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Q & A on Purchases of Vessels

Purpose: This Informational Publication:

- Describes the reduced tax rate for sales and purchases of vessels, motors for vessels, and trailers used for transporting a vessel.
- Describes the exemptions for the purchase or lease of a vessel.
- Describes the taxability of repair and maintenance services to vessels, as well as the exclusions from sales and use taxes for repair and maintenance services to vessels and fabrication labor on existing vessels.
- Describes the sales and use tax treatment of vessels purchased by federally recognized Indian tribes located in Connecticut.
- Clarifies that the sale of boat trailers to nonresident purchasers are exempt sales of motor vehicles.

Effective Date: Effective upon issuance and applicable to all open periods.

Statutory and Regulatory Authority: 2005 Conn. Pub. Acts 251, § 87; Conn. Gen. Stat. § 12-412(60); Conn. Gen. Stat. § 12-407(a)(2)(M); Conn. Gen. Stat. § 12-407(a)(24); Conn. Gen. Stat. § 12-407(a)(37)(CC) and Conn. Agencies Regs. § 12-407(2)(i)(DD)-1; Conn. Agencies Regs. § 12-407(2)(i)(M)-1; Conn. Gen. Stat. § 12-407(a)(37)(S) and Conn. Agencies Regs. § 12-407(2)(i)(S)-1; Conn. Gen. Stat. § 12-408(1)(D) as amended by Public Acts 2018, No. 18-81, § 63; Conn. Gen. Stat. § 12-411(1)(E) as amended by Public Acts 2018, No. 18-81, § 64; Conn. Gen. Stat. § 12-413a; Conn. Gen. Stat. § 15-127; Conn. Gen. Stat. § 15-142.

Definitions:

Permanent place of abode means a dwelling place permanently maintained by an individual, whether or not owned by, rented, or leased to such individual, and generally includes a dwelling place owned by or leased to his or her spouse. Generally, a barracks, motel room, or any construction which does not contain facilities ordinarily found in a dwelling

(such as facilities for cooking, bathing, etc.) is not deemed a permanent place of abode. A permanent place of abode need not be the person's legal or primary residence. (Also, a place of abode is not deemed permanent if it is maintained only during a temporary stay for the accomplishment of a particular purpose.) See Conn. Agencies Regs. § 12-701(a)(1)-1(e) for details on the meaning of permanent place of abode.

Presented for registration means a vessel registered with the DMV under Conn. Gen. Stat. § 15-142.

Required to be registered means a vessel obligated to display a Connecticut registration decal provided by the Connecticut Department of Motor Vehicles (DMV) under Conn. Gen. Stat. § 15-142(b). Conn. Gen. Stat. § 15-142(b) provides that a vessel that holds a valid marine document issued by the U.S. Coast Guard, a valid certificate of number awarded by the United States under the provisions of the federal Boat Safety Act of 1971, or a valid certificate of number awarded by another state will be required to display a Connecticut registration decal when it is used upon the waters of this state for more than 60 days in any calendar year.

Resident includes any individual who is domiciled in Connecticut. Domicile, in general, is the place which an individual intends to be his or her permanent home and to which the individual intends to return whenever absent as defined under Conn. Agencies Regs. § 12-701(a)(1)-1(d). A resident includes a person who has a valid Connecticut driver's license or is registered as a Connecticut voter.

A business entity also may be a resident for purposes of the exemption. (See Question 5 for details.)

Vessel as defined in Conn. Gen. Stat. § 15-127 means every description of watercraft, other than a seaplane on water, used or capable of being used as a means of transportation on water.

Repair services mean mending or bringing back to working order or operating condition a vessel that is broken, damaged, malfunctioning, or defective.

Repair services include repair work on any part of a vessel even if performed in a separate location from the vessel itself. Repair services to vessels include, but are not limited to, repairs to sails, sail covers, boat awnings, masts, inboard motors, and outboard motors.

Maintenance services mean sustaining or maintaining safe, efficient, or continuous operation of a vessel or keeping a vessel in good working order. Maintenance services include maintenance work on any part of a vessel even if performed in a separate location from the vessel itself. Maintenance services to vessels include, but are not limited to, services such as shrink wrapping, washing, painting, staining, varnishing, and polishing vessels.

Integral part means a part such as a mast, motor, motor part, or gauge that retains its separate identity even after being incorporated into the vessel undergoing repair or maintenance. The term integral part does not include a material such as lubricant, stain, paint, varnish, polish, wire, solder, or glue that does not retain its separate identity after repair or maintenance services to the vessel.

Maintenance contract means a contract for maintenance service to be performed to a vessel in the future.

Repair contract means a contract for repair services to be performed to a vessel that is broken, damaged, defective, or malfunctioning when the parties enter into the contract.

Warranty contract means a contract for repair services to a vessel to be performed if the vessel malfunctions in the future.

Fabrication labor means labor to customize an existing vessel or assemble components onto an existing vessel for a customer who furnishes, either directly or indirectly, the materials for the vessel. Fabrication labor also means labor to customize an existing vessel or assemble components onto an existing vessel when the fabricator also sells the materials used to fabricate the vessel to the customer.

Existing vessel means a vessel owned by the customer before the labor is performed to it.

Tax Rates:

The sales tax rate of 6.35% applies to the retail sale of most goods.

However, there is a reduced sales tax rate of 2.99% on sales and purchases of vessels, motors for vessels, and trailers used for transporting a vessel. Only a vessel that is of a type that must be registered with the DMV qualifies for the tax rate of 2.99%.

Vessels of the following types must be registered with the DMV, and qualify for the 2.99% rate:

- All **motorboats**, which are defined as any watercraft fitted with propulsion machinery, whether or not such machinery is the principal source of propulsion;
- All vessels with a length of 19 ½ feet or more that are not motorboats and are not propelled solely by paddles or oars (e.g., sailboats); **and**
- Personal watercraft such as jet skis.

Vessels propelled solely by paddles or oars, and vessels less than 19 ½ feet in length that are not motorboats, are not required to be registered with DMV and are not eligible for the reduced 2.99% tax rate.

Sellers report the total gross receipts from sales of vessels, motors for vessels, and trailers used for transporting a vessel at the 2.99% rate on Line 1 of **Form OS-114, Connecticut Sales and Use Tax Return**. Then follow the instructions for Line 84 of the return; multiply the applicable gross receipts by .5291 and enter the result on Line 84, Column 1. By reducing the gross receipts of these sales, the effective tax rate is 2.99%.

An individual who is required to report use tax must report taxable purchases made in the preceding year on which sales tax was not paid on their Connecticut income tax return or on **Form OP-186, Connecticut Individual Use Tax Return**.

1. Are sales of vessels to residents taxable?

Yes. Sales of vessels to Connecticut residents are subject to tax.

Conn. Gen. Stat. § 12-430(4) provides a trade-in credit for a vessel traded in to a retailer of vessels toward the purchase of another vessel. The tax is computed on the difference between the sales price of the vessel being purchased and the trade-in amount allowed on the vessel purchased. The trade-in must occur at the same time as the sale and purchase.

2. Are there any sales and use tax exemptions available on sales or purchases of vessels?

Yes. The exemptions available for sales and purchases of vessels include:

- Sales of vessels that will be docked in Connecticut for 60 or fewer days in a calendar year.
- Vessels purchased by nonresidents who maintain no permanent place of abode in Connecticut and who will not register them in Connecticut.

- Commercial fishing vessels and machinery or equipment for use on the vessels. See **Informational Publication 2009(14)**, *Fisherman's Guide to Sales and Use Taxes and Estimated Income Tax*.
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3. How does a purchaser claim an exemption for purchases of vessels docked in Connecticut for 60 or fewer days in a calendar year?

A purchaser should use **CERT-143**, *Sales and Use Tax Exemption for Purchases of Vessels Docked in Connecticut for 60 or Fewer Days in a Calendar Year*, in connection with the purchase of a vessel exempt from sales and use taxes from a Connecticut retailer when the vessel is intended to be docked in Connecticut for 60 or fewer days in a calendar year.

4. How does a nonresident individual qualify for an exemption from sales and use taxes on vessel purchases?

An individual qualifies for exemption under Conn. Gen. Stat. § 12-412(60) only if:

- The individual is not a Connecticut resident;
 - The individual does not have a permanent place of abode in Connecticut;
 - The vessel is neither presented for registration nor required to be registered with the DMV; **and**
 - The individual furnishes a fully completed **CERT-139**, *Sales and Use Tax Exemption for a Vessel Purchased by a Nonresident of Connecticut*, to the retailer by the time of delivery.
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5. How does a business entity qualify for an exemption?

A corporation, limited liability company, partnership, or other business entity qualifies for exemption under Conn. Gen. Stat. § 12-412(60) only if:

- The business maintains no Connecticut location and owns no fixed assets located in this state;
- No officer, member, or partner of the entity or its affiliates and no operator or user of the vessel with an ownership interest in the entity is a resident of Connecticut or is a nonresident that maintains a permanent place of abode in Connecticut; **and**
- The vessel is neither presented for registration nor required to be registered with the DMV.

If these conditions are met, the purchaser may furnish a fully completed CERT-139 to the retailer at the time of purchase.

6. How is an exemption for nonresidents claimed?

The purchaser must submit a fully completed CERT-139 to the retailer in order to claim the exemption. The CERT-139 must be completed in full by the time of delivery, and signed by both the purchaser (purchasers, if a joint purchase) and the retailer.

The retailer must accept the fully completed CERT-139 in good faith. This means that if the retailer has any reason to believe the purchaser does not qualify for the exemption, the retailer cannot accept the CERT-139 and must charge tax on the sale. If the Department of Revenue Service (DRS) finds the retailer should not have accepted the certificate, DRS may hold either the purchaser or the retailer liable for sales and use taxes plus interest and penalty.

The retailer must report the sale for the tax period in which it is made on Form OS-114, Line 1, *Gross receipts from sales of goods*, and deduct it on Line 36, *Sales of motor vehicles or vessels purchased by nonresidents*. The retailer must keep the original CERT-139 and the sales invoice in its records for at least six years from the date of sale.

7. Can a dealer accept or complete CERT-139 after the sale, such as during an audit?

No. CERT-139 must be fully completed and signed by the purchaser(s) and retailer **by the time of delivery**. If it is not, the retailer can be held liable for sales tax, interest, and penalty on the transaction.

8. What if a nonresident purchaser has a resident as a co-signer?

If a resident of Connecticut co-signs a note, the transaction qualifies for the exemption as long as the title to the vessel and the purchase invoice are in the name of only the nonresident purchaser. If the names of both the resident co-signer and the nonresident purchaser are on the title and purchase invoice, the purchase does not qualify for exemption.

9. How can a nonresident purchaser prove to another state that Connecticut tax has been paid?

If a purchaser who will present a vessel to another state for registration does not qualify for an exemption and pays Connecticut sales tax on the transaction, the purchaser can present a **Form AU-677**, *Declaration of Payment of Connecticut Sales and Use Tax on a Motor Vehicle or Vessel*, to the other state's department of motor vehicles. Many states will allow the Connecticut sales tax paid to be credited against their own tax.

10. Are the services of a vessel broker subject to sales and use taxes?

No. Sales of marine vessel brokerage services provided by marine vessel brokers selling the vessels for the owners are exempt.

11. Are repair and maintenance services to vessels taxable?

No. Repair and maintenance services to vessels are exempt from tax. Providers of repair and maintenance services must separately state charges for repair and maintenance services from charges for integral parts on the bill to the customer and charge the appropriate tax on the integral parts. Any additional fees, such as hourly or flat rates, minimum charges or mileage charges, are charges for repair and maintenance services and are not taxable.

12. What documentation for the repair and maintenance services exemption should a service provider obtain?

Boat yards, marine dealers, and other businesses that repair vessels on a routine or ongoing basis are not required to obtain documentation from their customers to prove their repair and maintenance services are performed to vessels.

However, businesses that do not specialize in vessel repairs should obtain a copy of their customer's vessel registration to prove that the item being repaired is part of a vessel. The copy of the vessel registration should be attached to a copy of the customer's bill or invoice and retained with the service provider's records. For example, if a customer brings a radio or radar equipment used on a vessel to a repairer that does not specialize in vessel repairs, a copy of the vessel registration is sufficient documentation to support the exemption for repair and maintenance services to vessels.

13. May a repair or maintenance service provider make purchases on resale?

Yes. The provider of repair or maintenance services may purchase integral parts without payment of tax by issuing a resale certificate to the supplier. The service provider must pay 6.35% tax on purchases of materials and supplies that are not integral parts used in providing repair or maintenance services, because they are the consumers of these items.

14. Are vessel maintenance, repair, and warranty contracts subject to sales and use taxes?

No. Maintenance, repair, and warranty contracts purchased for vessels or vessel parts such as motors, radios, and radar are not subject to tax. A maintenance, repair, or warranty contract for a vessel is not taxable regardless of whether it is sold at the same time as the vessel or after the vessel to which it relates is sold.

Materials, supplies, and parts used to fulfill maintenance, repair, and warranty contracts are generally subject to 6.35% tax. Motors for vessels are subject to the 2.99% tax rate. The service provider of a maintenance, repair, or warranty contract for a vessel is usually the final consumer of parts, materials, and supplies used to fulfill these contracts and should pay tax on these purchases. Service providers making untaxed purchases of integral parts used to service these contracts must collect sales tax on the charge for the integral parts to the customer.

Any additional charge for integral parts a customer is required to pay under the terms of a maintenance, repair, or warranty contract to service a vessel is taxable. However, any additional charge for repair or maintenance services performed on a vessel a customer is required to pay under the terms of a maintenance, repair, or warranty contract is not taxable.

15. Are boat trailers taxable?

Sales of boat trailers to Connecticut residents are taxable at the 2.99% tax rate, if the trailer is for a vessel that qualifies for the 2.99% rate. However, sales of boat trailers to nonresidents are exempt under Conn. Gen. Stat. § 12-412(60) as sales of motor vehicles. See **Informational Publication 2004(27), Q & A on Purchases of Motor Vehicles by Nonresidents**, which describes the exemption for the purchase or lease of a motor vehicle by a nonresident of this state. Nonresident purchasers of boat trailers must use **CERT-125, Sales and Use Tax Exemption for a Motor Vehicle Purchased by a Nonresident of Connecticut**.

Repair and maintenance services to boat trailers are subject to 6.35% tax if the repairs are made in Connecticut. The sale of integral parts for boat trailers is also subject to 6.35% tax. If the repairs are made within Connecticut, the sale of the repair services are taxable even if:

- The materials consumed in performing the services were purchased outside Connecticut;
- Some of the work with respect to the services is performed for a repairer outside Connecticut; **or**
- The purchaser of the services is a nonresident.

However, when a Connecticut repairer picks up a trailer from outside Connecticut, or a trailer is shipped from outside Connecticut to the repairer in Connecticut, the trailer is repaired in Connecticut, and then is delivered or shipped to the customer at an out-of-state location, the repair services, and any integral parts sold with the services, are not taxable in Connecticut. For more information, see Conn. Agencies Regs. § 12-407(2)(i)(M)-1(e).

16. Is fabrication labor to existing vessels subject to sales and use taxes?

No. Fabrication labor to existing vessels is not taxable. However, the sales of materials, supplies, and parts in connection with fabrication labor remain subject to tax. Charges for fabrication labor to existing vessels are exempt from tax if the charges for materials, supplies, and parts are separately stated from the labor charges on the bill or invoice to the customer. If the charge for materials, supplies, and parts is not separately stated from the charge for fabrication labor to the existing vessel, the total charge on the bill or invoice to the customer is presumed to be subject to tax.

17. Are boat mooring and storage services taxable?

Yes, but only for part of the year. The transfer for consideration of space or the right to use any space for the purpose of storage or mooring of any noncommercial vessel is taxable, **except** for dry or wet storage, or mooring of any noncommercial vessel from October 1 through and including May 31 of the following year.

From October 1 through and including May 31 of the following year, vessels that would not otherwise be subject to Connecticut sales and use taxes are not subject to use tax when the vessels enter this state exclusively for purposes of: (1) delivery of the vessel to a facility in Connecticut for storage, including dry storage and storage in water by means of apparatus preventing ice damage to the hull, maintenance, or repair, or (2) the actual process of storage, maintenance, or repair of the vessel.

Connecticut dues tax is imposed on any amount (including charges for mooring and storage) paid as dues to any social, athletic, or sporting club. Charges for the mooring and storage of noncommercial vessels are also subject to the dues tax without regard to the time of year.

18. Can an Indian tribe located in Connecticut purchase tax-exempt a vessel to be awarded as a prize?

Yes. A federally recognized Indian tribe located in Connecticut that purchases vessels intended as awards to casino patrons may purchase the vessels without paying tax by providing the dealer with a completed **CERT-127, Exempt Purchases by an Enrolled Member or by the Tribal Government of the Mashantucket Pequot Tribe or Mohegan Tribe**. Amounts paid by patrons as wagers are not consideration for the vessels awarded by the casino, and no sales or use taxes apply to the wagers.

19. Is an enrolled member of an Indian tribe located in Connecticut who lives in Connecticut required to pay tax on the purchase of a vessel?

Yes. The individual must pay tax on the purchase of a vessel.

20. Is dyed diesel fuel sold by licensed marine dock owners or operators subject to sales tax?

Dyed diesel fuel sold to the owner or operator of marine fuel docks exclusively for marine purposes is exempt from motor vehicle fuels tax. Due to this legislation, the sale of exempt dyed diesel fuel by licensed marine dock owners or operators is subject to sales tax at the 6.35% rate because the exemption under Conn. Gen. Stat. § 12-412(15)(B) no longer applies.

Effect on Other Documents: Informational Publication 2006(12), Q & A on Purchases of Vessels is modified and superseded. **Informational Publication 2003(11), Q & A: The Dues Tax** is modified and superseded in part.

Effect of This Document: An Informational Publication issued by the Department of Revenue Services (DRS) addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Visit the DRS website at portal.ct.gov/DRS to download and print Connecticut tax forms and publications.

Paperless Filing/Payment Methods (fast, easy, free, and confidential): Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** at portal.ct.gov/TSC to file a variety of tax returns, update account information, and make payments online.

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