

**STATE BOARD OF EQUALIZATION**

(916) 324-8208

March 12, 1992

Mr. L--- T---
F--- M---
XXX --- --- ---
---, Washington XXXXX

Re: Application of Sales Tax to Sales of Tugs and Barges

Dear Mr. T---:

This is in response to your letter dated January 3, 1992, concerning Revenue and Taxation Code section 6368 which exempts from tax certain sales and purchases of watercraft and their component parts.

According to your letter and the information received by the Board, your subsidiary, [A], owns and operates several tugboats and barges inside and outside California. You state that many of the tugboats that are currently performing nonexempt work were principally engaged in interstate commerce (ship assisting) activities during their first year of operation. After [A] began using the tugboats for nonexempt work, it purchased tangible personal property which became component parts of the tugboats. You ask whether the watercraft exemption applies to the purchase of component parts for those tugboats that were initially used for an exempt purpose under section 6368.

It has been the position of the Board's staff since 1951, as set forth in Sales and Use Tax Annotation 600.0280, that whether a sale of property becoming a component part of watercraft is exempt depends upon the principal use to which the watercraft is put after the sale of the component part. Thus, even though [A]'s purchases of the tugboats had originally been exempt, its purchases of component parts are taxable if, within the twelve months following the purchases of the component parts, the tugboats are not used principally in interstate or foreign commerce in the transportation for hire of persons or property.

Mr. L--- T---

-2-

March 12, 1992
600.0345

If you have further questions regarding sales and use tax law, please do not hesitate to write again.

Very truly yours,

Elizabeth Abreu
Tax Counsel

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