



Tax on Watercraft

Informational Bulletin

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For information or forms...

- ◆ Call us at:
1 800 732-8866 or
217 782-3336
- ◆ Call our TDD
(telecommunications device
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- ◆ Write us at:
Illinois Department of Revenue
P.O. Box 19044
Springfield, IL 62794-9044
- ◆ Visit our Web site at:
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- ◆ Call
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Forms Order Line at:
1 800 356-6302

This bulletin is written to inform you of recent changes; it does not replace statutes, rules and regulations, or court decisions.

To:

- 1 Individuals, businesses, and other entities who acquire watercraft through gift, donation, transfer, or non-retail purchase
- 2 All watercraft lessors

Effective **September 1, 2004**, tax is owed when a watercraft is acquired by gift, donation, transfer, or non-retail purchase if the watercraft will be used in Illinois.

Note: For the purposes of this bulletin, the term "non-retail purchase" means a purchase from a person or entity that is not in the business of selling watercraft at retail.

Generally, two groups are affected by these changes —

- ◆ **individuals, businesses, and other entities** who will use a watercraft in Illinois that was acquired by gift, donation, transfer, or non-retail purchase; and
- ◆ **lessors** who are engaged in the business of leasing or renting watercraft and who sell a used watercraft in connection with that business to a purchaser who will use the watercraft for his or her own use.

Individuals, businesses, and other entities should read the section in this bulletin titled, "Watercraft Use Tax."

Lessors should read the section in this bulletin titled, "Sales of Watercraft by Lessors."

How is "watercraft" defined?

For the purposes of this bulletin, the term "watercraft" includes

- ◆ Class 2, Class 3, and Class 4 watercraft as defined in Section 3-2 of the Boat Registration and Safety Act; and
- ◆ personal watercraft as defined in Section 1-2 of the Boat Registration and Safety Act (jet skis, wave runners, etc.).

The term "watercraft" **does not** include

- ◆ Class 1 watercraft as defined in Section 3-2 of the boat and Safety Registration and Safety Act, or
- ◆ canoes and kayaks.

Watercraft Use Tax

You must pay Watercraft Use Tax if you use a watercraft in Illinois that was acquired by gift, donation, transfer, or non-retail purchase.

On what amount must Watercraft Use Tax be paid?

You must pay Watercraft Use Tax on the watercraft's purchase price, including the value of any motor sold with, or as part of, the transaction.

Note: If you purchase or acquire a **share** of a watercraft, you must pay Watercraft Use Tax on the share's purchase price.

The term "purchase price" is defined below.

- ◆ Except for transactions between immediate family members, the purchase price is the fair market value on the date the watercraft or share of watercraft was acquired or brought into Illinois, whichever is later, unless you can demonstrate that another value is reasonable.
- ◆ In cases of transfers between immediate family members, the purchase price is the amount actually paid unless it appears from the facts and circumstances that the primary motivation for the transfer was to avoid the payment of tax.

If you acquired the watercraft outside Illinois before you brought it into Illinois, you will receive a credit for tax properly due and paid to another state.

Note: You may not receive credit for any watercraft that you used as a trade-in.

What is the tax rate?

The tax rate is 6.25 percent of the purchase price of the watercraft or share of the watercraft.

How do I report the tax?

You must file Form RUT-75, Aircraft/Watercraft Use Tax Return, no later than 30 days from the acquisition date or the date the watercraft is brought into Illinois, whichever is later.

Note: You must submit proof of tax payment or proof of exemption before your watercraft registration will be issued by the Illinois Department of Natural Resources.

Are any transactions exempt?

Certain transactions are exempt under the Watercraft Use Tax Act. These transactions are listed below.

- ◆ The transaction is already taxed under the Illinois Use Tax Act. For example, the watercraft is purchased from an out-of-state retailer. This type of transaction is taxed and reported on Form RUT-25, Use Tax Transaction Return.
- ◆ The watercraft is acquired by an exempt organization that has been issued an active exemption number by the Illinois Department of Revenue.
- ◆ The watercraft is acquired by an interstate carrier for hire for use as rolling stock to transport persons or commodities in interstate commerce.
- ◆ The watercraft is a gift to a beneficiary in an estate and the beneficiary is the surviving spouse.
- ◆ The watercraft is exempted from the numbering provisions of Section 3-12 of the Boat Registration and Safety Act. However, tax is owed if the watercraft
 - is exempted from the numbering provisions under paragraphs A, B, C, F, or G, **and**
 - is used on Illinois waters for more than 30 days in any calendar year.
- ◆ The watercraft is acquired outside Illinois and, after being brought into

Illinois and stored here temporarily, is removed and never returned to Illinois.

What happens if I do not pay the tax or I pay late?

You owe a **late filing penalty** if you do not file a processable return by the due date, a **late payment penalty** if you do not pay the amount you owe by the original due date of the return, a **bad check penalty** if your remittance is not honored by your financial institution, and a **cost of collection fee** if you do not pay the amount you owe within 30 days of the date printed on an assessment. We will bill you for any amounts owed. For more information, see Publication 103, Uniform Penalties and Interest. To receive a copy of this publication, visit our web site at www.ILtax.com, or call 1 800 356-6302.

Sales of Watercraft by Lessors

Effective **September 1, 2004**, you are considered a retailer under the Retailers' Occupation Tax Act if you are engaged in the business of leasing or renting watercraft and you sell a used watercraft in connection with your business to a purchaser who will use the watercraft for his or her own use.

On what amount must tax be paid?

When you sell a watercraft, you must pay sales tax on the watercraft's selling price, minus any trade-in credit.

What is the tax rate?

Generally, the tax rate is 6.25 percent. Your rate may be higher if units of local government have imposed taxes. Booklet ST-25, Sales Tax Rate Reference Manual, lists all tax rates for each tax location in Illinois. We update this manual in January and July of each year. This document is available on our web site.

How do I report the tax?

You must file Form ST-556, Sales Tax Transaction Return, 20 days after the date the watercraft is delivered. Contact

our Central Registration Division to properly register as a retailer of watercraft and obtain the necessary ST-556 forms.

Note: The watercraft **cannot** be registered with the Illinois Department of Natural Resources until tax is paid or proof that the transaction is exempt from taxation is submitted.

Are any transactions exempt from tax?

Any transaction currently exempt under the Retailers' Occupation Tax Act is an exempt transaction. You must be able to document the exempt sale. For more information, see the instructions for Form ST-556, or Booklet ST-9, A Guide for Reporting Sales Using Form ST-556, Sales Tax Transaction Return.

What happens if I do not pay the tax or I pay late?

You owe a **late filing penalty** if you do not file a processable return by the due date, a **late payment penalty** if you do not pay the amount you owe by the original due date of the return, a **bad check penalty** if your remittance is not honored by your financial institution, and a **cost of collection fee** if you do not pay the amount you owe within 30 days of the date printed on an assessment. We will bill you for any amounts owed. For more information, see Publication 103, Uniform Penalties and Interest. To receive a copy of this publication, visit our web site at www.ILtax.com or call 1 800 356-6302.

Questions?

If you have questions or need more information, please call or write us. Our telephone numbers and address are printed on the front left side of this bulletin.