



**CDTFA**  
CALIFORNIA DEPARTMENT OF  
TAX AND FEE ADMINISTRATION

# Watercraft Industry



## Preface

This publication is a general guide to the Sales and Use Tax Law and Regulations as they apply to the sellers, suppliers, brokers, purchasers, and users of watercraft.

This publication does *not* address sales and purchases of watercraft that are not considered *vessels* under the Sales and Use Tax Law and Regulations. These include:

- Seaplanes.
- Watercraft specifically designed to operate on a permanently fixed course and held on that course by a mechanical device.
- Watercraft designed only for rowing or paddling, such as kayaks or canoes.
- Sailboats that are no more than eight feet long.

This publication supplements [publication 73](#), *Your California Seller's Permit*, which is provided to first-time applicants for seller's permits. It includes general information about obtaining a permit; using a resale certificate; paying, collecting, and reporting sales and use taxes; buying, selling, or discontinuing a business; and keeping records.

If you cannot find the information you are looking for in this publication, please visit [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov) or call our Customer Service Center at 1-800-400-7115 (TTY:711). Customer service representatives are available to assist you Monday through Friday between 7:30 a.m. and 5:00 p.m. (Pacific time), except state holidays.

We welcome your suggestions for improving this or any other publication. If you would like to comment, please provide your comments or suggestions directly to:

Audit and Information Section  
California Department of Tax and Fee Administration  
PO Box 942879  
Sacramento, CA 94279-0044

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*Please note: This publication summarizes the law and applicable regulations in effect when the publication was written, as noted on the back cover. However, changes in the law or in regulations may have occurred since that time. If there is a conflict between the text in this publication and the law, decisions will be based on the law and not on this publication.*

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# Tax-Exempt Watercraft

In general, sales or use tax applies to the sale or purchase of tangible personal property (items) in California. Sales of property covered by specific exemptions are not subject to tax—including certain watercraft. This includes sales exempt from tax based on their principal or functional use, and their qualifying component parts. This chapter, which contains information useful to watercraft sellers, brokers, purchasers, and operators, explains the watercraft principal or functional use exemptions. Sellers and buyers can find specific information on how these exemptions apply to sales in the chapter [Sales and Purchases of Watercraft](#) and the chapter [Sales of Watercraft Parts, Materials, and Supplies](#). For more information, please see [Regulation 1594](#), Watercraft.

## Exemptions

The sale, use, or lease of a watercraft vessel and its qualifying component parts is exempt from tax if:

- The vessel's *principal use* is transporting passengers or property for hire in interstate or foreign commerce;
- The vessel's *principal use* is commercial deep-sea fishing conducted outside California's territorial waters; or
- The vessel's *functional use* is transporting people or property for hire to certain vessels or certain offshore drilling platforms.

To determine the *principal use* of a watercraft, we usually look at the way the craft is used during its first 12 months of operation following purchase or lease. The principal use is generally considered to be the operation that constitutes *more than 50 percent* of the vessel's activity during that period (unless specified otherwise for a particular exemption). The *functional use* is generally considered to be the operation that constitutes at least 80 percent of the vessel's activity during that period. In addition, we may use other measurements, including minimum gross income standards, to determine whether a vessel qualifies for a particular watercraft exemption. The specific requirements for each type of use exemption are described below.

## Vessels used in interstate and foreign commerce—*principal use*

Sales and leases of vessels and their qualifying component parts, used principally in interstate or foreign commerce, are exempt from tax. For this exemption, interstate or foreign commerce is defined as transportation of passengers or property **for hire** from this state to another state or foreign country, or from another state or foreign country to California. To demonstrate that a vessel is used for hired transportation services, it usually must generate a minimum amount of income from such activity (see [Additional gross income requirement—interstate and foreign commerce](#) on next page). To qualify for the interstate and foreign tax exemption, a watercraft must be used:

- Exclusively in interstate or foreign commerce; or
- In a combination of interstate or foreign commerce and commerce between ports in the state (*intrastate* commerce), provided the vessel's principal use—more than 50 percent of its activity—is for interstate or foreign commerce.

Sailing in part on the high seas while traveling to and from California ports does not, by itself, qualify a vessel for the exemption. Furthermore, vessels used exclusively to transport their owners' property do not qualify for this exemption.

## Tugboats and Barges

Under certain conditions, tugboats and barges may qualify for the interstate and foreign commerce exemption. Their *principal use* must be:

- Transporting cargoes moving in interstate or foreign commerce; or
- Towing, or helping to move, vessels used principally to transport passengers or cargoes in interstate or foreign commerce.

*Please note:* Tugboats and barges used to transport ships' stores, ships' crews, repair parts, and similar cargoes to and from a vessel are not eligible for the exemption.

### **Additional gross income requirement—interstate and foreign commerce**

To demonstrate the vessel for hire is used to transport people or property, a watercraft must usually generate a certain amount of gross income from this activity during its first 12 months of operation. For boats sold or leased after January 1, 1987, the annual gross receipts from such transportation services must be greater than 10 percent of the cost of the watercraft to the purchaser or lessor, or \$25,000, whichever is less (all gross receipts from hired transportation of passengers or property may be included).

If the gross income from a vessel you own or lease is less than the required amount, we will presume that it is not used to transport people or property for hire, unless you can clearly establish otherwise. Only watercraft used for hired transportation services qualify for the interstate and foreign commerce principal use exemption.

## Commercial deep-sea fishing boats—*principal use*

Sales and leases of watercraft principally used in commercial deep-sea fishing operations *outside the territorial waters of this state*, are exempt from tax. Operators of such vessels must be regularly engaged in commercial deep-sea fishing, as demonstrated by their gross income from fishing activity. Sales of qualifying component parts for exempt vessels are also exempt from tax.

### **Principal use outside state's territorial waters**

The territorial waters of the state include waters which are:

- Within three English nautical miles of the coastline; or
- Within three English nautical miles seaward of a line drawn between the headlands of all bays and harbors along and adjacent to the coast; or
- The outermost waters within three English nautical miles of all islands which are a part of the state.

We consider the total time a vessel is used in *actual fishing operations* during the first 12 months beginning with its first activity after sale or lease to determine the boat's eligibility for the exemption. If you are a boat owner or lessee, you should keep adequate records to document:

- Time spent traveling to and from the fishing grounds.
- Time the boat is used within the state's territorial waters.
- Time the boat is used outside the territorial waters of the state.

If the time you conducted fishing operations outside the state's territorial waters exceeds the time operated within them, your boat would meet the basic principal use standard for the commercial deep-sea fishing exemption. We do not consider the time the vessel is idle or stored in the state during the initial 12-month period in this determination.

## Fishing party and sportfishing boats

Fishing party and sportfishing boats having the necessary commercial fishing licenses and permits to take charter or fishing parties for hire may also qualify for this exemption. The following requirements apply:

- The principal use of the watercraft—commercial deep-sea fishing—takes place outside California’s territorial waters;
- The fishing is commercial in nature;
- The boat’s purchaser can satisfactorily demonstrate that profit is the primary motive for the fishing activity.

### ***Additional gross income requirement—commercial deep-sea fishing***

Individuals operating watercraft sold on or after July 29, 1991, must generally satisfy a gross income requirement to qualify for this exemption. The boat owner or lessee’s gross receipts from commercial deep-sea fishing operations must total at least \$20,000 in a selected 12-month period. (The 12-month period we select for examination of your gross fishing income will depend on whether you were deep-sea fishing commercially at the time you purchased the vessel.)

Fish receipts from both inside and outside the state’s territorial waters may be used. (For boats sold during the period January 1, 1980, through July 28, 1991, the gross income requirement was \$5,000 per year.)

If fish receipts from a boat you own or lease are less than the specified minimum amount, we will presume that you are not actively engaged in commercial deep-sea fishing—unless you can clearly demonstrate otherwise—and the purchase or lease of your watercraft will be subject to tax.

For information on additional evidence we may require to establish your deep-sea fishing boat exemption, see [Purchasing a watercraft with an exemption certificate](#).

## Watercraft used to transport passengers and cargo to vessels or oil platforms outside state territorial waters—*functional use*

Sales and leases of watercraft *functionally used* to transport people or property to vessels or offshore drilling platforms outside the state’s territorial waters are exempt from tax. The vessel must be used for this purpose at least 80 percent of the time during its first 12 months of actual operation after purchase or lease. Sales of qualifying component parts of these vessels are not subject to tax.

## Marine Invasive Species Fee (formerly the Ballast Water Management Fee)

The Marine Invasive Species Program, which is administered by the State Lands Commission, was established to reduce the introduction and spread of nonindigenous aquatic species into the state waters of California. This program is funded by a fee for each qualifying voyage. We work with the California Marine Exchanges to identify daily arrivals of vessels into California ports and use the information to:

- Determine if any vessels made voyages that are subject to the fee.
- Establish account numbers for the owner/operator of vessels that are subject to the fee.
- Mail notices of amounts due to owners/operators of vessels.

For further information about the Marine Invasive Species Fee, please contact Special Taxes and Fees at:

Program and Compliance Bureau MIC:57  
California Department of Tax and Fee Administration  
PO Box 942879, Sacramento, CA 94279-0088  
Telephone: 1-800-400-7115 (CRS:711)

When calling, please select the option for *Special Taxes and Fees*.

For information regarding ballast water management and testing, or for copies of State Lands Commission regulations, please visit the State Lands Commission webpage at [www.slc.ca.gov](http://www.slc.ca.gov) or contact them by telephone at 1-916-574-1900.

## Vessels purchased or delivered out of state—not intended for use in California

If you purchase a vessel and take delivery out of state, it may not be subject to tax. For more information, please see [publication 52](#), *Vehicles and Vessels: Use Tax*.



# Sales and Purchases of Watercraft

*This chapter is designed to give you information on the taxability of watercraft sales, methods of tax reporting and payment, and the respective tax reporting responsibilities of registered sellers, brokers, and buyers. It also includes information on sales of exempt watercraft, as defined in the previous chapter.*

## Documented and undocumented vessels

### Documented vessels

A documented vessel is a watercraft required to be documented by the United States Coast Guard that has a valid Coast Guard-issued marine certificate. Sales or use tax on documented vessels is generally paid to the seller or to us, as described later in this chapter.

A vessel is required to be documented with the United States Coast Guard if:

- It will be used in international waters (outside the three-mile limit); or
- The vessel is five net tons or more and will be used in fishing activities.

### Undocumented vessels

An undocumented vessel is a watercraft that is not required to have, and does not have, a Coast Guard-issued marine certificate. Undocumented vessels must be registered with the Department of Motor Vehicles (DMV). Acting for CDTFA, DMV collects use tax from a purchaser at the time a vessel is registered, except as otherwise provided.

For more information on sales of documented and undocumented vessels, you may wish to obtain a copy of [Regulation 1610, Vehicles, Vessels, and Aircraft](#), at [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov) or by calling our Customer Service Center at 1-800-400-7115 (CRS:711).

## Sales and leases by registered sellers of watercraft

If you hold a valid seller's permit and are in the business of selling watercraft, your sales are generally subject to sales tax. Whether you sell a *documented* or *undocumented* vessel, you are required to report and pay sales tax to us. Sales of tax-exempt watercraft, defined in the first chapter, are described later in this section. If you have questions regarding whether your vessel qualifies as documented or undocumented, the National Vessel Documentation Center provides answers to frequently asked questions on their website at [www.uscg.mil](http://www.uscg.mil).

When you sell an *undocumented vessel*, you must give the purchaser a sales tax certification form to present to DMV, showing that tax was paid on the sale. An example is shown on the next page; copies are available from the [DMV website](#).



<b>DMV</b> A Public Service Agency		CF NUMBER	
<b>Vessel Dealer or Manufacturer's Sales Tax Certification</b>		CF	
		BUILDER	YR. MODEL
HULL IDENTIFICATION NUMBER		LENGTH	
		Fl.	In.
CHECK ONE	SALES PRICE	SALES TAX	
<input type="checkbox"/> Dealer	\$	\$	
<input type="checkbox"/> Manufacturer	SBE SELLER'S PERMIT NUMBER		
REGISTERED OWNER—NAME (LAST, FIRST, MIDDLE)			
STREET ADDRESS		STATE	APT. NO.
CITY		STATE	ZIP CODE
DEALER—MANUFACTURER FIRM NAME			
ADDRESS			
CITY			
I certify under penalty of perjury under the laws of the State of California that the information entered by me on this document is true and correct, and the applicable taxes on the sale will be reported directly to the Board of Equalization.			
CITY	SIGNATURE		
	X		
TITLE	DAYTIME TELEPHONE NUMBER		
	( )		
BOAT 110 (REV. 3/84)			

### Watercraft exempt from sales tax

#### Vessels exempt by principal or functional use

As described in the first chapter, sales of other vessels are exempt from sales tax based on the vessels' principal or functional use. The use must be:

- Principally for transporting passengers or property for hire in interstate or foreign commerce,
- Principally for commercial deep-sea fishing outside California's territorial waters, or
- Functionally for transporting people or property for hire to vessels or offshore oil platforms outside California's territorial waters.

If the time you conducted fishing operations outside the state's territorial waters exceeds the time operated within them, your boat would meet the basic principal use standard for the commercial deep-sea fishing exemption. We do not consider the time the craft is idle or stored in the state during the initial 12-month period for this determination.

#### Vessels of more than 1,000 tons burden

Shipbuilders' sales of vessels of more than 1,000 tons burden are exempt from sales tax. However, unless the vessel qualifies under one of the watercraft principal or functional use exemptions, the purchaser may be liable for use tax, and sales of component parts for the ship *are* taxable.

#### Leases of taxable watercraft

Lease payments you receive for taxable watercraft are generally subject to tax, unless you paid tax on the cost of the vessel. Different leasing rules apply to vessels that are at least 30 feet long, which are considered "mobile transportation equipment."

For more information, please see [Regulation 1660](#), *Leases of Tangible Personal Property—in General*, or [Regulation 1661](#), *Leases of Mobile Transportation Equipment*.

#### Reporting district taxes

When you sell an undocumented vessel, you must report district tax if the vessel is registered or licensed at an address within a special tax district. When you sell a documented vessel, you must report the appropriate district tax if the boat will usually be *moored* or *berthed* at an address in a special tax district *and* you are engaged in business in that district.

In either case, if the applicable address is outside a special tax district, you should not report district tax on the sale. [California City and County Sales and Use Tax Rates](#) lists special tax districts and rates and is available online at [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov). For more information on applying district tax, you may wish to obtain a copy of [publication 44, District Taxes \(Sales and Use Taxes\)](#), at [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov) or by calling our Customer Service Center at 1-800-400-7115 (CRS:711).

*Note to sellers located within a special tax district:* If you sell an undocumented vessel that is exempt from the district tax in effect at your sales location, you must obtain a declaration from the purchaser and keep it in your records. The purchaser must certify, under penalty of perjury, that the vessel's licensing or registration address is the purchaser's principal place of residence, or in the case of a corporation, its principal place of business. Sample declaration certificates can be found in [Regulation 1823.5, Place of Delivery of Certain Vehicles, Aircraft and Undocumented Vessels](#).

## Brokerage sales

In a brokerage transaction where the seller/broker acts as an agent without authority to bind the parties or transfer title to the watercraft, the broker is generally not considered a retailer. The broker is not required to collect sales or use tax. Although the purchaser is liable for the use tax due, the broker *may* collect it, as described below.

If the broker collects the use tax from the purchaser and provides a receipt, the *broker*, not the purchaser, is liable for the use tax amount paid and must pay that amount to CDTFA (for documented vessels) or to DMV (for undocumented vessels). If we determine that additional use tax is due, the *purchaser* is liable for the additional tax. *Please note:* the purchaser should keep the receipt for any use tax paid to a broker.

For more information, please see [Regulation 1610, Vehicles, Vessels, and Aircraft](#). You may also call our Consumer Use Tax Section at 1-916-445-9524.

## Purchaser's responsibility to report tax

In some cases, the buyer of a watercraft is responsible for paying sales or use tax directly to CDTFA or to DMV. This section addresses your obligations as the purchaser of a vessel.

### ***Purchasing a documented vessel***

If you buy a documented vessel from a person who does not hold a seller's permit, or from a broker who does not collect and submit the tax on your behalf, you must pay *use tax* to us. Use tax is also due on watercraft purchased from a seller located outside the state if the seller does not collect California use tax from you.

The tax due is based on the effective rate in the county where you usually moor or berth the vessel. If you customarily moor or berth your vessel within a special tax district, but you did not pay district tax on the vessel's purchase, you may be liable for the district use tax. For information on the correct tax rate, refer to publication 44, available on our website at [www.cdtfa.ca.gov](http://www.cdtfa.ca.gov) or by calling our Customer Service Center at 1-800-400-7115 (CRS:711).

### **Purchasers with a valid seller's permit or consumer's use tax number**

If you hold a valid seller's permit or a consumer's use tax number, you must report the tax on your return for the reporting period in which the purchase took place, unless you have purchased the vessel for resale. If you are a registered seller who purchased the vessel for personal or business use, you would list the amount of the purchase under *Purchases Subject to Use Tax* on your sales and use tax return.

### **Purchasers without a seller's permit or consumer's use tax number**

If you do not have a valid seller's permit or consumer's use tax number, you must pay use tax directly to us. By using [publication 79, Documented Vessels and California Tax](#), you can file your payment directly with the Consumer Use Tax Section or any CDTFA [office](#). You must include a brief statement giving the date of purchase, purchase price, the county in which the vessel is moored, berthed, or stored, and a description of the vessel. The description should include:

- Year of manufacture and name of builder
- Length of the vessel
- Name, documentation, or permanent registration number (CF number)

*Please note:* Your payment is due on the earlier of:

- The month following the month you were mailed a copy of a return by us; or
- The month following the twelfth month in which you purchased the vessel, if you do not receive a CDTFA return.

### **Purchasing an undocumented vessel**

If you buy an undocumented vessel from a person who does not hold a seller's permit or from a broker who does not collect and pay the use tax, you must pay the tax yourself. When you register the craft with DMV, they will collect the use tax due, based on the vessel's purchase price. If you purchased the craft through a broker who submitted your application and fees to DMV without submitting the use tax, DMV will contact you regarding payment of the tax.

### **Purchasing a watercraft with an exemption certificate**

When you purchase a watercraft for one of the exempt uses described in the first chapter or purchase qualifying component parts for an exempt watercraft, you must provide a *watercraft exemption certificate* to the seller. On the certificate, you must certify that the watercraft is to be used for one of the three exempt purposes allowed by law. An example of a watercraft exemption certificate is shown on page 10. This certificate is provided in [Regulation 1594, Watercraft](#).

You may be required to provide us with additional information regarding the watercraft, such as:

- Date of purchase
- Home port
- Serial number
- Fish and Game registration number
- Vessel I.D. number
- Number of nautical miles traveled during the first six months
- Type of fish caught
- Name and address of customers (including commercial fish receipts from those customers)
- Name and suppliers of bait and gear
- Blocks of areas fished
- List of reports made to Fish and Game and where they may be examined
- Ship's log
- Name of insurance company and type of coverage (commercial marine)
- Photo of vessel which clearly shows the rigging, California "CF" registration number, documented name, or Fish and Game number of the vessel
- Other information that may be needed to verify the exemption status of your vessel

### ***Registering a vessel outside of California***

If you register a watercraft outside the state to avoid paying state sales or use tax, you may be liable for a penalty of 50 percent of any tax determined to be due on your vessel, plus interest and the original tax due.

### ***Using an exempt watercraft in a nonexempt manner***

If you use a watercraft exemption certificate to purchase a watercraft without tax and use the watercraft in a manner not described on the certificate, you are liable for the tax based on the purchase price of the watercraft. You must report and pay the tax directly to us at the time of such use. If you do not report and pay tax at that time, we may later bill you for tax on the watercraft's purchase, including applicable penalties and interest.



**WATERCRAFT EXEMPTION CERTIFICATE**

I HEREBY CERTIFY: That the watercraft identified below is used  
( ) In the transportation by water of persons or property for hire in inter-state or foreign commerce.\*  
( ) In deep-sea fishing operations outside the territorial waters of this state.\*  
( ) In transporting for hire persons or property to vessels or offshore drilling platforms located outside the territorial waters of this state.  
That all tangible personal property which I shall purchase from

\_\_\_\_\_ described on purchase orders, or invoices, as tax exempt under Section 6368 of the Sales and Use Tax Law and Regulation 1594, consists of watercraft or tangible personal property becoming a component part of the watercraft in the course of constructing, repairing, cleaning, altering, or improving the same, which watercraft will be used principally in the operation checked above.

\*Note: Revenue and Taxation Code Section 6368 (b) creates a rebuttable presumption that you are not regularly engaged in commercial deep-sea fishing if your gross receipts from such operations are less than twenty thousand dollars (\$20,000) a year. Revenue and Taxation Code Section 6368 (c) creates a rebuttable presumption that the watercraft is not regularly used in interstate or foreign commerce if your yearly gross receipts from such operations do not exceed 10 percent of the cost of the watercraft or twenty-five thousand dollars (\$25,000), whichever is less.

Date Certificate Given \_\_\_\_\_

Purchaser \_\_\_\_\_  
(Company Name)

Address \_\_\_\_\_

Signed By \_\_\_\_\_  
(Signature of Authorized Person)

\_\_\_\_\_  
(Print or Type Name)

Title \_\_\_\_\_  
(Owner, Purchasing Agent, etc.)

Seller's Permit No., (if any) \_\_\_\_\_  
and/or

Fish and Game License No. \_\_\_\_\_

Names of Watercraft for which certifying purchaser will be making purchases:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# Sales of Watercraft Parts, Materials, and Supplies

*This section is a general guide to the application of tax to sales and purchases of watercraft parts, materials, and supplies. Generally, sales and purchases of these items are subject to tax. However, as with sales and purchases of watercraft, some special exemptions apply. If you have questions regarding the taxability of a particular item or transaction, you may contact our Customer Service Center for assistance at 1-800-400-7115 (CRS:711).*

## Component parts of tax-exempt watercraft

Sales of *component parts* of a watercraft are not taxable if the parts are an integral part of a vessel that is exempt from tax based on its principal use (as described in the first chapter, [Tax-Exempt Watercraft](#)). They must become part of the vessel as it is constructed, repaired, cleaned, altered, or improved. Component parts must be:

- Substantially affixed or attached to the exempt watercraft while in use; or
- An affixed part of the vessel.

In addition, property normally treated as an expense item for accounting purposes, and not substantially affixed or attached while in use, is not considered to be a component part. Sales of these items are also taxable.

If you are a seller of watercraft parts, you must obtain a watercraft exemption certificate from all purchasers who buy qualifying component parts for an exempt vessel; otherwise, you are liable for sales tax on the transaction. Please see sample [Watercraft Exemption Certificate](#).

You must clearly separate taxable and nontaxable items on sales documents, including, but not limited to, invoices, contracts, and purchase orders. You may wish to clearly mark each nontaxable item listed on your sales document in a way that refers to the watercraft exemption certificate on file. For example, you may identify each tax-exempt item with an asterisk (\*) and write the following on your sales document: "All items marked with an asterisk (\*) are exempt from sales or use tax per Watercraft Exemption Certificate dated \_\_\_\_\_."

For a listing of component parts that may be nontaxable, see the [Appendix: Component Parts and Taxable Items for Exempt Watercraft](#). For additional information, please see [Regulation 1594, Watercraft](#).

## Fishing equipment

Sales of fishing nets normally attached to a tax-exempt vessel when in use, and items that become part of the nets or are attached to them, are generally tax-exempt. These fishing nets and parts are considered to be component parts. Sales of nets that are set out on buoys or floats, and their parts, are taxable. Examples of taxable and nontaxable fishing equipment can be found in the Appendix: Component Parts and Taxable Items for Exempt Watercraft.

Similar types of fishing gear may be classified as nontaxable in one situation and taxable in another, depending on their use or the way in which they are attached.

## Navigational charts

Sales of hydrographic charts printed by the U.S. government are not subject to tax. Sales of coast and geodetic charts, however, are taxable.

## Repair supplies, parts, and materials

Sales of watercraft repair and refinishing supplies to ship and boat repairers are subject to tax. Examples include sandpaper, rags, paint thinners, solvents, paintbrushes, and pails. Sellers of these supplies should not accept a resale certificate or watercraft exemption certificate for the taxable items. The sale of paint to repairers is also taxable, unless the paint will be applied to exempt watercraft.

Boat repairers' sales of repair parts or materials are subject to tax if:

- The retail value of the parts is more than 10 percent of the total repair charge. When this occurs, parts and materials charges must be stated separately from repair labor or installation charges on repair invoices; or
- Separate charges are made for repair parts and materials, regardless of the value of the parts.

## Repairs to exempt watercraft

Sales of repair parts or materials that become component parts of exempt watercraft are exempt from sales tax. A watercraft exemption certificate should be provided to retailers when purchasing these component parts.

## Trailers

You must register for a Tire Fee account if you are a California retailer that sells new tires. The fee is imposed upon the retail purchase of a new tire. Tires that are subject to the fee include new tires sold separately from, or included with, the retail purchase of new or used motor vehicles, including trailers. The fee is \$1.75 per tire. You can keep one and a half (1.5) percent of the fees you collect as a reimbursement for your related costs. For more information, see [publication 91](#), *California Tire Fee*, or contact our Customer Service Center at 1-800-400-7115 (CRS:711).



## Fabrication, Repair, and Installation Labor

*Charges for labor may be subject to tax, as explained below. For more information, please see [Regulation 1546](#), Installing, Repairing, Reconditioning in General; [Regulation 1526](#), Production, Fabrication and Processing Property Furnished by Consumers—General Rules; and [publication 108](#), Labor Charges. These are also available by calling our Customer Service Center at 1-800-400-7115 (CRS:711).*

### Fabrication labor

If you charge for labor to *create or produce* a new item for a customer, the labor charges are taxable, whether you supply materials or use materials provided by the customer. Some examples include:

- Fabricating sails or dodgers
- Converting a fishing boat to a pleasure craft
- Making custom fishing nets

Labor charges for fabricating an exempt watercraft or a qualifying component or affixed part of an exempt vessel are not taxable.

### Repair labor

If you make a separately stated charge for labor to *repair or recondition* an item to restore its original use, the labor charge is not taxable. Some examples include:

- Repairing a boat's engines
- Repairing fishing nets
- Rebuilding a pleasure boat's cabin and enlarging its galley, as long as the boat remains a pleasure craft

### Installation of parts and equipment

Labor for installation of parts and equipment is not taxable. However, if installation occurs as part of fabricating an item in place, the whole labor charge is taxable (unless the item is affixed to a tax-exempt vessel). You should state installation charges separately from the other charges on your invoice or other sales document.



## Sales to Water Common Carriers

*Water common carriers are vessels for hire that transport people or property in interstate or foreign commerce. Special rules may apply to the sales of merchandise and fuel to common carriers, as described below.*

### Sales to common carriers

#### ***Sales of items to be used outside of California***

Sales of items (other than fuel and petroleum products) to a water *common carrier* are exempt from sales tax when the merchandise sold is:

- Shipped by the seller via the purchasing carrier's own transportation equipment, including trucks, ships, or planes,
- Shipped under a bill of lading, whether or not shipping charges are made,
- Shipped to a point outside this state,
- Transported to the out-of-state destination for use by the common carrier in the conduct of its regular business, and
- Used *only* after arrival at the out-of-state destination.

The carrier must be authorized to transport cargo over the California portion of the route under common carrier rights.

In addition, the seller must obtain a certificate from the purchaser stating that all of the requirements listed above apply to the transaction. A sample certificate can be found in [Regulation 1621, Sales to Common Carriers](#), or by calling our Customer Service Center at 1-800-400-7115 (CRS:711).

#### **Fuel and petroleum products**

From April 1, 2004, until January 1, 2029, sales of fuel and petroleum products to water common carriers may also be exempt from sales tax. The product sold must be immediately shipped outside the state and cannot be used until the carrier reaches its first out-of-state destination. The common carrier who makes the purchase must hold a valid seller's permit or a fuel exemption registration number.

The first out-of-state destination includes the entry point of the Panama Canal, even when the carrier will only pass through the Canal on the way to another destination.

#### ***Exemption certificate***

The common carrier must provide a written exemption certificate to the vendor stating the quantity of fuel or petroleum products that will be used after it reaches its first out-of-state destination. The certificate must include the common carrier's valid seller's permit number or valid fuel exemption registration number. Sellers accepting the certificate in good faith are not liable for the sales tax. A sample fuel exemption certificate, along with more detailed information on this type of transaction, can be found in Regulation 1621. For information on obtaining a fuel registration number, please see below.

### Registration

If you claim an exemption from sales tax on fuel or petroleum products as described above, and you are not required to hold a valid seller's permit, you still must register for a fuel exemption certification number (FEN). After you register with us, you may be required to place a security deposit and to file tax returns.

A FEN or seller's permit must be provided to retail fuel vendors with proof of the exemption as outlined in Regulation 1621.

If you are a water common carrier and have never held a FEN permit, you must obtain the permit before claiming the exemption. To apply for a new FEN permit, use our [Online Services](#), and under *Registration* select *Apply for a Fuel Tax Exemption*.

If your FEN permit has expired, you must renew and reinstate your FEN permit with us before claiming the exemption. To renew your FEN permit, use our *Online Services*, and under *Registration* select *Apply for a Fuel Tax Exemption*.

For assistance with any of these requirements, please contact our Customer Service Center at 1-800-400-7115 (CRS:711).

## Recordkeeping

To document that you have transported the amount of fuel or petroleum product claimed as exempt to an out-of-state destination, we may require you to provide records, including a copy of a log abstract or a cargo manifest. If you do not provide the records on request, we may revoke your fuel exemption number.

In addition, if you use property, fuel, or petroleum products in any way that violates the restrictions of the exemption claimed, you will be liable for payment of sales tax. The tax will be based on the amount you paid for the claimed exempt items, including any applicable penalties and interest.



## Appendix: Component Parts and Taxable Items for Exempt Watercraft

The following lists provide examples of taxable items and nontaxable component parts for exempt watercraft, as defined in previous chapters. (The tax exemption for component parts does not apply to parts sold or purchased for vessels that do not qualify for one of the watercraft principal use exemptions.) The lists are intended as a guide and do not include all items you may sell or purchase for exempt watercraft. Categories are listed in alphabetical order.

### Basic principles for determining taxability

Some items are taxable in one situation and nontaxable in another, depending on their use or method of attachment. If you have any questions regarding the application of the sale or purchase of a particular item, please contact our Customer Service Center at 1-800-400-7115 (CRS:711) for assistance.

### Nontaxable component parts

Sales of items listed as *nontaxable component parts* (including their parts) are not taxable *when the parts are substantially affixed or attached* to an exempt watercraft (or to one of its affixed parts) when in use. The parts must become part of the watercraft when it is constructed, repaired, cleaned, altered, or improved. Sales of items purchased for inventory or future use are taxable.

### Taxable items

Items listed as taxable are *not affixed or attached* to an exempt watercraft in a substantial manner when in use. Items that are consumed during normal application, such as solvents or soap, are also subject to tax.



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## Cleaning materials and gear

### Taxable items

Acids	Chloride of lime	Pails
Ammonia, household	Chore girls	Plumber's friend (force cup)
Baskets	Deodorants	Pumice stone
Benzene	Disinfectants	Rags and cheesecloth
Bleaches	Drums	Sal soda
Bricks, grill and range	Dust pans	Sand, scrubbing
Brooms	Emery cloth and powder	Sandpaper
Brushes	Handles for brooms or brushes	Sawdust
Buckets	Holystones	Soaps, solvents, detergents, cleansers
Cans	Insecticides	Sponges
Carpet sweepers, electric or hand	Lye	Squeegees
Caustic soda	Mops and swabs	Steel wool
Chipping hammers, power	Paint and varnish removers	

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## Dry goods (miscellaneous)

### Nontaxable component parts

Awnings  
Dodgers  
Filter cloth (used in or as component part of vessel)  
Flags and pennants (operational only)  
Hatch tarpaulins  
Hatch tents (carried on vessel)  
Sails  
Signal balls  
Material for making or repairing any of these items

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## Dunnage materials

### Taxable items

Fabrics  
Lumber (dunnage only)  
Paper

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## Environmental and fire control equipment

### Nontaxable component parts

Aqueous film forming foam (AFFF) systems  
Carbon dioxide (CO<sup>2</sup>) systems (including CO<sup>2</sup>)  
Fire hoses and nozzles  
General alarm system  
Oil spill booms  
Steam smothering lines and system

### Taxable items

Portable firefighting equipment, such as fire extinguishers, fire axes, protective clothing, and breathing apparatus.

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## Fishing gear

### Nontaxable component parts

Similar types of fishing gear may be classified as nontaxable in one situation and taxable in another, depending on their use or method of attachment. Please contact our Customer Service Center if you are unsure whether an item is taxable.

Fishing nets normally attached to the vessel when in use and items that become part of the nets or are attached to them.

Examples: drag nets, drift nets, lampara nets, and purse seine nets

### Taxable items

Bait well nets  
Crab gear  
Fish baskets  
Fish forks, spears, and darts  
Fish hooks  
Fishing nets set out on buoys or floats, and parts or attachments  
Floats for buoying nets and lines  
Gaff hooks  
Ice tongs, shavers, and picks  
Loading chutes  
Lobster gear  
Net needles  
Portable bait tanks  
Fish lures

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## Fuels, gases, lubricants, and compounds

### Taxable items

Bunker fuel

Compounds—grinding, boiler, testing, and treating

Flux

Gases, acetylene

Gasoline

Glycerine

Graphite

Greases

Ink, instrument

Kerosene

Oil—cutting, lubricating, storm, fuel

Oxygen

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## Furniture, furnishings, and entertainment equipment

### Nontaxable component parts

Athletic equipment (fixed)  
Furniture and furniture parts: beds, benches, bunks, chairs, lockers, springs, stools, tables  
Hospital and surgical equipment  
Televisions and VCRs  
Cassette and CD players  
Radio receiving sets (household type)  
Recreational equipment  
Rugs, carpets, mats, drapes, blinds, curtains, licenses and certificate frames, notices, pictures, shades, signs

*Please note:* Items that are usually moved from place to place in the watercraft, or stationary but not affixed to the vessel, are taxable.

### Taxable items

Athletic equipment (movable), such as medicine balls and horse-billiard sets  
Bed springs (not affixed)  
Books  
Cameras  
Cots  
Deck chairs  
Games, party gear, portable sports equipment, toys  
Portable stereo, radio, and video equipment  
Portable benches, chairs, divans, lamps, stands, stools, tables  
Portable hospital and surgical equipment, including portable first aid kits  
Stretchers and litters  
Wheelchairs

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## Galley and stewards' equipment

### Nontaxable component parts

Coffee urns  
Dishwashing machinery  
Griddles  
Mixing, grinding, and slicing equipment  
Ovens  
Steam kettles  
Steam tables  
Stoves  
Toasters

### Taxable items

Appliances (portable)  
Bath mats  
Bed sheets, spreads, and blankets  
Chinaware  
Crockery  
Crocks, bowls, bottles  
Electric irons  
Galley knives, forks, and spoons  
Glassware  
Laundry bags  
Lining paper  
Matches  
Mattresses and covers  
Metalware  
Mixing and grinding machines (portable)

Napkins  
Paper bags, towels, napkins, cups  
Percolators/coffee makers (portable)  
Pillows and pillowcases  
Pots and pans  
Steamtable inserts  
Tablecloths  
Table knives, forks, and spoons  
Toasters (portable)  
Toilet paper  
Toothpicks  
Towels  
Uniforms

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## Ground tackle and mooring equipment

### Nontaxable component parts

Anchors	Chocks
Anchor chains, links, and shackles	Cleats
Bumpers or fenders	Mooring lines—chain, wire, fiber

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## Hardware and accessories

### Nontaxable component parts

Bolts	Rivets
Brads	Screws
Glass—window, port	Spikes
Joiners hardware	Staples
Metal rods, sheets, rolls, bars, shapes	Tacks
Nails	Washers
Nuts	Wire cloth
Padlocks	Wire screen
Pins	

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## Lifesaving equipment

### Nontaxable component parts

Lifeboats and equipment (first aid kits, water containers, flashlights, and so on)  
Life rafts and equipment

### Taxable items

Portable lifesaving equipment such as ring buoys, life jackets, distress signals, flares, and rockets, when not part of a lifeboat or life raft.

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## Lights, electrical fixtures, and related items

### Nontaxable component parts

Batteries  
Electric wire and cable  
Lanterns—if affixed  
Lights—if affixed

### Taxable items

Lights and lanterns used *intermittently* at various locations and for various purposes in the ship, such as flashlights, battle lanterns, oil lamps, and portable electric lights with extension cords.

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## Lumber and lumber products

### Nontaxable component parts

Hatch boards  
Plugs  
Scupper splash boards  
Sign boards

### Taxable items

Lumber used for dunnage and other temporary, nonaffixed uses

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## Machinery and related items

### Nontaxable component parts

Boilers  
Capstan and warping engine  
Cargo winches  
Compressors  
Condensers  
Davits and lifeboat winches  
Firebrick, boiler cement, firebrick facing  
(example: chrome ore)  
Generators  
Temperature control systems and equipment  
Lighting systems and equipment  
Main engine

Motors  
Pipe and plumbing fittings  
Propellers  
Pumps  
Refrigeration equipment (including refrigerants)  
Sanitary systems and equipment  
Steering engine  
Tail shaft and shafting  
Topping lift winches valves  
Ventilating systems and equipment  
Windlasses

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## Machine shop equipment, tools, and miscellaneous equipment

### Nontaxable component parts

Anvils  
Drill presses  
Grinders  
Lathes  
Shapers  
Vises

### Taxable items

Adzes  
Awls  
Axes  
Bars—boring, chisel, claw, crimping, pinch,  
punch, slice, wrecking  
Bellows (portable)  
Bevels  
Bits for portable drills  
Blades—knife and saw  
Blowtorches  
Boiler testing apparatus  
Braziers  
Brushes, paint  
Calipers  
Chain, measuring  
Chisels—cold, pneumatic, wood  
Clamps, wood  
Cutters—bolt, boiler tube, cable, gasket  
(portable), glass, pipe, wire  
Detectors, leak  
Die nuts  
Dies—pipe and bolt



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## Machine shop equipment, tools, and miscellaneous equipment

### Taxable items (continued)

Dividers	Prickers, sail makers
Drills (portable)	Pump, barrel (portable)
Fids—metal and wood	Punches—arch, center, and so on (portable)
Figures, steel stamping	Ratchet, drilling
Files	Reamers
Forklift trucks	Rules—folding, steel, tape
Funnels	Saw frames
Gauges—depth, thickness, and so on	Saws
Gloves—leather, rubber	Scales—spring balance, platform (portable)
Goggles—chipping, welding	Scissors
Guns—air, grease, oil, soot remover, paint spray	Scoops
Hammers, pneumatic	Scrapers
Handles—composition, metal, wood	Screw drivers
Hatchets	Shears
Hoists (portable)	Shovels
Hooks, hand	Snake, plumber's
Irons, caulking	Snips
Irons, soldering	Sounding rod
Jacks	Squares
Keys, door and lock	Stencils
Knives—drawer, jack, linoleum, putty	Straddle carriers
Ladders, step	Surgical instruments
Levels	Tap and die sets
Machines, deck scrubbing and polishing	Tape, masking
Mallets	Tape, measuring
Measure—bulk, liquid	Tightener, chain
Meters (portable)	Tongs, blacksmith
Needles	Tool kit
Oil cans	Traps, rat and rodent
Packing tools	Trowel
Palms, leather	Welding set (portable)
Picks	Wrenches
Pitch payers	
Planes	
Pliers	
Plumb bob	
Pots—babbitt, glue, melting	

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## Miscellaneous

### Nontaxable component parts

Belting  
Cargo nets and slings  
Caulking materials  
Cement  
Container lift spreader  
Flexible ladders  
Gangways, accommodation ladders  
Gaskets  
Glue

Insulation material  
Packing  
Putty, plastic wood  
Save-alls (nets)  
Sealing compounds  
Solder  
Tapes—friction, linen, pipe  
wrapping, rubber

### Taxable items

Alcohol  
Dryers  
Thinners  
Turpentine

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## Navigation, communication, and administrative equipment

### Nontaxable component parts

Barometers  
Buzzer signal systems  
Clocks  
Compasses  
Computerized navigation aids  
Fluids for gauges or instruments  
Gauges  
GPS—global positioning systems  
Gyrocompasses  
Indicators  
Loran  
Meters  
Phone systems, cellular phones  
Public address systems  
Radar  
Radios  
Radio direction finder  
Recording instruments  
Satellite communication systems,  
INMARSAT  
Sounding machines  
(automatic or manual)  
Taffrail logs  
Thermometers

### Taxable items

Ammunition  
Battery acid  
Binoculars  
Blinkers (portable)  
Books  
Bosun's chairs  
Chart reading glasses  
Charts  
Chronometers  
Distilled battery water  
Dividers  
Firearms  
Flags, decorative and house  
Florescent tubes  
Handcuffs  
Horns, hand (portable)  
Light bulbs  
Maps  
Megaphones  
Powder charges for line throwing  
guns  
Radios—portable, hand  
Rat guards

Rulers, parallel  
Rules  
Safety belts  
Sailing directions  
Sextants  
Signal rockets and flares  
Stop watches  
Tide tables  
Typewriters (portable)

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## Office supplies

### Taxable items

Blotters	Printers
Books—composition, memo	Printing supplies
Calculators (portable)	Rubber bands
Crayons	Rulers
Carbon paper	Scotch tape
Chalk	Staple removers
Computers	Staplers
Envelopes	Staples
Erasers	Stamp pads
Ink, ink eradicator	Stamp, rubber
Paper	Stencils
Paper clips	Thumb tacks
Pencils	
Pen points	

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## Running gear, rigging, rigging fittings, and lashing equipment

### Nontaxable component parts

Batten bars  
Battens  
Blocks  
Booms  
Chain  
Clamps  
Fiber rope and lines  
Hooks  
Links and rings  
Masts  
Pulleys  
Shackles  
Spars  
Thimbles (eyes for rope or wire ends)  
Turnbuckles  
Wire rope

### Taxable items

Wire rope, chain, or fiber rope or lines not principally used for running gear, mooring, lashing or rigging, such as hand-held lines, heaving lines, and lines and chain used for miscellaneous purposes.

## For More Information

For additional information or assistance, please take advantage of the resources listed below.

### CUSTOMER SERVICE CENTER 1-800-400-7115 (TTY:711)

Customer service representatives are available Monday through Friday from 7:30 a.m. to 5:00 p.m. (Pacific time), except state holidays. In addition to English, assistance is available in other languages.

### OFFICES

Please visit our website at [www.cdtfa.ca.gov/office-locations.htm](http://www.cdtfa.ca.gov/office-locations.htm) for a complete listing of our office locations. If you cannot access this page, please contact our Customer Service Center at 1-800-400-7115 (TTY:711).

### INTERNET

[www.cdtfa.ca.gov](http://www.cdtfa.ca.gov)

You can visit our website for additional information—such as laws, regulations, forms, publications, industry guides, and policy manuals—that will help you understand how the law applies to your business.

You can also verify seller's permit numbers on our website (see [Verify a Permit, License, or Account](#)).

Multilingual versions of publications are available on our website at [www.cdtfa.ca.gov/formspubs/pubs.htm](http://www.cdtfa.ca.gov/formspubs/pubs.htm).

Another good resource—especially for starting businesses—is the California Tax Service Center at [www.taxes.ca.gov](http://www.taxes.ca.gov).

### TAX INFORMATION BULLETIN

The quarterly *Tax Information Bulletin* (TIB) includes articles on the application of law to specific types of transactions, announcements about new and revised publications, and other articles of interest. You can find current TIBs on our website at [www.cdtfa.ca.gov/taxes-and-fees/tax-bulletins.htm](http://www.cdtfa.ca.gov/taxes-and-fees/tax-bulletins.htm). Sign up for our [CDTFA updates](#) email list and receive notification when the latest issue of the TIB has been posted to our website.

### FREE CLASSES AND SEMINARS

We offer free [online](#) basic sales and use tax classes including a tutorial on how to file your tax returns. Some classes are offered in multiple languages. If you would like further information on specific classes, please call your local office.

### WRITTEN TAX ADVICE

For your protection, it is best to get tax advice in writing. You may be relieved of tax, penalty, or interest charges that are due on a transaction if we determine that we gave you incorrect written advice regarding the transaction and that you reasonably relied on that advice in failing to pay the proper amount of tax. For this relief to apply, a request for advice must be in writing, identify the taxpayer to whom the advice applies, and fully describe the facts and circumstances of the transaction.

For written advice on general tax and fee information, please visit our website at [www.cdtfa.ca.gov/email](http://www.cdtfa.ca.gov/email) to email your request.

You may also send your request in a letter. For general sales and use tax information, including the California Lumber Products Assessment, or Prepaid Mobile Telephony Services (MTS) Surcharge, send your request to: Audit and Information Section, MIC:44, California Department of Tax and Fee Administration, P.O. Box 942879, Sacramento, CA 94279-0044.

For written advice on all other special tax and fee programs, send your request to: Program Administration Branch, MIC:31, California Department of Tax and Fee Administration, P.O. Box 942879, Sacramento, CA 94279-0031.

### TAXPAYERS' RIGHTS ADVOCATE

If you would like to know more about your rights as a taxpayer or if you have not been able to resolve a problem through normal channels (for example, by speaking to a supervisor), please see [publication 70, Understanding Your Rights as a California Taxpayer](#), or contact the [Taxpayers' Rights Advocate Office](#) for help at 1-888-324-2798. Their fax number is 1-916-323-3319.

If you prefer, you can write to: Taxpayers' Rights Advocate, MIC:70, California Department of Tax and Fee Administration, P.O. Box 942879, Sacramento, CA 94279-0070.

## Regulations, forms, publications, and industry guides

Selected [regulations](#), [forms](#), [publications](#), and [industry guides](#) that may interest you are listed below. Spanish versions of certain publications are also available online.

### **Regulations**

- 1526 *Producing, Fabricating and Processing Property Furnished by Consumers—General Rules*
- 1546 *Installing, Repairing, Reconditioning in General*
- 1594 *Watercraft*
- 1610 *Vehicles, Vessels, and Aircraft*
- 1621 *Sales to Common Carriers*
- 1661 *Leases of Mobile Transportation Equipment*
- 1698 *Records*
- 1700 *Reimbursement for Sales Tax*
- 1821 *Foreword*
- 1823 *Application of Transactions (Sales) Tax and Use Tax*
- 1823.5 *Place of Delivery of Certain Vehicles, Aircraft and Undocumented Vessels*

### **Publications**

- 17 *Appeals Procedures: Sales and Use Taxes and Special Taxes and Fees*
- 44 *District Taxes (Sales and Use Taxes)*
- 51 *Resource Guide to Tax Products and Services for Small Businesses*
- 52 *Vehicles and Vessels: Use Tax*
- 61 *Sales and Use Taxes: Tax Expenditures*
- 70 *Understanding Your Rights as a California Taxpayer*
- 73 *Your California Seller's Permit*
- 74 *Closing Out Your Account*
- 75 *Interest, Penalties, and Collection Cost Recovery Fee*
- 76 *Audits*
- 79 *Documented Vessels and California Tax*
- 100 *Shipping and Delivery Charges*
- 101 *Sales Delivered Outside California*
- 106 *Combination Packages and Gift-Wrapping*
- 108 *Labor Charges*



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