

June 2016

This Tax Fact Sheet is designed to explain to boat dealers and owners how tax applies to items and services sold and purchased. If your specific question is not answered in this Tax Fact Sheet please call our toll-free helpline at 1-800-829-9188 weekdays from 8-5 CST.

Information found in this document rescinds and replaces all previous, written information on this subject. All readers and users of this publication are responsible for keeping informed about changes in tax laws and regulations by reading the Department of Revenue newsletters, press releases, Tax Facts, and other documents published by the department.

## **Large Boats**

Large boats are subject to the 3% motor vehicle excise tax in lieu of sales tax. South Dakota law defines a large boat as “any boat over twelve feet in length or a motorboat, used or capable of being used as a means of transportation on water, except canoes, inflatable boats, kayaks, sailboards and seaplanes.”

The motor vehicle excise tax applies to the total purchase price, including delivery charges.

South Dakota residents purchasing or acquiring large boats must apply to their county treasurer within 45 days of the purchase or acquisition for a certificate of title and registration.

## **Other Watercraft**

The following do not fall within the definition of large boats:

- Canoes
- Inflatable boats
- Kayaks
- Sailboards

These watercraft are subject to the state 4.5% sales or use tax plus applicable municipal tax. These watercraft cannot be titled.

## **Seaplanes**

Seaplanes are subject to the state aeronautics tax. Contact the South Dakota Department of Transportation for more information.

## **Personal Watercraft**

Personal watercraft, such as jet skis, are subject to the 3% motor vehicle excise tax in lieu of sales tax. South Dakota residents purchasing or acquiring personal watercraft must apply to their county treasurer within 30 days of the purchase or acquisition for a certificate of title and registration.

## **Boat Accessories and Equipment**

Boat accessories and equipment are subject to the 4.5% state sales tax and applicable municipal tax. Items that are normally attached to a large boat and are included in the purchase price are subject to the 3% motor vehicle excise tax. Items normally attached to a large boat are motors, boat covers, oars and depth finders.

## **U.S. Coast Guard Documented Boats**

A boat registered and documented with the Coast Guard is subject to the 3% excise tax. Coast Guard Documented Boats are not required to obtain a title or display a South Dakota boat number.

Before a Coast Guard Documented Boat may be used on the waters of this state it must be registered and display a South Dakota license validation decal on each side of the boat. The owner should register the boat at the county treasurer’s office. If tax has previously been paid by the applicant to another state, the owner must furnish proof that sales or use tax was paid.

A Coast Guard Documented Boat owned by a nonresident must be registered in South Dakota if the boat is here for more than 60 days or is berthed in a marina facility controlled by the state for a contract period of more than 60 days.

A nonresident does not owe use tax on a boat that is in South Dakota on a temporary basis for personal use.

## **Boat Registration**

Boats requiring registration are annually licensed under a staggered registration system, with decals expiring the last day of the month of the year for which they are issued.

Application for title and registration is made to the county treasurer’s office of the applicant’s residence. The county treasurer will issue the applicant a registration stating the assigned boat number, a description of the boat and the name and address of the owner. The registration must be kept in the boat available for inspection.

When registering a boat that is not required to be titled, the registrant must show proof that sales tax was paid.

## **Nonresident Boat Registration**

A boat must be registered if it is in South Dakota for more than 60 days or is berthed in a marina facility controlled by the state for a contract period of more than 60 days.

### **Boat Trailers**

Boat trailers are subject to the 4% motor vehicle excise tax. Because boats and boat trailers are titled separately, the dealer must separate the purchase price of each on the invoice for tax purposes. Boat trailers are required to be titled and must be registered every year.

A South Dakota resident purchasing or acquiring a boat trailer must apply to their county treasurer within 45 days of the purchase or acquisition for a certificate of title and registration.

### **Trade-ins**

If a boat, watercraft or boat trailer is traded toward the purchase of another boat, watercraft or boat trailer, credit will be given for the value of the trade-in. Tax will apply to the total purchase price of the boat or boat trailer, including any delivery charges, less the amount allowed for the trade-in.

### **Out-of-State Purchases**

The South Dakota motor vehicle excise tax is due on the purchase price, including delivery charges, of large boats, personal watercraft or boat trailers purchased out-of-state. Credit will be given for tax legally paid to another state. If the tax paid that state is equal to or greater than the tax due in South Dakota, additional tax is not due.

The motor vehicle excise tax is paid to the county treasurer at the time of titling and registration. A copy of the invoice must be provided to the county treasurer to document the purchase price and all taxes paid.

The 4.5% state use tax, plus applicable municipal tax is due on boats purchased out-of-state that are not required to have a South Dakota title. Credit will be given for sales or use tax legally paid to another state. If the amount of sales or use tax paid the other state is equal to or greater than the use tax due in South Dakota, additional tax is not due.

Use tax is paid directly to the Department of Revenue. For more information on use tax view Use Tax Everyone's Responsibility Tax Fact, at <http://dor.sd.gov/> or request a copy by calling 1-800-829-9188.

If a boat must be registered, but not titled, proof that sales or use tax was paid must be provided to the county treasurer at the time of registration.

Sales or use tax is due on boats delivered to SD, provided the boat is exempt from the motor vehicle excise tax, even if another state's tax has been paid. The tax is based on the purchase price including delivery.

If a boat or boat trailer is delivered by a South Dakota dealer or a transportation company hired by the purchaser to a location outside South Dakota, South Dakota tax does not apply.

### **Examples**

John Doe from Yankton, SD purchases a canoe in Norfolk, NE and brings it back to South Dakota. He is charged Nebraska sales tax at the time of purchase because he took possession in Nebraska. The Nebraska tax was legally imposed and South Dakota will grant him credit for the tax he paid. If the amount of tax that he paid in Nebraska is less than the amount of South Dakota tax due, he will owe the difference.

Jane Deer from Vermillion, SD contacts the same Norfolk, NE dealer to purchase a canoe. Instead of picking up the canoe, she arranges to have the dealer deliver it to her in Vermillion. The Nebraska dealer charges her Nebraska sales tax. Because possession was taken in South Dakota, the Nebraska tax was not legally imposed and a credit will not be granted. Ms. Deer owes South Dakota use tax on the purchase price of the canoe, including delivery charges.

### **Municipal Tax**

Many municipalities in South Dakota have a sales and use tax in addition to the state sales tax. If the customer receives a product or service in one of these municipalities, the product or service is subject to that municipality's sales tax. A list of municipal tax rates is available on our website at <http://dor.sd.gov/> or by calling 1-800-829-9188.

### **Sales Tax Exempt Entities**

Accredited schools, non-profit hospitals, approved relief agencies and government entities are exempt from sales and use tax.

The seller must keep proof of payment from the exempt purchaser. Accredited schools and relief agencies have numbers assigned by the department that should be provided to the seller.

### **Motor Vehicle Excise Tax Exempt Entities**

Boats and trailers are exempt from the motor vehicle excise tax if owned by one of the following:

- The United States
- The State of South Dakota
- A South Dakota county, municipality or township
- A public or nonpublic school accredited by the Department of Education and Cultural Affairs
- An Indian tribe or school
- A nonprofit adjustment training center

### **Required Records**

Boat dealers must have a South Dakota boat dealer's license and a sales tax license, if applicable, for each place of business within the state. Records, such as purchase and sales invoices, bills of lading, books of all receipts and sales, cash register receipts, and other pertinent papers and documents, must be kept for at least five years and be available for inspection during business hours.

## **Repair Services**

Services such as boat repair, body repair, and customizing are subject to state and municipal sales tax. Repair services are taxed where the customer takes receipt of the service. If the item is picked up by the customer at the repair shop, the tax applies at the repair shop. If the repaired item is delivered to the customer's location, the tax applies at the customer's location.

## **Repair of Inventory**

Sales tax does not apply to repairs or replacement parts on boats, watercraft or trailers for sale in a dealer's inventory. Replacement parts are defined as parts that will remain with the property for an indefinite period of time and include items such as: tires, lights, bodywork, hoses, belts, spark plugs, and batteries.

The dealer may take parts from their inventory to repair dealer-owned inventory without reporting use tax on these items. They may also sublet repairs to body shops, electrical repair shops, upholstery shops, etc. When sublet repair services are performed on dealer owned inventory, the repair shop should obtain an exemption certificate.

### **Example**

A boat which has been taken in on trade is taken to a body shop for repair. The body shop repairs the boat and bills the dealer. The boat dealer intends to resell the boat. The body shop should obtain an exemption certificate from the dealer and not charge sales tax.

The use tax exemption does not include routine maintenance items such as oil, windshield washer fluid, antifreeze, filters, detailing or cleaning services. Items taken from the dealer's inventory for routine maintenance are subject to use tax, even though the boat, watercraft or trailer is held for sale. In addition, routine maintenance products and services purchased from other shops are subject to sales tax and they cannot be purchased for resale.

Parts used to repair boats, watercraft or trailers the dealer rents or leases to others, or are otherwise used by the dealer, are subject to use tax.

## **Sales for Resale**

A boat dealer may sell his or her services or products for resale if the buyer provides an exemption certificate. It is the buyer's responsibility to know when a service or product qualifies as a sale for resale. The seller is responsible for maintaining a complete exemption certificate. For more information on sales for resale view the Exemption Tax Fact on our website at <http://dor.sd.gov/> or request a copy by calling 1-800-829-9188.

## **Warranties and Extended Service Contracts**

A warranty or extended service contract included in the price of a large boat, personal watercraft, or trailer is also subject to the motor vehicle excise tax.

Sales tax applies to warranties or extended service contracts included in the price of boats that are subject to sales tax. A warranty or extended service contract sold separately from the boat, watercraft, or trailer is subject to 4.5% state sales tax, plus applicable municipal tax where the warranty or service contract is sold.

Parts and labor furnished by a dealer to fulfill a warranty or extended service contract obligation are not subject to sales or use tax provided the customer is not charged for such parts or labor. The dealer's receipts from the manufacturer for warranty work are not taxable.

Payments received from the customer for deductibles, parts, or service not covered under the warranty or extended service contract are subject to sales tax.

## **Insurance**

Insurance policies sold by insurance agents are not service contracts. Insurance premiums subject to the insurance premium tax are not subject to sales tax.

All charges made to the insurance company for parts and labor are subject to sales tax. Parts or service which are paid by an insurance claim are subject to sales tax.

## **Implied Warranty**

If a dealer makes repairs at no charge to a customer's boat, watercraft or trailer after the sale, and those repairs are not covered by a written warranty, the dealer owes use tax on the cost of all parts installed on the customer's boat, watercraft or trailer.

## **Rental of Boats**

The rental of a boat or watercraft is subject to 4.5% state sales tax, applicable municipal tax and tourism tax.

A leasing or rental company that operates within the principal place of business of a boat dealer must title, license and tax any leased or rental boat in a name that is distinct and separate from that of the dealership.

The rental of a trailer for less than 28 consecutive days is subject to the 4.5% state sales tax, applicable municipal sales tax and tourism tax. The owner must title and register leased trailers.

Tourism tax is 1.5%. Report the tourism tax in the city & special jurisdiction tax section of the sales tax return with the code 700-1.

## **Purchases for Resale**

Boat dealers must give an exemption certificate to their suppliers in order to purchase services and supplies exempt from sales tax.

Dealers may sublet repairs to body shops, electrical repair shops, upholstery shops, etc. When sublet repair services are performed the repair shop should obtain an exemption of resale.

State law requires exemption certificates to be complete and

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accurate. The buyer will be held responsible for properly completing an exemption certificate. Exemption certificates may be obtained from the department's website, <http://dor.sd.gov/>, or by calling 1-800-829-9188.

### **Use Tax**

Supplies, materials, or services purchased without a resale certificate are subject to use tax, if sales tax was not paid at the time of purchase. The state use tax rate is 4.5%, plus applicable municipal use tax, and is payable to the Department of Revenue in the filing period in which the boat dealer receives the supplies or services.

Tangible personal property delivered into South Dakota by the supplier or a transportation company hired by the purchaser, is subject to the South Dakota sales or use tax, even if the supplier charges another state's sales tax.

When a purchase is made out-of-state and possession is taken out-of-state the supplier may charge that state's sales tax. If the other state's sales tax is the same or more than South Dakota's tax, there is no South Dakota tax owed. If it is less than South Dakota's, the difference must be paid to South Dakota. The state plus applicable municipal taxes must be added together to determine if additional tax is owed.

Use tax is also due on supplies taken out of retail inventory for the business' use. Use tax is due on these items in the filing period they are taken out of inventory.

### **Talk to Us!**

If you have a tax problem or question, call the South Dakota Department of Revenue toll-free at 1-800-829-9188. Visit us on the web at <http://dor.sd.gov/>, email us at [bustax@state.sd.us](mailto:bustax@state.sd.us) or write us:

**South Dakota**  
**Department of Revenue**  
**445 East Capitol Ave.**  
**Pierre, SD 57501**

**Aberdeen**  
14 South Main, Suite 1-C  
Aberdeen, SD 57401

**Mitchell**  
417 N. Main, Suite 112  
Mitchell, SD 57301

**Rapid City**  
1520 Haines Avenue, Suite 3  
Rapid City, SD 57701

**Sioux Falls**  
300 S. Sycamore, Suite 102  
Sioux Falls, SD 57110

**Watertown**  
715 S Maple  
Watertown, SD 57201

**Yankton**  
1900 Summit Street  
Yankton, SD 57078