A to John Doe and accepting Boat B as trade-in property because broker, Broker is a seller under the law (RCW [82.08.010](#)).

John Doe is entitled to the trade-in exclusion because Boat B was delivered to Broker as consideration paid towards the purchase of Boat A.

**Example 2:** Broker 1 enters into a consignment sales contract with Susan Smith to sell her Boat X. John Doe contacts Broker 2 expressing interest in purchasing Boat X, provided his Boat Y is accepted as a trade-in on the purchase. Broker 2 contacts Broker 1 about the possibility of entering into a Co-brokerage Agreement on the sale of Susan Smith's Boat X. John Doe executes a purchase agreement with Broker 1 which specifically identifies both Boat X being purchased and the trade-in Boat Y. Susan Smith declines to accept the trade-in, but Broker 1 accepts delivery and ownership of Boat Y and places it into Broker 1's own inventory. In turn, Broker 1 arranges delivery of Boat X to John Doe.

The buyer (John Doe) has delivered the trade-in property (Boat Y) to the Seller (Broker 1), who takes ownership of Boat Y. There is no requirement that Broker 1 purchase Boat X from Susan prior to selling Boat X to John Doe and accepting Boat Y as trade-in property.

This situation qualifies for the trade-in allowance.

**Example 3:** Sally Jones decides to upgrade from her existing sailboat to a new, larger sailboat. The salesperson at the local sailboat dealership explains that while the dealership does not currently have a sailboat meeting Sally's needs, it can order one for her from the manufacturer. The salesperson also explains that if Sally trades in her sailboat at the time she enters into the purchase contract, the dealership will accept the sailboat as one of three payments needed before the delivery of the new sailboat. Sally executes a purchase contract with the salesperson which specifically identifies both the new sailboat being purchased for \$250,000 and the trade-in of her current boat (valued at \$55,000). Sally signs the purchase contract, and the dealership orders the new sailboat, with a proposed delivery date of eight months hence. Sally makes a down payment of \$50,000 cash. Four months later, Sally delivers the trade-in to the dealership. They agree the value of the trade-in is now worth \$50,000. The dealership accepts delivery of the trade-in sailboat as a second payment of \$50,000. Four months later, Sally takes delivery of her new sailboat and pays the dealership a final payment of \$150,000.

Sally is entitled to the trade-in exclusion of \$50,000 because the sailboat was delivered to the sailboat dealership as consideration paid towards her purchase of the new sailboat. Sally will pay the dealership sales tax on \$200,000.

**Example 4:** Broker 1 enters into a consignment sales contract with Susan Smith to sell her Boat X. John Doe contacts Broker 2 expressing interest in purchasing Boat X, provided his Boat Y is accepted as a trade-in on the purchase. Broker 2 contacts Broker 1 about the possibility of entering into a Co-brokerage Agreement on the sale of Susan Smith's Boat A. John Doe executes a purchase agreement with Broker 1 which specifically identifies both Boat X being purchased and the trade-in Boat Y. Susan Smith declines to accept the trade-in of Boat Y, but Broker 2 accepts delivery and ownership of Boat B and places Boat B into Broker's own inventory. In turn, Broker 1 arranges delivery of Boat A to John Doe. The buyer (John Doe) has delivered the trade-in property (Boat Y) to the Seller (Broker 2), who takes ownership of Boat Y. There is no requirement that Broker 2 purchase Boat X from Susan Smith (thereby becoming the owner) prior to selling Boat X to John Doe and accepting Boat Y as trade-in property.

If pursuant to a sales contract, Broker 2 is authorized to receive a sales commission on selling Boat X, Broker 2 can take Boat Y into inventory as a trade-in against the purchase of Boat X and have the transaction (sale of Boat X with trade-in of Boat Y) qualify for the trade-in allowance.

**Example 5:** Broker enters into a consignment sales contract with Susan Smith to sell her Boat A valued at \$100,000. John Doe contacts Broker expressing interest in purchasing Boat A, provided his Boat B, valued at \$40,000, is accepted as a trade-in on the purchase. John Doe executes a purchase agreement with Broker which specifically identifies both Boat A being purchased and the trade-in of Boat B.

Susan Smith agrees to take the trade-in, and accepts delivery of Boat B from John Doe. In turn the Broker arranges delivery of Boat A to John.

The buyer (John Doe) has delivered the trade-in property (Boat B) to the Seller (Susan Smith), who takes ownership of Boat B. Susan Smith may either sail off into the sunset with Boat B or

she may enter into a new consignment arrangement with Broker for the sale of Boat B. John Doe is entitled to the trade-in exclusion of \$40,000 because Boat B was delivered to Susan Smith as consideration paid towards his purchase of Boat A.

**Example 6:** Is "constructive possession" required to gain the trade-in allowance?

The requirements for a valid trade-in are established in [WAC 458-20-247](#). One of the requirements to gain the trade-in allowance (for application of retail sales tax), is that the original boat owner must accept the like-kind property as a reduction in the selling price of the original boat being sold. It is not necessary for tax purposes that a boat accepted as a trade-in against the price of another boat have title transferred before that traded-in boat is resold.

**Example 7:** Broker A has a 40' sailboat listed for \$65,000. Broker B has a potential buyer for this vessel, but his client wants to trade-in an older motor boat as part of the consideration. The sailboat owner agrees to the transaction. Both parties agree on a value for the trade-in. All transaction records and ownership transfers occur.

Broker A's customer may place the vessel up for sale or keep it.

**Example 8:** Broker A has a potential buyer (Customer Y) for a listed vessel, but the selling owner (Customer X) is unwilling to accept a trade-in as part of the payment. The sale will not occur unless Broker A purchases Customer X's vessel and then accepts Customer Y's trade-in. Both customers agree to carry promissory notes as financing/flooring on the vessels involved, but Broker A has complete risk of loss/gain while the vessels are in his possession. Broker A wants to make the sale and so decides to proceed with the transaction.

The sale by Broker A to Customer Y and the acceptance of the trade-in boat qualifies this transaction for the trade-in allowance. The amount subject to the retailing B&O tax classification is not reduced by the trade-in.

**Example 9:** Broker A has Customer JO's \$100,000 vessel listed for sale. Customer SAM offers to buy the vessel but wants to trade-in his vessel worth \$125,000. SAM is willing to accept a \$25,000 promissory note on the balance due for the vessel. JO agrees to the trade-in knowing that he/she has complete liability for the note regardless of how much the larger vessel eventually sells for.

This is a trade down for SAM, but is a trade-in for JO who owes sales tax on the \$25,000. The result is the same if the \$25,000 was a cash payment.

**Example 10:** Customer Q owns a 50-foot motor boat and wants to trade it in on the purchase of a new boat from Dealer Z. The purchase agreement is created and both parties agree on a trade-in value of \$50,000. The purchase balance is due in full at time of delivery of the new vessel, estimated to occur in six months.

Title (or assumption of risk, underlying liability) to Customer Q's boat must pass to the dealer prior to delivery of the new vessel as agreed within the purchase contract. It must become part of

Dealer Z's inventory. The trade-in value was agreed upon when the transaction was negotiated and can't be contingent on its subsequent sale. Sales tax must be collected on the selling price of the new vessel less the \$50,000 agreed upon trade-in value.

**NOTE:** Once a vessel is in a broker's inventory, allowing the owner to use it is considered "bailment" and requires payment of the use tax by the owner on the current value of the vessel.

### **Co-brokers and sales tax**

Generally, either the listing broker or the selling broker can be responsible for collecting and remitting the sales tax on a boat sale due to the cooperative nature of their relationship to the sale. See [Broker's Transaction Report](#).

### **Co-broker example**

Broker A is the listing agent for a \$100,000 motor boat. Broker B has a buyer for the vessel and therefore becomes the selling agent. Both Brokers are located in Washington. The listing agreement/contract and any amendments authorize Broker A to enter into co-brokerage agreement with other Brokers to facilitate the sale of the vessel. In this example, the percentages which may be negotiated are specified, in this case 7 percent for Broker B and 3 percent for Broker A (a total of 10 percent of the selling price). XYZ Title Services handles the documentation and disburses funds. Broker B receives a commission for \$7,000 and Broker A gets \$3,000.

Each broker reports the commission they each actually retain.

## **Dealer use and demonstration**

A vessel dealer must register with the Department of Revenue to operate as a business. See [Business Registration](#) for more information.

The dealer must also be licensed and certified by the Department of Licensing, which will issue a dealer license number and decals to use in operating inventory vessels. The license and decals are not to be permanently affixed to a vessel.

**References:** RCW [82.32.030](#), RCW [88.02.790](#), WAC [458-20-101](#), WAC [308-90-70](#)

## **Inventory purchases**

Vessel dealers may purchase items for resale without paying sales tax. To make tax exempt purchases for resale, the buyer must regularly engage in selling the type of property purchased and be registered with the Department of Revenue. For more information, see [reseller permits](#).

**CAUTION:** Improper use of reseller permits for purchases shall result in a penalty of 50% of the tax due on the item(s) plus the tax due and interest. Other penalties may apply.

**Reference:** WAC [458-20-102](#)

## **Tax on dealer use of inventory**

Any purchase of tangible personal property for use by the dealer as a consumer is subject to deferred sales or use tax.

"If a vessel held in inventory is used by a vessel dealer or vessel manufacturer for personal use, use tax shall be due based only on the reasonable rental value of the vessel (based on the number of days used), but only if the vessel dealer or manufacturer can show that the vessel is truly held for sale and that the dealer or manufacturer is and has been making good faith efforts to sell the vessel. The Department [of Revenue] may by rule require dealers and manufacturers to provide logs or other documentation showing that vessels are truly held for sale."

**References:** [RCW 82.12.800 - 802](#)

## **When use is permitted**

Use tax doesn't apply to these uses of a vessel by a registered vessel dealer registered under Chapter [88.02](#) RCW:

- Testing, setup, repairing, remodeling, evaluating, or otherwise make a vessel seaworthy, if the vessel is held for sale
- Training activity of a dealer's employees, agents, or subcontractors involved in the sale of the dealer's vessels, if the vessel is held for sale
- Activities to promote the sale of the dealer's vessels, including photography and video sessions to be used in promotional materials

- Traveling directly to and from promotional vessel events to display a dealer's vessel for sale, if the identification of the registered vessel dealer offering the vessel for sale is also displayed on the vessel
- Any vessel loaned or donated to a civic, religious, nonprofit, or educational organization for up to 72 hours, or longer if approved by the Department of Revenue; or to vessels loaned or donated to governmental entities
- Direct transporting, displaying, or demonstrating any vessel at a wholesale or retail vessel show
- Delivery of a vessel to a buyer, vessel manufacturer, registered vessel dealer as defined by RCW 88.02.310, or to any other person involved in the manufacturing or sale of that vessel for the purpose of the manufacturing or sale of that vessel
- Displaying, showing, and operating a vessel for sale to a prospective buyer to include the short-term testing, operating, and examining by a prospective buyer

Trailers or other devices used to transport, display, show, or operate a vessel held for sale are also exempt from use tax.

The above list assumes that use is limited to the stated purpose. Some uses, which may be disallowed in an audit or investigation, include:

- operating an "employee training" session during a sporting event
- stopping overnight at an island resort before returning an inventory vessel to its storage location
- conducting sea trials or operating tests which include activities or ports of call above and beyond testing needs
- "fueling" a vessel on a holiday then participating in festivities before returning.

With these types of activities, the specifics of each situation will determine the application of tax on a case-by-case basis.

Vessel dealer decals shall only be used to demonstrate vessels held for sale when operated for a prospective customer holding a dated demonstration permit, and shall be carried in the vessel at all times it is being operated by such individual.

**References:** RCW [88.02.790](#), RCW [82.12.800](#) - [802](#)

### **Documenting valid dealer use**

A number of records may show exempt use of inventory vessels, including vessel logs, earnest money agreements and demonstration permits.

Demonstration permits must be dated and carried on board when a prospective buyer is being shown the vessel offsite.

NOTE: RCW [88.02.790](#) (2) states that vessels may be used for dealer business, by an officer of a corporation, or proprietor, or by a bonafide employee of the firm if a card so identifying any such

individual is carried during the time the vessel is operated. This is a Department of Licensing exemption and does not provide an exemption for sales or use tax.

### ***Dealer use examples***

**Example 1:** XYZ Yacht Manufacturer has scheduled the annual "rendezvous" for owners and potential buyers at Port Angel, a popular resort area. The manufacturer will not be displaying any vessels but will organize some training sessions and social events. The local dealer of XYZ Yachts has decided to display three inventory vessels at Port Angel during the rendezvous with the hope of encouraging current owners to "buy up" or to "hook up" with potential buyers. The largest of the vessels has an office set up in it for business activities and the employees will all sleep in another vessel.

All three vessels were moved directly from moorage to the display location. Because one vessel is used as a business office and another provides living accommodations, use tax is due on these two based on the rental value. The third vessel is merely displayed and/or demonstrated to potential buyers and is not taxable.

**Example 2:** During Neptune Days in the area, many vessel dealers "lend" inventory to media for broadcasts during the model sailboat races. This activity results in free publicity for the dealer. The vessel is subsequently sold as new to a buyer.

The dealer owes use tax on the rental value of the vessel. Although the dealer did not use the vessel directly, they owe tax as the bailor of the boat. Taxable use was created with the dealer loaned the boat to the media.

### **Co-brokering – B&O Tax implications for commission split**

Co-brokering is a sale facilitated between two or more boat brokers. The commission fee is taxed according to the pre-determined conditions of the listing agreement.

When no special commission splits/arrangements are authorized by the owner prior to the time of granting authority to sell as a broker, the person entitled to the commission pursuant to the listing agreement must pay B&O tax on the full amount of the commission. This applies even if they subsequently pay a portion of the funds to another broker outside of contract requirements (See co-broker example below) (Chapter [82.04 RCW](#)).

For tax purposes, the owner of the boat must authorize a split commission in order for the listing broker to report only the actual amount of commission retained. An example of suitable language for listing agreements that authorizes a split commission is:

*If a cooperative Brokerage situation occurs, whereby the Listing Broker is not the Selling Broker, the Owner agrees to pay the Listing Broker and the Selling Broker a total commission, not to exceed XX percent (XX%) of the gross selling price of the vessel. The commission split shall be determined at the time of negotiating the sale. This agreed commission split shall be disclosed in writing, and this written disclosure shall become a part of this Agreement. These fees shall be paid directly to each independent Broker at the time the sale is closed.*



## **Miscellaneous income**

While miscellaneous fees and charges aren't directly associated with a broker or vessel dealer's primary business, they may still constitute taxable income. Identified below are some examples of broker or dealer activities that may create miscellaneous income that is taxable.

### **Marine survey fees**

Income received for providing a marine survey only, with no repairs, is subject to B&O tax under the service and other activities classification. If a repair is performed with the survey, the entire amount received is subject to retailing B&O tax and sales tax. Repairs performed for a customer providing a valid reseller permit are reported as wholesale sales, subject to B&O tax under the wholesaling classification.

### **Advances and reimbursements**

An advance or reimbursement deduction from gross sales applies when the customer alone is liable for the payment of the fees or costs and when the broker/dealer making the payment has no personal liability for these payments, either primarily or secondarily, other than as agent for the customer. Examples would include title or conveyance fees, registration fees and license fees.

**Reference:** WAC [458-20-111](#)

### **Freight and delivery charges**

Generally, freight and delivery charges are part of the selling price and therefore subject to tax in the same manner as the vessel being sold. See WAC [458-20-110](#).

### **Financing fees, penalties and interest**

Charges for interest, late payments or penalties are subject to the B&O tax under the service and other activities classification.

**References:** WAC [458-20-109](#), WAC [458-20-211](#)

### **Finder fees**

Finder fees are subject to B&O tax under the service and other activities classification. This fee is taxable even though the other broker/dealer may have reported the gross commission received.

The selling broker generally reports the full commission received and cannot deduct the portion paid to the "finder" for the referral. The finder making the referral must report the fee they receive from the selling broker/dealer.

### **Joint or multi-state finder fees**

If the selling broker is located in another state or country and does not render services in Washington, the commission earned by the selling broker is not taxable in Washington. However, if the referring broker is located in Washington and provided services contributing to the sale in Washington, the referring broker's portion of the commission is taxable.

**Launch fees**

Fees for the use of a boat launch facility or ramp are subject to B&O tax under the service and other activities classification.

**Moorage and dry stack storage**

The taxability of moorage and storage fees is dependent on the rental agreement contract. The rental of a boat designated exclusive use moorage slip is considered to be a rental of real estate (exempt from retail sales tax and B&O tax) if a specific space, slip or site is assigned and the rental is for a period of 30 days or longer. Rental fees for less than 30 days or unassigned moorage for any time period are subject to B&O tax under the service and other activities classification. The same applies to a mini-storage or dry stack storage facility that moors or stores boats.

**Reference:** WAC [458-20-118](#) and [Excise Tax Advisory 3165](#).

**Consumables**

Charges to customers for supplies and other consumable items are subject to sales tax even though the dealer paid sales or use tax at the time of purchase or acquisition. Since the items are used before sale to the customer, they do not qualify for the resale exemption.

**Casual sales**

A casual sale is a sale of tangible personal property by a registered taxpayer who does not normally sell the type of property involved.

B&O tax does not apply to casual sales. On sales to consumers, the amount of the sale must be reported under the B&O tax, but a deduction may be taken on the deduction detail for casual sales.

Sales tax must be collected on all casual sales made to consumers by businesses registered with the Department of Revenue.

**Example:** A vessel dealer upgrades their computer system and sells the old computer to an employee. The dealer is not in the business of selling computers, therefore, no B&O tax is due. The dealer must charge the employee sales tax on the selling price of the computer.

**References:** RCW [82.04.040](#), WAC [458-20-106](#)

**Exemptions to sales/use tax****Out-of-state delivery sales**

When property such as vessels, trailers and parts are sold under a condition that they will be delivered to the purchaser out-of-state and they are so delivered, no sales tax or B&O tax is due.

This includes situations where goods are delivered in Washington to a for-hire carrier, consolidator or forwarder for delivery outside of this state. This is an exempt interstate or foreign sale ([WAC 458-20-193](#)).

In addition to a contract or agreement of sale, the following documents are required to prove the exemption:

- If shipped through a for-hire carrier: a waybill, bill of lading, or other contract of carriage which indicates the seller has delivered the goods to the for-hire carrier for transport to the purchaser or purchaser's agent at a point outside the state. (The contract of carriage must reflect designations for the seller and purchaser such as consignor and consignee.) OR,
- If delivered via seller's own equipment: a trip sheet signed by the person making delivery for the seller which records seller's name and address, purchaser's name and address, place and time of delivery to purchaser, and signature of the purchaser acknowledging receipt of goods outside of Washington.

Broker commissions earned in Washington are still subject to B&O tax under the service and other activities classification, even though delivery may be out-of-state.

### **Nonresident sale and use**

A nonresident of Washington is a person who enters the state on a transitory or temporary basis and doesn't maintain a legal presence or a residence (a place in which one lives) on a full- or part-time basis.

Persons who reside in more than one state including Washington are generally considered residents of Washington for sales/use tax purposes.

**References:** RCW [82.08.02665](#) and WAC [458-20-238](#)

### **Vessel sales to nonresidents**

Nonresidents of Washington may purchase vessels and take delivery in Washington without paying sales tax or use tax when the vessel is U.S. Coast Guard documented or pre-registered by the state or country where the vessel will be principally used after the sale and the vessel will be removed from Washington within 45 days of delivery.

Customs, moorage, fueling or other documentation may be used to show a boat has been removed from Washington if it identifies conclusively the particular boat in question and the date it entered into or was in another state or country. The date must be within 45 days of the boat having been purchased in Washington.

Sellers must document a nonresident sale by obtaining the following:

- completed exemption certificate from the buyer (see individual and non-natural person examples); and
- a record of the required identification issued by the correct out-of-state jurisdiction (one piece must be a current operator's license or state identification with a photograph).

In addition, the seller should watch for indications of Washington residency, and should remind the nonresident buyer that the vessel must be removed from Washington waters within 45 days of the date of purchase.

**Example:** John Blair is a resident of another state and has no known ties to Washington. Mr. Blair purchases a vessel from OK Boats, a dealer in Port Angeles. Mr. Blair intends to visit with friends in the area for another three weeks before returning to his home state with his new boat. OK Boats obtains a completed nonresident exemption certificate from Mr. Blair, records Mr. Blair's home state driver's license (which has his picture on it) and informs him that having the boat in Washington beyond 45 days could create a tax liability.

OK Boats reports the sale amount on the retailing B&O and sales tax lines and takes a sales tax deduction for the amount of this sale. The exemption certificate and related documentation must be kept by the dealer in the event of review/ verification by the Department.

References: RCW [82.08.0266](#), WAC [458-20-238](#)

### **Nonresident delivery/sea trials**

If acceptance by the buyer is conditioned on the boat being seaworthy, delivery does not occur until the sale is finalized and accepted by the buyer. If the seller and the buyer participate in a sea trial to determine its acceptability to the buyer, delivery has yet to occur until it has been accepted as seaworthy. Sea trials are limited to day trips of generally 2 to 3 hours. No overnight trips will be allowed as sea trials.

### **Nonresident vessel temporary use period**

Nonresidents may use their properly registered vessel in Washington for up to 60 days.

A properly registered vessel has:

- been registered or numbered under the laws of a country other than the United States; or
- a valid United States Customs Service cruising license issued pursuant to 19 C.F.R. Sec. 4.94, or
- a valid number under federal law or by an approved issuing authority of the state of principal operation.

After 60 days, a vessel owned by a nonresident becomes subject to registration and use tax in Washington.

Vessels owned by nonresident individuals are allowed to have their vessel in Washington for a period not to exceed 6 months in any consecutive 12 month period without incurring a registration and use tax obligation if before the 61st day of use in Washington, the vessel has

been issued a once-renewable 60-day cruise permit by the Department of Licensing indicating when the vessel first came into the state. Taken together, nonresident individuals are allowed to have a vessel in Washington for 60 days without registration. After that, they may obtain a once-renewable 60-day cruise permit from DOL. This totals 180 days. (RCW [88.02.570](#))

Vessels purchased in Washington by nonresidents must still be removed within 45 days of purchase (unless a use permit issued under [RCW 82.12.700](#) is obtained at the time of purchase of the vessel – see discussion of the one year use permit). Once removed from Washington waters, the vessel can return for the rest of the statutorily allowed nonresident use period. The vessel owner must prove that these requirements are met to sustain the exemption.

### **Nonresident temporary use Q&A**

**Question:** For nonresidents, how is the time that a boat is in Washington for "commissioning" treated for purposes of the 45-day period and the temporary use period?

**Answer:** Commissioning is the activity of providing upgraded instrumentation, equipment, appointments, etc. If a buyer contracts with a dealer to buy a certain boat, and the dealer contracts with a third party to "commission" it (e.g., add the necessary electronics gear), the 45-day period does not begin until the boat is delivered to the buyer (i.e., after the commissioning).

If the boat is first delivered to the customer and the customer hires a third party to do the commissioning, then delivery has occurred and the clock starts prior to commissioning. However, if the nonresident files a repair affidavit for the time that it is being commissioned, the clock would stop the 45-day period within which a nonresident buyer must remove the boat from Washington for the purchase to be exempt from retail sales tax. The commissioning in this situation would be considered a repair activity for the purposes of the nonresident vessel repair affidavit.

**Question:** A nonresident purchases a boat from a Washington dealer/broker. Upon taking delivery of the boat, he needs two months of work done on the vessel for commissioning. He files a "Nonresident Out-of-State Vessel Repair Affidavit" with the Department of Revenue. Does this stop the countdown on the 45-day period? When does the 45-day countdown then pick up again?

**Answer:** Yes. The clock starts again when the affidavit expires or the repairs are substantially complete, whichever date comes first.

**Question:** Is the temporary use period for nonresidents computed on a calendar year basis or on a consecutive 12-month basis?

**Answer:** This period is based on any consecutive 12-month period.

**Question:** Are boats owned by nonresident trusts considered as being owned by an individual (natural person) or by a fictitious entity (non-natural person)?

**Answer:** Boats that have been irrevocably contributed to a trust are treated as being owned by a fictitious entity (non-natural person), not an individual (natural person). Therefore, such boats owned by a trust that are nonresidents of Washington are not eligible for the extended temporary use accorded to vessels owned by natural persons.

Boats that have been contributed to a trust where the individual has the right to revoke that contribution and retake ownership of the boat are treated as being owned by an individual. Therefore, if the person that contributed the boat to the trust is a nonresident of Washington, the vessel is treated as being owned by a natural person.

### **Nonresident vessels held for sale**

Nonresident vessels in Washington solely for the purpose of sale and held and/or controlled by vessel dealers or brokers are not subject to the time limit for nonresident use. However, if the nonresident owner uses the vessel in Washington while it is held for sale, use tax is due. Generally, to avoid use tax, a crew may not remain on the vessel while it's for sale in Washington.

### **Boat trailers sold to nonresidents**

Boat trailers sold to nonresidents are exempt from sales tax if the dealer obtains a completed exemption certificate establishing:

- the purchaser is a nonresident of Washington with proper identification and the trailer is for use outside of Washington; and
- the trailer will be removed from their premises under the authority of either a trip permit or valid license plates issued by the purchaser's state of residence (such plates must be affixed to the trailer upon final delivery).

Reference: WAC [458-20-177](#)

### **Parts sold to nonresidents**

Component parts which are installed by the vessel dealer prior to delivery and acceptance by the buyer are taxed in the same way as the vessel itself.

Sales of unattached component parts to residents of jurisdictions which do not impose a retail sales tax of three percent or more may be exempt when they are purchased for use outside Washington and nonresident status can be satisfactorily proved. The seller is not obligated to make such a tax exempt sale. (RCW [82.08.0273](#))

See [ETA 3054](#) for more information.

### **Parts sold to nonresident corporations**

Nonresident corporations incorporated in a jurisdiction which does not impose a retail sales tax of three percent or more and wishing to purchase tangible personal property exempt of sales tax, are required to obtain a Corporate Nonresident Permit from the Department of Revenue prior to making tax-exempt purchases. Applicants must send:

- A written request with the signature of a corporate officer certifying, "All tangible personal property purchased in connection with the use of this permit will be purchases for the use and consumption outside of Washington State. The Corporation will agree to make its records available to representatives of Washington State Department of Revenue for verification of purchases."
- A copy of the Corporation's Certificate of Incorporation or the first page of the Articles of Incorporation

Mail the original copy of request and attachment(s) to:

Attention: Business Registration Team  
Department of Revenue  
PO Box 47476  
Olympia, WA 98504-7476.

Rush requests can be faxed to (306) 902-7064. An original copy must still be mailed.

**NOTE:** Repair labor is not exempt from sales/use tax.

Reference: WAC [458-20-238](#) and ETA [3054](#)

### **Examples**

The following examples identify a number of facts and then state a conclusion. These examples should be used only as a general guide. The tax results of other situations must be determined after a review of all of the facts and circumstances. In all examples, retailing B&O tax is due from the seller for all sales of watercraft and parts, and all charges for repair parts and labor.

**Example 1:** Company A sells a vessel to Jane Smith, a Canadian resident. Company A examines Jane Smith's driver's license to verify Jane to be a resident of Canada, and retains the proper exemption certificate at the time of sale. Delivery is made in Washington and Jane removes the vessel from Washington waters within 45 days of delivery. The sale of the vessel is not subject to the sales tax because all requirements were met (RCW [82.08.02665](#)).

**Example 2:** Mr. Jones, a California resident, contracts with Company B to manufacture a pleasure yacht. Mr. Jones purchases a boat motor from Company Y with instructions that delivery be made to Company B for installation on the yacht. The yacht is required to be registered with the state of California, which has assumed the registration and numbering function under the Federal Boating Act of 1958. Company B examines Mr. Jones' driver's license to verify Mr. Jones is a nonresident of Washington, and retains the proper exemption certificate at the time of sale. Delivery is made in Washington, and Mr. Jones removes the vessel from Washington waters within 45 days of delivery.

The sale of the yacht by Company B to Mr. Jones is not subject to the sales tax, as the requirements and conditions for exemption have been satisfied. Sales tax does apply to the sale of the motor by Company Y to Mr. Jones. The exemption provided by RCW [82.08.0266](#) does not extend to a separate seller of unattached component parts, even though the parts are installed in

the watercraft prior to delivery.

**Example 3:** Mr. Smith, a California resident, brings his yacht into Washington for repair. Extensive repairs and testing require the yacht to remain in Washington waters for 90 days. Mr. Smith extends the exemption period by filing a "Nonresident Vessel Repair Affidavit" with the Department of Revenue prior to end of the initial 60-day exemption period. An employee of the repair facility is on board the yacht during all testing, and there is no personal use by Mr. Smith during this time. Upon completion of the repairs and testing, Mr. Smith takes delivery at the repair facility and promptly removes the yacht from Washington waters.

In this case, Mr. Smith does not owe use tax on the yacht. The conditions and requirements exempting the yacht from use tax during the period of repair and testing have been met. However, sales tax is due on all charges for repair parts and labor. The exemption from sales tax for purchases of vessels does not extend to repairs.

Reference: WAC [458-20-238](#)

**Example 4:** Mrs. Shepard, a resident of Oregon, purchases a new engine for her boat in Washington. As a non-resident of Washington, she qualifies, with proper documentation, for a sales tax exemption for the purchase of the engine for use outside of this state under [RCW 82.08.0273](#).

**Example 5:** Mr. Peal, a resident of British Columbia, purchases a rudder from a vendor in this state to pick up from the vendor for his transport back to B.C. In this case, Mr. Peal must pay sales tax as the rudder is a vessel part (not a vessel) and residents of British Columbia do not qualify for sales tax exemption under RCW 82.08.0273. See our [Sales to Nonresidents](#) page.

## **Use permits for vessels owned by nonresident individuals**

This discussion explains the one-year retail sales tax exemption for certain vessels (30' or longer) purchased in Washington by nonresident individuals. A comparable use tax exemption is also available for vessels brought into Washington by nonresident individuals ([RCW 82.08.700](#) and [RCW 82.12.700](#)).

### **Vessels purchased in Washington by nonresident individuals**

- **Vessel purchased from a licensed dealer**

A nonresident individual may purchase a vessel 30 feet or longer without paying sales tax if they purchase a use permit from the dealer.

RCW 82.08.700 does not allow a nonresident individual who purchases a vessel 30 feet or longer from a vessel dealer to separately purchase a use permit from another vessel dealer. The purchase of the vessel and the purchase of the use permit are to occur at the same time.

The customer at the time of purchase must make an irrevocable election to purchase the use permit or to take the exemption in either RCW [82.08.0266](#) (for residents of other states) or [82.08.02665](#) (for residents of foreign countries). Both statutes require:

- (1) the vessel will not be used within this state for more than 45 days, and
- (2) an appropriate exemption certificate supported by identification as required by the Department of Revenue and signed by the purchaser or the purchaser's agent establishes the fact that the purchaser is a nonresident and that the vessel is for use outside of this state.

A copy of the exemption certificate is to be retained by the dealer.

- **Vessel purchased by nonresident entities (non-natural persons)**

Use permits cannot be obtained for vessels purchased by nonresident entities, such as corporations, limited liability companies, trusts, partnerships, etc.

- **Vessel purchased from a private party**

A nonresident individual may purchase a vessel 30 feet or longer in Washington from someone other than a vessel dealer and claim the use tax exemption if they purchase a use permit from a licensed dealer within 14 days of the vessel purchase.

### **Nonresident individuals bringing a vessel into Washington**

A nonresident individual who acquired a vessel of 30 feet or longer outside Washington may also purchase a one-year use permit. The nonresident individual must, however, purchase a permit from a licensed vessel dealer within 14 days of first entering Washington with the vessel.

### **Purchasing a permit**

When purchasing a use permit from a licensed vessel dealer that also sold the vessel to the nonresident at the same time, the nonresident individual must:

- Show proof of current nonresident status, such as a driver's license
- Make an irrevocable election to take the exemption and purchase a 12-month use permit,
- Complete an affidavit for the vessel dealer; and
- Display the use permit on the vessel for which it is purchased.

The cost of the use permit is \$500 for vessels 50 feet and less and \$800 for vessels greater than 50 feet. Use permits are valid for 12 consecutive months and may not be renewed. Before the use permit expires, the vessel must be removed from Washington for a minimum of 24 months.

### **Vessel dealer requirements**

Vessel dealers are not required to sell these use permits. However, a dealer who chooses to sell the permits to nonresidents purchasing vessels from them must also sell the permits to nonresidents who bring their vessels into the state.

When selling a use permit, a vessel dealer must:

- Examine one piece of photo ID to ensure the individual qualifies as a nonresident;
- Identify the expiration date on the use permit (decal) using a permanent marking pen; and
- Obtain a completed affidavit from the nonresident individual.

The vessel dealer must make two copies of the affidavit. The vessel dealer must give one copy to the nonresident individual and keep the other copy with the dealer's business records. The vessel dealer must mail the original affidavits to the Department of Revenue each quarter.

Dealers will remit permit fees collected to the Department of Revenue with their excise tax returns that must be filed electronically.

Licensed vessel dealers may obtain use permits and affidavits by calling (360) 902-7169 or (360) 902-7046.

For more information, see [Special Notice: Vessels and nonresident individuals-Tax exemptions and use permit](#).

## **Vessels owned by nonresident entities**

Nonresident entities (corporations, LLCs, etc.) may qualify to purchase up to two 60-day nonresident vessel permits, allowing qualifying vessels to extend their stay to a maximum of six months during a consecutive 12-month period. However, a nonresident entity-owned vessel may not receive more than two nonresident vessel permits within any 36-month period.

The requirements for this program are:

- The vessel length is 30 to 164 Feet;
- No Washington resident is a principal of the nonresident entity; and
- The nonresident entity vessel owner provides sufficient documentation to the Department of Revenue to verify eligibility for the permit.

The fee for the nonresident vessel permit, payable to the Department of Licensing when the nonresident vessel permit is issued is:

- \$25 per foot for vessels 30-99 feet
- \$30 per foot for vessels 100-120 feet
- \$37.50 per foot for vessels 121-164 feet

Nonresident entities must obtain prior approval from the Department of Revenue to obtain this permit. For more information please see the attached [Special Notice](#).

For more information please also see [Frequently Asked Questions – Nonresident Vessel Permit for Entity-Owned Vessels](#)

## **Sales to Native Americans**

### **Qualifying as a Native American**

For tax purposes, a Native American is a person duly registered on the tribal rolls of the tribe occupying a Native American reservation and, for sales tax purposes, a person registered on the tribal rolls of the reservation.

### **Partnerships**

A partnership consisting only of Native American partners is considered "Native American." (When some partners are non-Native American, it is not considered "Native American.")

### **Corporations**

Corporations formed under the authority of the tribe will be considered "Native American."

### **Marital communities**

Marital communities consisting of Native Americans or a Native American and a non-Native American will be considered "Native American" if all other qualifications are met.

### **Sales tax exemption**

Sales tax must be collected on transactions when Native Americans are the customers unless delivery of the property being sold occurs in Indian Country (WAC [458-20-192](#)).

The following information must be documented in the seller's records: tribal affiliation or tribal identification information and the customer's name.

When a vessel sale is made to an enrolled tribal member and delivery is made on that enrolled tribal member's reservation, the sale is exempt from state sales tax or use tax. To receive this exemption, the [Retail Sales/Use Tax Exemption Certificate for Enrolled Tribal Members](#) must be completed. An original signed copy must be submitted to the Department of Licensing with the title application. The seller and buyer should maintain copies of the exemption certificate.

**NOTE:** In order to be granted the exemption for delivery on tribal land, the tribe must have land designated as reservation land.

### **Recognized Native American tribes in Washington**

Chehalis Confederated	Colville Confederated
Cowlitz	Hoh
Jamestown S' Klallam	Kalispel
Lower Elwha Klallam	Lummi Nation
Makah	Muckleshoot
Nisqually	Nooksack
Port Gamble S'Klallam	Puyallup
Quileute	Quinault Nation
Samish Nation	Sauk-Suaittle
Shoalwater Bay	Skokomish
Snoqualmie	Spokane
Squaxin Island	Stillaguamish
Suquamish	Swinomish
Tulalip	Upper Skagit
Yakama Nation	

## **Interstate and foreign carriers**

Persons engaged in the business of operating as a private or common carrier by water in interstate or foreign commerce are eligible for an exemption from sales tax on the vessel and component parts when transporting property or persons for hire.

### **Eligible watercraft**

As defined for this exemption, watercraft includes every type of floating equipment which is designed for the purpose of carrying persons or cargo. It includes tow boats, but not floating dry docks, dredges or pile drivers or any similar equipment.

### **Component parts**

Component parts include all tangible personal property that is attached to and a part of the carrier property. It also includes spare parts designed for ultimate attachment to the carrier property.

### **Exemption certificate required**

Persons selling vessels and parts, or performing services within this exemption, are required to obtain from the purchaser, or his authorized agent, a [Buyers' Retail Sales Tax Exemption Certificate](#) to document the exempt nature of the transaction (WAC [458-20-175](#)). Income from selling vessels, component parts or making repairs to persons engaged in interstate commerce is reported under the retailing of interstate transportation classification of the business and occupation (B&O) tax.

## **Deep sea fishing vessels**

### **Commercial deep sea fishing**

Commercial deep sea fishing is fishing done for profit outside the waters of the state of Washington. It excludes sport fishing, operating charter boats for sport fishing, kelping, purse seining and gill netting as these fishing methods can be performed only within Washington waters.

**Reference:** WAC [458-20-176](#)

### **Sales tax exemption**

Sales tax does not apply to sales of watercraft or component parts, labor and services for constructing, repairing, cleaning, altering or improving vessels primarily used in conducting commercial deep sea fishing. Income from these sales is subject to B&O tax under the retailing of interstate transportation classification.

### **Component parts**

Component parts include all types of tangible personal property which are attached to or a part of the watercraft. They includes dories, gurdies and accessories, bait tanks, baiting tables and turntables and spare parts designed for ultimate attachment to the watercraft. Equipment or furnishings not permanently attached to the vessel (i.e., bedding, utensils, fishing nets, hooks, ice, floats, and hand tools) are not eligible for the exemption.

### **Documenting an exempt sale**

Sellers of watercraft or component parts and/or related services are required to obtain from the purchaser a completed [Buyers' Retail Sales Tax Exemption Certificate](#) to document the exempt nature of the transaction. The certificate must identify the purchaser by name and address, the vessel name, and vessel number and the buyer must mark the block for commercial deep sea fishing operations.

### **Military personnel**

Military personnel stationed in Washington on more than a temporary basis are subject to sales/use tax on vessels and other property in the same way as nonmilitary Washington residents, regardless of any official "home of record" outside of Washington. If a member of the armed services purchases a vessel from a local dealer or broker, the dealer or broker must collect sales tax on the transaction.

Sales made by the United States government (i.e., the Post Exchange) to an authorized purchaser (military identification card holder) are not subject to retail sales tax. The authorized purchaser is also exempt from use tax.

**(Military personnel here on a temporary basis receive the same tax treatment as nonresidents. See the discussion on Nonresidents within this publication.)**

### **Vessel and trailer sales to nonresident military personnel**

Nonresident military personnel may purchase vessels and take delivery in Washington without paying sales tax or use tax when the vessel is U.S. Coast Guard documented or pre-registered by the state or country where the vessel will be principally used after the sale and the vessel will be removed from Washington within 45 days of delivery.

Boat trailers sold to nonresident military personnel are exempt from retail sales tax if the dealer obtains a completed exemption certificate which establishes:

- the purchaser is a bona fide nonresident of this state with the requisite identification and the trailer is for use outside of Washington; and
- the trailer will be removed from their premises under the authority of either a trip permit or valid license plates issued to that property by the state of the purchaser's residence (such plates must be affixed to the trailer upon final delivery).

**Reference:** WAC 458-20-177

### **Government sales**

#### **City, county and state entities**

Sales tax is due on sales of vessels to the state of Washington, its departments and institutions and to counties, cities, school districts and all other municipal subdivisions of Washington. There is no B&O tax deduction for these types of sales.

**Reference:** WAC [458-20-189](#)

### **Federal government**

Sales tax is not due when the sale of a vessel or parts is made directly to the federal government, its departments, institutions and instrumentalities, or agencies directly operated and controlled by the federal government. There is no B&O tax deduction for these types of sales.

The sales tax exemption doesn't apply to sales to institutions chartered or created under federal authority but not directly operated and controlled by the government for the benefit of the general public.

Sales to federal employees or representatives are subject to the sales tax even though the federal government may reimburse them for all or part of such expenses/purchases incurred. (See also [Exemptions, Military.](#))

**Reference:** WAC [458-20-190](#)

### **Foreign diplomats**

#### **Sales to foreign diplomats or missions**

Ambassadors or foreign consuls are exempt from the sales tax with limitations. Diplomatic Tax Exemption Cards are issued by the U.S. Department of State. These cards use four distinct images on the cards (owl, buffalo, eagle, and deer) to indicate the level of tax exemption.

The exemption under this program may not apply to all types of purchases. See below for procedures for purchasing all motorized vehicles (including vessels) under this program.

See our Special Notice: [Diplomatic Tax Exemption Program](#) for more information.

#### **Purchase of vessels under the Diplomatic Tax Exemption Program**

The Office of Foreign Missions (OFM) enforces the exemption of eligible foreign missions and their members from payment of any taxes when purchasing, leasing, registering or titling a vessel. All official and personal vessel purchases by eligible foreign missions and their members must be authorized by OFM.

The purchaser must request that the vessel dealer contact either the "Tax and Customs Program Office" of the Department of OFM or the appropriate OFM Regional Office for a determination of the tax-exempt status of the purchaser. These requests will only be accepted during normal business hours.

Dealers can contact OFM by phone at (415) 744-2910 or by email at [OFMSFCustomerService@state.gov](mailto:OFMSFCustomerService@state.gov). Emails must include:

- Buyer's name
- Type of purchase - official or personal

- Buyer's driver's license number, personal identification number or date of birth
- Buyer's mission or organization
- The dealership's name, mailing address, and phone and fax numbers
- The Vehicle Identification Number (VIN) of the vessel the mission or person is planning to purchase or lease.

OFM will determine the tax-exempt status of the purchaser and email or fax a letter to the vessel dealer stating whether the purchaser is eligible for a sales/use tax exemption. If the tax exemption is denied, the purchaser must pay sales tax on the purchase of the vessel.

These tax exemption procedures discussed above apply to all motorized vehicles purchased or leased by foreign missions or their members.

### **Vessel registration**

Diplomatic missions and their members, including dependents, must register all motorized vehicles that they own or lease with the OFM Diplomatic Vehicle Office. At the time of purchase, all original ownership documents must be submitted to the Diplomatic Motor Vehicle Office for proper vessel registration.

Dealers should treat this transaction as an out-of-state registration. OFM will issue a registration card and federal license once proper documentation is received. A title will be sent to the lien holder.

### **Tax reporting**

Retailing B&O tax is still due for these transactions. The sales tax deduction may be shown as "sales to nonresidents or other" and explained as "exempt foreign diplomat."

### **Documenting exempt sales**

The seller must record proof of a valid exemption. Keep these records for five years for possible review by the Department of Revenue.

**References:** RCW [82.32.070](#), WAC [458-20-254](#)

## Vessel deconstruction services

Vessel deconstruction services are not subject to sales/use tax ([RCW 82.08.9996](#), [RCW 82.12.9996](#)).

### Qualifying deconstruction services:

To qualify for the exemption, the deconstruction services must be performed at either:

- A qualified vessel deconstruction facility; or
- An area over water which has a National Pollutant Discharge Elimination System (NPDES) permit for vessel deconstruction

The buyer must give the seller a [Buyer's Retail Sales Tax Exemption Certificate](#). The seller must keep a copy of the completed exemption certificate for five years.

### Buyer reporting requirements:

Taxpayers who use this exemption must submit a *Buyer's Sales and Use Tax Preference Addendum* when they electronically file their next excise tax return.

### Definitions

**Vessel deconstruction:** permanently dismantling a vessel, including:

- Abatement and removal of hazardous materials
- Removal of mechanical, hydraulic, or electronic components or other vessel machinery and equipment;
- Cutting apart or disposal, or both, of vessel infrastructure.

Vessel deconstruction does not include vessel modification or repair.

**Hazardous materials:** includes fuel, lead, asbestos, polychlorinated biphenyls, and oils.

**Qualified vessel deconstruction facility:** structures, including floating structures, which have a National Pollutant Discharge Elimination System (NPDES) permit for vessel deconstruction.

For more information, see [Special Notice: Vessel Deconstruction-Sales & Use Tax Exemption](#).

## **Information for vessel owners**

### **Title and registration**

Most boats must be titled and registered with the Department of Licensing except for those under 16 feet in length and motorized by 10 horsepower or less. You may register your boat at your local county auditor's office or with a vehicle licensing agency. You must have the vessel's hull number; signatures of all owners except lien holder(s); and proof of ownership, such as the Manufacturer's Certificate of Origin, Carpenter's Certificate, Manufacturer's Invoice or original Certificate of Title.

### **Registration process**

The registration year for vessels registered in Washington begins July 1 and runs through June 30. When you register your vessel with the Department of Licensing, you may request to keep your U.S. Coast Guard registration number. Boat registration fees include:

- registration fee
- watercraft excise tax (0.5 percent of the vessel's value)
- use tax, unless sales tax or use tax was previously paid or the vessel is otherwise exempt from sales or use tax
- derelict vessel and invasive species fees
- derelict vessel removal surcharge
- license and filing fees

You must complete a Declaration of Value if the most recent purchase price of your boat is unknown, your boat is homemade, or you acquired the boat by trade, lease or gift. The declared value is subject to review.

All boat owners must notify the Department of Licensing within 15 days of any changes:

- owner's change of address
- destruction, loss, abandonment, theft, or recovery of the boat
- loss or destruction of a valid certificate or registration

Within five working days of selling your vessel, you must notify the Department of Licensing of:

- the name and address of the owner and transferee
- the vessel's registration number and/or hull identification number

## **Tax responsibility**

### **Watercraft excise tax**

The watercraft excise tax generally applies to all registered boats that are 16 feet or longer or equipped with a motor capacity of more than 10 horsepower. The tax is 0.5 percent of the boat's fair market value and paid on an annual basis. A vessel is exempt from the tax if it is:

- used exclusively for commercial fishing purposes
- less than 16 feet in length and is not used on federally regulated waters
- owned and held for sale by a dealer
- owned by certain nonprofit youth organizations

For more information, call the Department of Licensing at (360) 902-3770.

### **Unregistered vessel penalty**

An owner of a vessel not registered as required by and for which watercraft excise tax (WET) is due, must pay a penalty:

- \$100 for the owner's first violation
- \$200 for the owner's second violation involving the same or any other vessel
- \$400 for the owner's third and successive violations involving the same or any other vessel

**Reference:** [RCW 82.49.080](#)

### **Commercial vessel tax**

Commercial vessel tax is a personal property tax. Generally, boats exempt from the watercraft excise tax are subject to the personal property tax. Vessels used exclusively for commercial fishing purposes and U.S. Coast Guard documented vessels used primarily for commercial purposes such as charter and time-share boats, tugs and barges are subject to this tax.

Beginning with Annual 2014 tax assessments, the DOR will include the commercial vessel derelict vessel removal fee of \$1 per foot of vessel length when the commercial vessel tax is assessed.

You must [list](#) your vessel with the Special Programs Division of the Department of Revenue.

Certain vessels are taxed only for the time they are in Washington. In January of each year, the Department of Revenue sends a Watercraft Personal Property Notice of Value to each vessel owner showing the market value and asking each owner to report how many days the vessel was in the state the previous year. In March, the property tax statement is mailed to each taxpayer with full payment due by April 30.

For more information, see [Commercial Vessel Tax](#).

### **Use tax and Vessel Registration Requirements**

Use tax applies to the use of articles within Washington acquired without paying sales tax. Articles purchased for use in this state are subject to sales tax or use tax, but not both. Sales tax is based on the selling price, while use tax is based on the value of the article at the time it is first used in Washington. The value includes any delivery charges paid to the seller.

If you purchase your boat from an individual or from out-of-state, use tax is due based on the place where the boat will be moored or stored. However, if the county auditor or licensing agent

collects the use tax based on the owner's location, a refund of any overpayment can be requested directly from the Department of Revenue. See our online page on [Requesting a Refund](#).

If your boat is not required to be registered, you may pay the use tax by completing a [Consumer Use Tax Return](#). For information on exemptions from sales/use tax please see the [Exemptions](#) to Sales/Use Tax section in this guide.

### **Columbia River moorage**

Washington residents who moor their vessels on the Oregon side of the Columbia River are subject to sales or use tax. Use of the vessels is presumed to be on the Columbia River. Because the state line is down the middle of the river, the vessel will cross into Washington.

## **Purchase and use of vessels by nonresidents**

Generally, vessels purchased or used in Washington are subject to sales tax or use tax and must be registered. However, there are some exemptions available to nonresidents of Washington that are discussed in detail below.

Topics covered include:

- [Vessel registration](#),
- [Purchases of vessels in Washington by nonresidents](#),
- [Use of vessels in Washington by nonresidents](#), and
- [Vessels in Washington for repairs](#).

Vessels exempt from the registration requirements are also exempt from the watercraft excise tax.

## **Registration requirements for vessels owned by nonresidents**

### **Domestic nonresidents**

Domestic nonresidents are exempt from vessel registration requirements for the first 60 days of use within 12 continuous months. [RCW 88.02.570\(5\)](#)

### **Individually owned vessels**

Domestic nonresident individuals can extend their registration exempt stay if, before the 61st day of use in Washington, they purchase a nonresident vessel [permit](#) from the Department of Licensing (DOL).

To further extend the registration exempt period, a domestic nonresident individual may renew this permit for another 60 days, but the renewal must be done before the current permit expires. Exempt stays may not exceed 6 months during any continuous 12-month period.

Nonresident individuals are also exempt from registering their vessels (if 30 feet or longer) for a one-year period if they purchase a [vessel use permit](#). The use permit must be purchased at the time of purchase of the vessel or within 14 days of first entering the state with the vessel. [RCW 88.02.570\(13\)](#) and [RCW 88.02.620](#)

### **Entity owned vessels**

Beginning September 1, 2015, nonresident entities (corporations, LLCs, etc.) may purchase with pre-approval from the Department of Revenue up to two 60-day nonresident vessel permits from Licensing. The permits allow qualifying vessels to stay up to six months during a consecutive 12-month period. Only two permits are allowed during any 36-month period.

The requirements for this program are:

- The vessel length is between 30 and 164 feet
- No Washington resident is a principal of the nonresident entity

- The nonresident entity vessel owner provides sufficient documentation to verify eligibility for the permit

There is no charge for preapproval. The fee for the nonresident vessel permit depends on the vessel's length:

- \$25 per foot for vessels 30-99 feet
- \$30 per foot for vessels 100-120 feet
- \$37.50 per foot for vessels 121-164 feet

For more information see our [Special Notice](#) Nonresident Vessel Permits for Entity-owned Vessels under Exemptions to Sales and use tax.

### ***Foreign nonresidents***

Foreign nonresidents are exempt from registration requirements for the first 60 days of use within 12 continuous months. [RCW 88.02.570\(4\)](#)

Foreign nonresidents can extend their registration exempt stay if, before the 61st day of use here, they purchase a vessel visitor permit from the Department of Licensing. This permit is valid as long as the vessel remains currently registered or numbered under the laws of a country other than the United States or the United States customs service cruising license remains valid. [RCW 88.02.570\(4\)](#) and [RCW 88.02.610](#)

Foreign nonresident individuals are also exempt from registering their vessels (of 30 feet or longer) for a one-year period if they purchase a [vessel use permit](#). The use permit must be purchased at the time of purchase of the vessel or within 14 days of first entering the state with the vessel. [RCW 88.02.570\(13\)](#) and [RCW 88.02.620](#)

### **Purchases of vessels in Washington by nonresidents**

#### ***Sales Tax exemption for vessels purchased in Washington by nonresidents***

Both domestic and foreign nonresidents may purchase a vessel in Washington without payment of sales tax if certain requirements are met:

1. The vessel will not be used within Washington for more than 45 days, and
2. An appropriate exemption certificate, supported by identification signed by the purchaser establishing that the purchaser is a resident of another state or foreign country (and not a Washington resident), and that the vessel is for use outside of Washington.

Once the purchased vessel has been removed from Washington (within 45 days), it may return to Washington tax exempt for the balance of the temporary use period (the initial 60 days exempt period).

For nonresident vessels owned by individuals, this exemption period can be extended up to 180 days, if prior to the 61<sup>st</sup> day the vessel is in Washington they purchase a [vessel use permit](#).

For nonresident vessels owned by entities, this exemption period can be extended up to 180 days, if prior to the 61<sup>st</sup> day the owner purchases a Nonresident Vessel Permit for Entity-Owned Vessels. See our Special Notice [Nonresident Vessel Permit for Entity-Owned Vessels](#).

Reference: RCWs [82.08.0266](#) and [82.08.02665](#)

### ***Use permits for vessels purchased in Washington by nonresidents***

There is a sales tax exemption for certain nonresident individuals who purchase a vessel of 30 feet or longer in Washington from a vessel dealer. The nonresident individual must buy a one-year [use permit](#) from the vessel dealer when the vessel is purchased. ([RCW 82.08.700](#))

A nonresident opting to purchase a use permit makes an irrevocable election to forgo taking the sales tax exemption under either RCW 82.08.0266 or 82.08.02665 (as discussed above). The vessel must be removed from Washington before the use permit expires and may not return to Washington for 24 months after the expiration of the use permit.

### **Use of vessels in Washington by nonresidents**

Both domestic and foreign nonresidents may use their vessels in Washington for up to 60 days during any continuous 12-month period without owing use tax or registering their vessel. ([WAC 458-20-238](#)(4)(b) & [RCW 88.02.570](#)(5) )

### **Individually owned vessels**

Nonresident individuals can extend their exempt stay if, before the 61st day of use here, they purchase a nonresident vessel [permit](#) from the Department of Licensing (DOL).

To further extend the exempt period, a nonresident individual may renew this permit for another 60 days, but the renewal must be done before the permit expires. Exempt stays may not exceed 6 months during any continuous 12-month period. To qualify for this six-month exemption period, the watercraft must be issued a valid number under federal law or by an approved authority of the state of principal operation, be documented under the laws of a foreign country, or have a valid United States customs service cruising license. The watercraft must also satisfy all identification requirements under the law for any period after the first 60 days. Failure to meet the applicable documentation and identification requirements will result in a loss of the exemption.

Nonresident individuals are also exempt from use tax and registering their vessels (if 30 feet or longer) for a one-year period if they purchase a [vessel use permit](#). The use permit must be purchased at the time of purchase of the vessel or within 14 days of first entering the state with the vessel. RCW [88.02.570](#)(13) and [RCW 88.02.620](#)

**Foreign nonresidents** can extend their registration exempt stay if, before the 61st day of use here, they purchase a vessel visitor permit from the Department of Licensing. This permit is valid as long as the vessel remains currently registered or numbered under the laws of a country other than the United States or the United States customs service cruising license remains valid. [RCW 88.02.570](#)(4) and [RCW 88.02.610](#) **Note:** This exemption only applies to registration requirements and does not exempt the vessel from use tax.

### **Entity owned vessels**

As of September 1, 2015, nonresident entities (corporations, LLC, etc.) may purchase (with pre-approval from the Department of Revenue) up to two 60-day nonresident vessel permits from Licensing. The permits allow qualifying vessels to stay up to six months during a consecutive 12-month period. Only two permits are allowed during any 36-month period.

The requirements for this program are:

- The vessel length is between 30 and 164 feet
- No Washington resident is a principal of the nonresident entity
- The nonresident entity vessel owner provides sufficient documentation to verify eligibility for the permit

There is no charge for preapproval. The fee for the nonresident vessel permit depends on the vessel's length:

- \$25 per foot for vessels 30-99 feet
- \$30 per foot for vessels 100-120 feet
- \$37.50 per foot for vessels 121-164 feet

For more information on this exemption please see our Special Notice [Nonresident Vessel Permits for entity-owned vessels](#).

### **Vessels in Washington for Repairs**

Vessels owned by nonresidents that are in Washington exclusively for repairs are not subject to use tax and registration requirements if the owner of the vessel files a [repair affidavit](#) with the Department of Revenue every 60 days that the vessel remains at the repair facility. RCW 88.02.570(6) and [WAC 458-20-238](#)

For further information on cruising in Washington State, see: [visiting and recreation](#) website and the [State Parks boating education program](#).



## **Charters**

### **Bare boat charter**

A bare boat charter is renting or leasing a vessel to a customer, who then has total control of the vessel. The boat owner or the charter business cannot provide a captain or crew or be present on the vessel during the charter.

Vessel owners can place some general restrictions on vessel operation, such as requiring the lessee to hire a licensed skipper, limiting the number of passengers on board, and limiting where the vessel can be operated. To avoid tax liability for intervening use, the boat owner cannot be on board as a skipper, crew member, or guest.

**Reference:** WAC [458-20-211](#)

### **Tax on boats purchased for bare boat charter**

Vessels purchased solely for bare boat charters are purchases for resale and are exempt from sales tax. Sellers must retain a reseller permit in their records documenting the exempt sale.

The purchaser will be subject to use tax (based on the total value of the boat) if they engage in intervening use of the boat. If the boat owner is on board as a skipper, crew member, or guest, it is considered intervening use. Charter boat owners or charter businesses are not treated as vessel dealers. Intervening use of a charter boat is taxed on the full value, not the rental value.

Intervening use doesn't include activities in support of a bare boat charter business such as maintenance, fueling or delivery activities. Such activities won't trigger use tax liability. This is consistent with "dealer use."

### **Purchaser requirements**

Purchasers of documented vessels for bare boat charter are generally required to complete and file a [Commercial Vessel Tax Personal Property Listing Application](#) with the Department of Revenue's Special Programs Division. This requires that the business that owns the vessel is registered with the Department of Revenue. Apply for a business license at [bls.dor.wa.gov](http://bls.dor.wa.gov)

### **Bare boat charter tax reporting**

The following scenarios represent the two most common business methods and how the activities are reported.

1. Company A leases boats from the boat owners and sub-leases them to the public.

Company A collects sales tax on bare boat charter fees and reports their gross receipts under the retailing B&O tax classification. The vessel owners report wholesaling B&O tax on gross income from the lease to Company A.

In this scenario, the owner may lease back the vessel from Company A and pay sales tax on the fair market rental rate.

2. Company B is an agent (but not lessee) for the vessel owner and provides charter management services.

Company B collects sales tax on the bare boat charter fees and reports its commission earned under the service and other activities B&O tax classification. The charter fees are reported as follows:

- Owners using a charter agent that charters in the name of the boat owner must report under retailing B&O tax and retail sales tax. If the charter agent remits the sales tax to the Department, the owner may take a deduction from retail sales tax. On the deduction detail pages, identify the deduction as “sales tax reported by agent.” See WAC 458-20-159.
- Owners using a charter agent that charters in the name of the charter agent report under wholesaling B&O tax. In this situation the boat owner must obtain a reseller permit from the charter agent. See WAC 458-20-102.

The owner reports their gross receipts, without any deduction for amounts paid to or withheld by Company B as compensation for their services. Here it is assumed that Company B will remit the sales tax collected directly to the Department of Revenue with its excise tax returns.

When Company B acts as an agent for a vessel owner, the owner cannot use the vessel without incurring a use tax liability on the fair rental value based on the full value of the vessel. The only way that a boat owner can use the boat for personal pleasure and not owe sales or use tax based on the value of the boat is, before any pleasure use by owner has occurred, to lease the boat to a third party on a long term lease, then lease back the boat for shorter periods of time. In this case the owner pays sales tax based on fair rental value for the period of personal use. See WAC 458-20-211.

Additionally, the owner may not allow employees of the owner to use the vessel for their pleasure at no charge, or for a charge below fair market value. This will be considered intervening use by the owner.

**References:** WAC [458-20-159](#), WAC [458-20-178](#) and WAC [458-20-211](#) and [Taxability of the Charter Boat Industry Special Notice](#)

### **Skipped charters**

A skippered charter is the rental of a vessel with a captain and/or crew. The purchase of a vessel for skippered charters is subject to sales tax. A reseller permit cannot be used to purchase vessels for skippered charters. (See [reseller permit](#) section)

### **Charter boat repairs**

Parts and labor for the repair and maintenance of charter vessels are taxed in the same manner as the vessel to which they are affiliated. If a vessel is operated for bare boat charter, the vessel was tax exempt at time of purchase. Therefore, repair/maintenance charges will also be considered to be purchased for resale, and exempt from sales tax.

### **Charter examples**

**Example 1:** John Doe purchased a vessel which will be rented to others as a bare boat rental. The rentals will be arranged through an agent at a marina.

This is not a qualifying leaseback situation. If the boat owner will occasionally use the boat for personal pleasure, a reseller permit can't be used to purchase the boat. Just because an agent is used to arrange charters, does not make this a qualifying leaseback situation.

**Example 2:** Jane Smith purchases a vessel to create a bare boat charter business and immediately signs an exclusive lease agreement with WWW Charter Company. WWW Charter sub-leases the vessel to members of the public. Ms. Smith occasionally rents the vessel from WWW for the same rate and terms as anyone else.

This is a leaseback situation in which case the vessel may be purchased with a reseller permit.

Timeshare transactions are treated the same way.

For more information, please see our [Special Notice: Taxability of the Charter Boat Industry](#).

## **Commercial vessels**

### **Personal property tax**

Commercially operated vessels exempted from the watercraft excise tax are subject to the state personal property tax levy. Vessels used exclusively for commercial fishing purposes and U.S. Coast Guard documented vessels used primarily for commercial purposes such as charter and time-share boats, tugs and barges, are subject to this tax. The tax rate is limited to no more than \$3.60 per \$1,000 of market value.

### **Vessel listing requirements**

Vessels subject to the personal property tax are listed with and assessed by the Special Programs Division of the Department of Revenue. All vessels are taxable for the entire year unless they are apportionable in which case an owner may deduct those days the vessel is out of state. They may also deduct those days that the vessel is in state exclusively for repairs.

The tax is a personal property tax and is based on the status of the vessel in the state. It is not based on use, like the watercraft excise tax for pleasure craft.

Each January, the Department of Revenue sends a Watercraft Personal Property Notice of Value to the vessel owner of record. This documents the market value and asks owners to report how many days the vessel was in the state in the previous year.

For more information please see the flyer on [Commercial Vessel Tax](#).

Generally, commercial vessels are subject to either sales tax or use tax unless used in interstate or foreign commerce or used primarily in deep sea fishing.

### **Derelict vessel removal fee**

Commercial vessels must pay a derelict vessel removal fee of \$1 per foot of vessel length. This fee is collected at the same time as the personal property tax and doesn't apply if no personal property tax is due.

### **Tax based on ownership**

The Department of Revenue bills and collects personal property tax. The tax is based on who owns the vessel on January 1 of a given year. This is the assessment year.

In the year after the assessment year, the vessel owner is mailed a tax statement in mid-February. Full payment is due April 30.

Example: Commercial vessel Z is purchased on August 14, 2015. The new owner's first taxable year is 2016, as January 1, 2016 is his first January 1 of ownership. The 2016 tax will be collected by April 30, 2017, and the tax is based on the number of taxable days the vessel was in the state in 2015.

### **Vessel sold or converted to pleasure use**

If the commercial vessel is sold or converted to pleasure use in the middle of the year, the personal property tax is still the responsibility of the owner of record on January 1 of that year. If selling the boat, include the tax responsibility in the contract and call the Department of Revenue's commercial vessel tax unit at (360) 570-3265 for the amount of tax due. If converting the vessel to pleasure use, contact the commercial vessel tax unit for guidance.

### **Property tax decal requirements**

Vessels listed on the personal property tax rolls will receive a permanent orange decal that must be displayed on the hull showing the vessel is registered. It is also the account number of the vessel with the Department of Revenue.

Commercial vessels that look like pleasure craft and are U.S. Coast Guard documented are also required to display a second decal from the Department of Revenue's Special Programs Division, which changes color each year in coordination with the Department of Licensing watercraft excise tax decal color.

### **How to register**

To list your vessel, complete and return a [Commercial Watercraft Personal Property Listing Of Ships And Vessels](#) form to the Department of Revenue.

For more information, call the commercial vessel tax unit at (360) 570-3265.