

Taxability of Vessels Sold by Boat Dealers
Articles 28 and 29 of the Tax Law

This memorandum supplements TSB-M-82(3)S, and TSB-M-82(3.1)S by illustrating the tax consequences of the use of boats held in a boat dealer's inventory.

Vessels held in inventory exclusively for resale, but used for purposes of demonstration to prospective customers are not taxable to the dealer if used solely for demonstration purposes.

Vessels held in inventory exclusively for resale, but used occasionally for business or pleasure by the dealer or one of his officers or employees are subject to use tax. The use tax due must be reported under "purchases subject to use tax" and paid with the dealer's next return.

Since no purchase, sale, or trade occurs when the taxable use begins or ends, and since a particular vessel in inventory will usually be used in this manner for only a short period* of time before being sold, dealers are required to pay tax based on depreciation, in lieu of tax normally due on a sale.

The rate of depreciation is 2% per month or any part thereof, computed on an amount equal to the total invoiced cost to the dealer (including delivery) for any vessel purchased new; and on the purchase price or trade allowance, plus the value of any repairs made to the vessel when purchased used or taken in trade.

Example 1: A boat dealer purchases a new vessel for \$15,000 plus \$600 delivery charge for a total cost of \$15,600. Tax due on the transaction is computed by multiplying \$15,600 (cost), x 2% (depreciation), x the number of months used, x the appropriate tax rate. If the vessel is used for 2 months, and the tax rate is 7%, the tax due on the use is computed as follows:

$$\begin{array}{r} \$15,600 \text{ (cost)} \\ \underline{\quad \times 2\% \text{ (depreciation)}} \\ \quad \$312 \\ \underline{\quad \times 2 \text{ (months used)}} \\ \quad \quad \$624 \\ \underline{\quad \times 7\% \text{ (tax rate)}} \\ \quad \quad \underline{\underline{\$43.68 \text{ (tax due)}}} \end{array}$$

Example 2: A boat dealer purchases a used vessel for \$5000 and refurbishes it at a cost of \$1500; he uses the boat 3 months before selling it. If the appropriate tax rate is 7%, the tax due is \$27.30 ($\$5000 + \$1500 \times 2\% \times 3 \times 7\%$).

Example 3: A boat dealer takes a boat in trade for \$2000 and adds \$1000 in repairs. The boat is used 2 months and then sold in a 7% jurisdiction for \$6000. Tax due on the use is \$8.40 ($\$2000 + \$1000 \times 2\% \times 2 \times 7\%$), and tax due on the sale is \$420 ($\$6000 \times 7\%$).

*Short period means six months or less.