

DEPARTMENT OF STATE REVENUE

Information Bulletin #28WC
Sales Tax
August 2023
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(Replaces Bulletin #28WC, dated March 2023)

SUBJECT: Indiana Sales & Use Tax on Watercraft & Boat Trailers

REFERENCES: [IC 6-2.5-1-5](#); [IC 6-2.5-1-6](#); [IC 6-2.5-2-2](#); [IC 6-2.5-2-5](#); [IC 2.5-3-6](#); [IC 6-2.5-3-7](#); [IC 6-2.5-4-10](#); [IC 6-2.5-5-39](#); [IC 6-2.5-13-1](#); [IC 9-14.1-3-3](#)

DISCLAIMER: Information bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is not consistent with the law, regulations, or court decisions is not binding on either the department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein.

SUMMARY OF CHANGES

Only nonsubstantive, technical changes have been made to this bulletin. It has been updated to provide additional guidance on like-kind exchanges as it pertains to vehicle trade-ins.

INTRODUCTION

Generally, the sale of any watercraft or boat trailer is subject to Indiana sales or use tax unless such transaction qualifies for a statutory exemption. The selling price upon which the tax will be based will be the actual amount of consideration tendered for the watercraft or boat trailer after deducting all cash discounts and trade-in allowances.

NOTE: Throughout this bulletin, the term "dealer" includes a boat dealer and a registered retail merchant who is not a boat dealer.

AMOUNT SUBJECT TO SALES OR USE TAX

Rebates Versus Various Other Forms of Discounts

Any adjustment shown on a customer's purchase agreement for which the dealer receives payment or credit from a third party is to be treated as a payment and is not a reduction of the taxable selling price.

A **manufacturer's rebate** is not an allowable deduction from the taxable selling price if the dealer receives payment for such rebate, as shown on the customer's purchase agreement. A manufacturer's rebate, as shown on the written purchase agreement, is a form of payment. It is not a reduction in the dealer's gross retail selling price.

A **manufacturer's price reduction** is considered deductible for sales tax purposes because the manufacturer is actually reducing the selling price of the watercraft or trailer. The dealer does not receive the amount of the price reduction as consideration for the sale from the manufacturer.

A **dealer's price discount** is also considered deductible in determining the amount on which sales tax is charged. The selling price is reduced by the dealer's price discount. The dealer does not receive the amount of the price discount as consideration for the sale.

All types of discounts, regardless of the terminology used to describe the price adjustment, either remain as part of the taxable selling price or are deductible from the amount subject to sales tax based on whether the selling dealer receives "gross retail income" for the sale or lease.

Separately Stated Fees

Fees for services performed **after the transfer** of a watercraft or trailer are not considered part of the sales price and, therefore, are not subject to sales tax. Transfer of a watercraft or trailer takes place upon physical delivery when the purchaser takes possession and control of the property, even though the title has not yet been transferred. The dealer must maintain adequate records to show which services pertain to the fees charged and that the services were performed after the transfer of the watercraft or trailer to be exempted from sales tax. Fees charged for services performed **prior to the customer taking physical possession** of the watercraft or trailer

are subject to sales tax.

Historically, separately stated fees labeled as "documentation fees" were presumed to be at least partially excluded from gross retail income because all or part of the fee was considered to be compensation for preparing and submitting documents to the Indiana Bureau of Motor Vehicles on behalf of the purchaser to complete titling and in some cases registration of the watercraft or trailer. The Department no longer applies this presumption with regard to any part of the documentation fee. The services attributable to documentation fees are considered to be charges by the seller for services necessary to complete the sale per [IC 6-2.5-1-5\(a\)\(3\)](#) and are subject to sales tax.

Trade-in Allowance and Value of Trade-Ins

The deduction for a trade-in allowance applies only to "**like-kind exchanges**" in which the watercraft or trailer to be traded in is owned and titled in the name of the customer, and is of the same kind or character as the watercraft or trailer being purchased. A like-kind exchange means a watercraft traded for another watercraft of a similar kind or character between two persons, or a trailer traded for another trailer between two persons. A trade-in of a watercraft for a trailer is not a "like-kind exchange" and is not deductible in the calculation of the amount of the taxable gross retail income received by the dealer. Similarly, exchanges of boats for personal watercraft and similar trades are not like-kind exchanges, because they are two different types of watercraft that are not of the same kind or character.

The persons making the exchange must each own the property prior to the exchange. If there are more than two persons involved in the exchange, then it does not constitute a "like-kind exchange". For example, if Person 1 sells their vehicle to Dealership A and immediately uses the funds to buy another vehicle at Dealership B, this would not constitute a "like-kind exchange".

A married couple will be treated as owning the property as a unit, rather than individually. If the vehicle being exchanged is in one spouse's name and the newly purchased vehicle will be in the other spouse's name, the couple will be treated as one person for the purposes of constituting a like-kind exchange. In order to validate that they are a married couple, they will need to provide a copy of their marriage license to the dealer confirming that they live at the same address. **Like-Kind trade values** are deductible in determining the amount subject to sales tax. An exempt trade must be of like-kind. Further, to constitute a like-kind exchange, there must be a reciprocal exchange as part of the present transaction. If cash, property of unlike kind, or credit is given by the dealer to the purchaser to use towards a future purchase, this will not constitute a reciprocal, like-kind exchange. The future purchase of a vehicle would be considered a separate transaction, and the cash, credit, or unlike kind property received by the purchaser from the previous transaction will not reduce the gross retail income of the future purchase of a vehicle.

Non-like-kind exchanges are merely another form of a payment to the dealer and **do not** reduce the dealer's gross retail income. Note: one exception to the general rule that a motor vehicle traded in for a trailer does not constitute a "like-kind exchange" is when a motorized recreational vehicle is traded in for a non-motorized recreational vehicle. In such a case, the department considers the motorized and non-motorized recreational vehicles to be like-kind.

For further clarification regarding like-kind exchanges, please refer to Sales Tax Information Bulletin #92, available online at in.gov/dor/legal-resources/tax-library/information-bulletins/sales-tax-information-bulletins/.

SALES - EXAMPLES OF TAXABLE SELLING PRICE

The selling price upon which the tax is based for purposes of calculating the sales tax is indicated by the following examples:

NOTE: T =Taxable, Amount Subject to Tax; E = Exempt, reduces taxable selling price

A. (1) Price before Discount	\$12,000	T
(2) Dealer Discount	\$500	E
(3) Trade-In Value (like-kind)	\$4,000	E
(4) \$1,000 Rebate Assigned as Down Payment by Purchaser	\$1,000	
(5) Taxable Selling Price	\$7,500	

In the above example, items number 2 and 3 reduce the selling price subject to sales tax. The dealer discount is deductible, as is the like-kind trade of a boat for a boat. The rebate in this example is used as a down payment

but does not decrease the taxable selling price.

B. (1) Price before Discount	\$12,000	T
(2) Dealer Discount	\$500	E
(3) Trade-In Value (like-kind)	\$4,000	E
(4) \$1,000 Rebate Paid to the Customer	\$1,000	
(5) Taxable Selling Price	\$7,500	

This example is identical to the previous example except the manufacturer's rebate is paid directly to the customer and is not used as a down payment. Note that the taxable selling price remains the same in both examples as a rebate, regardless of to whom it is paid, and does not reduce the taxable selling price of the dealer. Items number 2 and 3 do reduce the taxable selling price.

C. (1) Price before Discount	\$12,000	T
(2) Dealer Discount	\$500	E
(3) Trade-In Value (like-kind)	\$4,000	E
(4) Manufacturer Price Reduction (not a rebate)	\$1,000	E
(5) Taxable Selling Price	\$6,500	

Items number 2, 3, and 4 reduce the amount subject to sales tax. Items number 2 and 4 are reductions in the retail selling price because the dealer does not receive any form of payment for these reductions. Item number 3 is an allowable reduction in the taxable selling price per statute because it is a like-kind trade. Note that a vehicle taken in trade for a watercraft is not a like-kind trade, per statute, and thus does not reduce the taxable selling price.

PURCHASES FROM INDIANA DEALERS

If the watercraft is purchased from a registered Indiana dealer, the dealer must collect the tax and provide to the purchaser a completed Certificate of Gross Retail or Use Tax Paid (Form ST-108) showing that the tax has been paid to the dealer. If the purchaser claims an exemption and no tax is collected by the dealer, the statement at the bottom of Form ST-108E must be completed and signed by the purchaser. Whenever a purchaser claims an exemption on Form ST-108E, the dealer must retain a completed exemption certificate. An exemption may be claimed for only one of the reasons shown on the reverse side of the Form ST-108E.

PURCHASES FROM OUT-OF-STATE SELLERS

Watercraft purchased outside Indiana and brought into Indiana to be registered or titled are subject to Indiana use tax. The use tax rate is identical to the Indiana sales tax rate (7%). The tax is to be collected upon registration and/or titling at the Bureau of Motor Vehicles. This includes **documented vessels** registered with the U.S. Coast Guard. The tax is based on the bill-of-sale or other valid proof of purchase. Credit is provided for any correctly paid sales or use tax paid to another state, not to exceed the amount of Indiana tax liability.

BOAT TRAILERS

Indiana sales and use tax applies to sales of boat trailers. The tax will be collected by the registered dealer at the time of purchase. If the trailer is purchased from someone other than a registered dealer, the tax will be collected by the Bureau of Motor Vehicles at the time the trailer is registered and/or titled. If a person claims an exemption for a trailer purchase, the person must complete and sign a Form ST-108E indicating the reason for exemption. Only the exemption reasons shown on Form ST-108E will be accepted. The dealer must maintain a copy of this exemption form to document why sales tax was not collected.

An exception is that nonresident purchasers of cargo trailers are exempt from Indiana sales tax if the purchaser's state of registration offers similar treatment to Indiana purchasers of cargo trailers (i.e., a "reciprocal state"). A boat trailer qualifies as a "cargo trailer" if it is designed to be towed by a motor vehicle and has a gross vehicle weight rating of at least 2,200 pounds.

The purchaser must affirm the trailer will be registered/titled within 30 days in a state that allows an exemption to an Indiana resident who purchases a cargo trailer to be registered/titled in Indiana.

The exemption amount cannot exceed the amount of the Indiana sales tax. The selling price of the trailer must be clearly indicated separately from the price of a watercraft or any other tangible personal property sold if multiple items are shown on a single sales invoice.

To claim an exemption for a transaction involving a cargo trailer, the purchaser must complete an exemption

affidavit, Form ST-137RV. The original signed copy must be mailed to the department within 30 days of delivery. The dealer must retain a completed copy of Form ST-137RV to document the exempted sale. The ST-137RV is available on the department's website at in.gov/dor/tax-forms/sales-tax-forms/.

Nonresident purchasers from a **nonreciprocal** state (as well as **any foreign country**, including Canada and Mexico) must pay Indiana sales tax. Nonreciprocal states and countries are those that do not allow an Indiana resident to purchase exempt from their state/country. Dealers must collect sales tax on sales to residents of the following states:

Arizona	California	Florida
Hawaii	Kentucky	Maine
Massachusetts	Michigan	North Carolina
Rhode Island	South Carolina	

However, beginning on July 1, 2020, a special tax rate applies to the purchase of recreational vehicles and cargo trailers by nonresidents of nonreciprocal states, which is the rate of the intended destination state or country. For further information concerning the sale of RVs and trailers in Indiana, please consult Sales Tax Information Bulletin #72, available online at in.gov/dor/legal-resources/tax-library/information-bulletins/sales-tax-information-bulletins/.

NOTE: This exemption is applicable only to a cargo trailer and is not available for the purchase of a watercraft or any other items of tangible personal property.

INTERSTATE COMMERCE RULES

A watercraft or boat trailer sold in **interstate commerce** is not subject to Indiana sales tax. To qualify as being "sold in interstate commerce," the watercraft or trailer **must be physically delivered by the selling dealer to a delivery point outside Indiana**. The delivery can be by the dealer, or the dealer can hire a third-party carrier. The terms and method of delivery must be indicated on the sales invoice. The dealer must document the terms of delivery and must keep a copy of such terms of delivery to substantiate why sales tax was not collected. (An ST-108E is not used to support this exemption.) This exemption does not apply to sales to out-of-state buyers in which the buyer takes physical possession of the watercraft or boat trailer in Indiana, nor is the exemption valid if the buyer, and not the seller, hires a third-party carrier to transport the watercraft or boat trailer outside Indiana. If the buyer hires the carrier, the carrier is acting as an agent for the buyer and thus the buyer takes physical possession within Indiana. Possession taken within the state does not qualify as an interstate sale. Please also note that delivery into another state for the purpose of tax avoidance is still subject to Indiana sales tax (e.g., delivery is made directly across the border).

RENTALS OR LEASES OF WATERCRAFT

All rentals of watercraft are subject to the Indiana sales tax. Rentals based on an hourly rental rate, a daily rental rate, or any other timeframe or criteria upon which a rental is based are subject to sales tax.

SHOP SUPPLIES CONSUMED BY A DEALER

Consumable supplies, such as masking paper and tape, oil dry, sandpaper, buffing pads, rags, and cleaning supplies, used by a dealer to repair and service watercraft or trailers are not exempt purchases by the dealer. The dealer should pay sales tax at the time of purchase or remit use tax on the costs of these purchases on its sales tax returns. The purchaser (dealer) becomes the final user of such items because its customer does not become the owner of such consumable supplies. Although the dealer may charge the customer a fee for the dealer's consumption of these materials, such items are not being sold to the customer in a retail transaction and sales tax is not to be collected from the customer.

Additional information pertaining to sales tax on aircraft, recreation vehicles, and vehicles may be found on the department's website at in.gov/dor/business-tax/dealer-information/ and frequently asked questions at in.gov/dor/business-tax/business-tax-faqs/ (select "Auto and Watercraft Dealers" or "RV and Cargo Trailers").

If you have any questions concerning this bulletin, please contact the Tax Policy Division at taxpolicy@dor.in.gov.

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