



MAINE REVENUE SERVICES

(FORMERLY BUREAU OF TAXATION)

SALES/EXCISE TAX DIVISION

INSTRUCTIONAL BULLETIN NO. 44

DEPRECIABLE MACHINERY AND EQUIPMENT FOR USE IN COMMERCIAL FISHING

This bulletin is intended solely as advice to assist persons in determining, exercising or complying with their legal rights, duties or privileges. It contains general and specific information of interest as well as interpretations and determinations by Maine Revenue Services regarding the taxability of sales of depreciable machinery and equipment for use in commercial fishing. Portions of the Sales and Use Tax Law referred to in this bulletin can be found at the end of the bulletin in Attachment #1. Also attached is Sales and Use Tax Rule 323 which directly affects this topic.

I. General Information

Persons engaged in commercial fishing ventures are authorized to use a certificate of exemption card to purchase depreciable machinery and equipment, exempt from sales and use tax .

Many items originally found in this Bulletin have been incorporated in Rule 323 (see attached) which defines qualifying activities, establishes guidelines for the issuance of the certificate and places restrictions on the use of the certificate.

Please read this bulletin including the attachments in order to obtain a clear understanding of your rights under the Law.

II. Certificate of Exemption

A. Issuance

A certificate of exemption shall be issued to qualifying persons who submit an application to Maine Revenue. Applications can be obtained by contacting Maine Revenue Services at the address found at the end of this bulletin. As proof that the person is engaged in commercial fishing, the application must be accompanied by one of the following, from the person's most recent filing under the United States Internal Revenue Code:

- _ If a sole proprietor, Schedule C, including Part III - Cost of Goods Sold
- _ If a corporation, Form 1120 or Form 1120S, Pages 1 - 3

_ If a partnership, Form 1065, Pages 1 & 2

_ If Canadian, Form T2121

Upon the issuance of an exemption card, the purchaser may use the card to purchase qualifying machinery, equipment and repair parts free of tax. The purchaser must provide the seller with a copy of the exemption card and a completed affidavit of exemption.

Exemption cards are valid for two years and may only be used by the person or persons named on the certificate.

B. Affidavit of Exemption

An affidavit of exemption, as provided in this bulletin, along with a copy of the exemption card, must be presented to the seller and retained in the seller's file in order to document that the purchase is exempt from tax. Unlike past practices it is no longer necessary to present an affidavit for each purchase. Only one current copy is needed in the seller's file. Provided these documents are in the seller's file, the seller is relieved of the burden to charge tax on future purchases. However it is necessary that the purchaser inform the seller on each purchase whether the items purchased are exempt or taxable. If nonqualifying items are purchased exempt, it is the responsibility of the purchaser to pay the tax to the seller or be accountable directly to the Maine Revenue.

By signing this affidavit, the purchaser is attesting to the fact that the items being purchased from the seller qualify for exemption. Misuse of the affidavit will result in the cancellation of the exemption certificate and may subject the purchaser to prosecution.

C. Exceptions

Certificates of exemption will not be issued to the following persons:

1. Fishermen who are in their first year of operation and cannot provide a copy of their applicable federal form. Fishermen in this category must pay tax to their suppliers on all purchases. When the Federal Income Tax return is filed and a copy of the applicable federal form is available, the fisherman may apply to Maine Revenue Services for an exemption certificate. Once the certificate is issued, the fisherman may return to the supplier to obtain a refund of tax on qualifying purchases.
2. Fishermen who are primarily engaged in a related but nonqualifying business activity. Fishermen in this category must pay tax to their suppliers on all purchases and apply to Maine Revenue Services for refunds on qualifying machinery and equipment.

3. Lessors of fishing equipment. There is no provision in the Law under which lessors may purchase items for lease to commercial fishermen exempt from tax. Accordingly, no certificate of exemption will be issued to lessors of fishing equipment. When a lessor purchases items to be leased for use directly and primarily in commercial fishing he must pay tax to the seller and apply to Maine Revenue Services for refund of the tax paid.

III. Use of Certificate

A. Qualifying machinery and equipment

In order to qualify for this exemption, machinery or equipment must meet three tests. Machinery of equipment must:

1. be used directly in commercial fishing; and
2. be used primarily in commercial fishing; and
3. be depreciable for Federal Income Tax purposes.

Definitions of "commercial fishing", "directly", "primarily" and "depreciable" can be found in Rule 323, Section .01. In addition, the definition of "commercial fishing" and "depreciable machinery and equipment" as it relates to commercial fishing can be found in Attachment #1, under Section 2013, sub-section 1 B and 1 C (2).

Some of the more common items that would typically qualify for exemption are:

Bait Bags	Haulers	Radar Equipment
Batteries	Hooks	Rope
Boats	Hoops	Scanners
Buoys	Hydraulics	Seine Nets
Bow Thruster	Life Rafts	Tags
CB Radio	Life Equipment	Trap Stock
Chains	Lights	Traps
Color Sounder	Long Lines	Vents
Depth Sounder	Lorans	Pneumatic Controls
Depth Finder	Motors	
Draggers	Net Floats	
Engines	Nets	
Filters	Plotter	
Fire Extinguisher	Pot Haulers	
Fish Scanner		

Materials incorporated in the construction of a boat used in commercial fishing also qualify for exemption.

Care should be exercised in determining whether a particular item qualifies under this exemption. Although the seller is relieved from the burden of charging a tax at the time of sale, provided a copy of the exemption card and affidavit are on file, the purchaser is subject to audit and will be assessed tax, including interest and penalties, on the purchase of nonqualifying machinery and equipment. It is suggested that the purchaser write to Maine Revenue for a determination on questionable items.

B. Restrictions of Use of Exemption Card

The certificate of exemption may not be used to purchase any of the following items:

1. Nonqualifying machinery and equipment;
2. Motor vehicles, trailers, bulk bodies, snowmobiles, and ATV's;
3. Tools and Supplies, other than repair parts, such as lubricants, coolants, solvents, cleaning supplies, personal apparel;
4. Fuels;
5. Items incorporated in real property such as docks, fencing, storage buildings, special purpose buildings, heating or ventilation systems and construction materials;
6. Items which are not 100% depreciable as commercial fishing equipment;
7. Items which are not commonly used in commercial fishing.

See Rule 323, Section .01, sub-section D and Section .02, sub-section E as well as Attachment #1, Section 2013, sub-section 1 (C) 2 for further reference.

IV. Refunds

Refund of tax paid will still be available in the following situations:

- i. Items purchased under Section III, sub-section B (6) & (7) above which qualify as depreciable machinery and equipment but can not be purchased exempt with the exemption card. If during its total time in use a unit of machinery and equipment is used more than 50% of the time but less than 100% of the time directly in agricultural production, and is only partially depreciable under the United States Internal Revenue Code because it is used the remainder of the time for personal reasons, and reimbursement of the sales tax will be prorated accordingly. **EXAMPLE:** If a unit of machinery or equipment is 60% depreciable under the Internal Revenue Code because it is only used 60% of the time in agricultural production, 60% of the sales tax will be refunded, provided that the other requirements are satisfied. If the unit is

depreciable at 50% or less under the Internal Revenue Code because it is used 50% or less of the time in agricultural production, the purchaser will not be entitled to any refund of sales or use tax paid;

ii. Depreciable machinery and equipment which is used in commercial fishing by a person who does not qualify for an exemption card; and

iii. Lessors of depreciable machinery and equipment used directly and primarily in commercial fishing.

A. Refund to User

Any person who falls within one of these situations may obtain a refund of the tax paid upon application to the State Tax Assessor, by submitting proof that the tax was paid and that the item purchased is depreciable for use in commercial fishing.

An application for refund must be submitted to Maine Revenue Services, on forms supplied by Maine Revenue Services. The application must be completely filled out and must include a copy (duplicate) of the invoice showing that the tax was paid and to whom, and a copy of the applicable form which was a part of the purchaser's most recent filing under the Internal Revenue Code and which indicates that the purchaser is in fact engaged in commercial fishing and that the purchased machinery or equipment is depreciable for those purposes.

Persons who have previously received a refund of tax paid on depreciable machinery or equipment, or who have been issued a certificate of exemption valid on the date of purchase, need not submit a copy of the applicable form with subsequent applications unless there has been a change in the business, or unless specifically requested to do so by Maine Revenue Services.

Support documents such as invoices and schedules will not be returned to the applicant unless the applicant specifically requests that they be returned.

Applications for refund must be filed with the State Tax Assessor within 36 months of the date of purchase.

B. Refund to Lessor

Lessors of machinery and equipment for use directly and primarily in commercial fishing may make application for refund of Maine sales and use tax in the same manner as persons purchasing such machinery or equipment for their own use. The application must be accompanied by a copy of the lease agreement as well as a copy of the invoice showing that the tax was paid and to whom, a copy of the lessee's certificate of exemption valid on the date of execution of the lease and a properly executed affidavit of exemption. If the lessee has not been issued a certificate of exemption, a copy of the applicable form from the lessee's

most recent filing under the Internal Revenue Code must be submitted in support of the lessor's application for refund, either by the lessor or by the lessee directly to Maine Revenue Services.

Support documents such as invoices and schedules will not be returned to the applicant unless the applicant specifically requests that they be returned.

Application for refund must be filed with the State Tax Assessor within 36 months of the date of execution of the lease.

V. Credit for Use Tax

Commercial fishermen and lessors of fishing equipment who purchase tangible personal property outside the State on which a tax would normally be due to the State of Maine, but which would qualify for refund as machinery and equipment for use directly and primarily in commercial fishing, may waive payment of the tax but must submit an application for refund in the same manner as when the tax has been paid. It should be indicated on the application that sales or use tax has not been paid but that a ruling as to taxability is being requested. The purchaser will be notified whether or not a tax liability exists.

With the exception of lessors, this section does not apply if the equipment could have been purchased in this State exempt from tax by using the certificate of exemption card.

VI. Tax Paid To Another Jurisdiction

There is no provision in the Maine Sales and Use Tax Law for refund of sales or use tax paid to another state or a foreign country and no such refunds will be made.

VII. Additional Information

This bulletin outlines the major points involving the issuance of certificates of exemption and refunds of sales tax on depreciable machinery and equipment purchased for commercial fishing. It is not intended to be all inclusive. Requests for information on specific situations should be in

writing, should contain full information as to the situation in question, and should be directed to the:

**MAINE REVENUE SERVICES
SALES\EXCISE TAX DIVISION
P.O. BOX 1065
AUGUSTA, MAINE 04332-2336
TEL: (207) 287-2336
TTY: (207) 287-4477**

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36 § 2013. Refund of sales tax on depreciable machinery and equipment purchases

1. Definitions. As used in this section, unless the context otherwise indicates, the following words have the following meanings.

A. "Commercial agricultural production" means commercial production of crops for human and animal consumption, including the commercial production of sod, the commercial production of seed to be used primarily to raise crops for nourishment of humans or animals and production of livestock.

A-1. "Commercial aquacultural production" means the commercial production of cultured fish, shellfish, seaweed or other marine plants for human and animal consumption, including:

(1) All cultivating activities occurring at hatcheries or nurseries, from the egg, larval or spore stages to the transfer of the product to a growing site; and

(2) All cultivating activities occurring on water, from the receipt of fish, shellfish, seaweed or other marine plants from onshore facilities to the delivery of harvested products to onshore facilities for processing.

B. "Commercial fishing" means attempting to catch fish or any other marine animals or organisms with the intent of disposing of them for profit or trade in commercial channels and does not include subsistence fishing for personal use, sport fishing or charter boat fishing where the vessel is used for carrying sport anglers to available fishing grounds.

C. "Depreciable machinery and equipment" means that part of the following machinery and equipment for which depreciation is allowable under the Code and repair parts for that machinery and equipment:

(1) New or used machinery and equipment for use directly and primarily in commercial agricultural production, including self-propelled vehicles, but excluding motor vehicles as defined in section 1752, subsection 7; attachments and equipment for the production of field and orchard crops; new or used machinery and equipment for use directly and primarily in production of milk, animal husbandry and production of livestock, including poultry; and new or used machinery and equipment not used directly and primarily in commercial agricultural production, but used

exclusively to transport potatoes from a truck into a storage location;

(2) New or used watercraft, nets, traps, cables, tackle and related equipment necessary to and used directly and primarily in the operation of a commercial fishing venture, but excluding motor vehicles as defined in section 1752, subsection 7; or

(3) New or used watercraft, machinery or equipment used directly and primarily for aquacultural production, including, but not limited to: nets; ropes; cables; anchors and anchor weights; shackles and other hardware; buoys; fish tanks; fish totes; oxygen tanks; pumping systems; generators; water-heating systems; boilers and related pumping systems; diving equipment; feeders and related equipment; power-generating equipment; tank water-level sensors; aboveground piping; water-oxygenating systems; fish-grading equipment; safety equipment; and sea cage systems, including walkways and frames, lights, netting, buoys, shackles, ropes, cables, anchors and anchor weights; but excluding motor vehicles as defined in section 1752, subsection 7.

2. Credit authorized. Any person, association of persons, firm or corporation who purchases or leases depreciable machinery or equipment for use in commercial agricultural production, commercial fishing or commercial aquacultural production must be refunded the amount of sales tax paid by presenting to the State Tax Assessor evidence that the machinery or equipment complies with the definitions of subsection 1.

Evidence required by the State Tax Assessor may include a copy or copies of that portion of the purchaser's or lessee's most recent filing under the United States Internal Revenue Code that indicates that the purchaser or lessee is engaged in commercial agricultural production, commercial fishing or commercial aquacultural production and that the purchased machinery or equipment is depreciable for those purposes or would be depreciable for those purposes if owned by the lessee.

In the event that any piece of machinery or equipment is only partially depreciable under the United States Internal Revenue Code, any reimbursement of the sales tax must be prorated accordingly.

Application for refunds must be filed with the State Tax Assessor within 36 months of the date of purchase or execution of the lease.

3. Exemption for large purchase after certification. Sales tax is not paid on the purchase of a single item of machinery or equipment if the purchaser has the certification of the

State Tax Assessor that the purchaser is engaged in commercial agricultural production, commercial fishing or commercial aquacultural production and that the purchaser may purchase depreciable machinery and equipment without paying Maine sales tax. The seller is required to obtain a copy of the certificate together with an affidavit as prescribed by the State Tax Assessor, to be maintained in the seller's records, attesting to the qualification of the purchase for exemption pursuant to this section. In order to qualify for this exemption, the depreciable machinery or equipment must be used directly in commercial agricultural production, commercial fishing or commercial aquacultural production.