



North Carolina Department of Revenue


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Governor

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Secretary

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MEMORANDUM

TO: County Assessors

FROM: David D. Duty, Property Valuation Specialist I 
Property Tax Division

RE: Demonstration Boat Stickers

Our office has recently reviewed the North Carolina watercraft registration requirements for vessels owned by dealers or other businesses.

In the course of daily events, a legitimate business may take in a watercraft such as a boat or Jet Ski as a trade in on the purchase of some unrelated item like a car or a manufactured home. On several occasions we have seen the business owner register the vessel, in either the individual's name or business name, and claim that the vessel is exempt inventory held for sale. This the question that has arisen; "In the hands of the new owner, is the watercraft taxable personal property to be listed for taxation, or is it considered to be exempt retail inventory as defined in NCGS 105-273(8a)."

The Property Tax Division has contacted the North Carolina Wildlife Resources Commission (N.C.W.R.C.) to gather information concerning this situation. We were particularly interested in when and how watercraft should be registered with the N.C.W.R.C. and who is considered the owner. The following information is from the N.C.W.R.C. website which is found at www.ncwildlife.org:

"The North Carolina Wildlife Resources Commission is legally responsible for vessel registration in North Carolina. Vessel registration is a system of record-keeping and identification for all motorized vessels and large sailboats operated on North Carolina public waters. Registration helps the Commission's Enforcement Division protect vessel owners against theft and against irresponsible actions by other vessel operators."

"Registration puts a vessel owner's name, address, and vessel description into the records of the Wildlife Commission. In turn, the Commission issues a registration number to identify the vessel; a registration decal to indicate when the term of registration expires; and a registration card which names the owner and describes

the vessel.”

The staff at the N.C.W.R.C. has indicated that a legitimate business that typically holds items in inventory for sale in the regular course of business has two options to consider after receiving watercraft as a trade in for some other property purchased by the buyer. One is a temporary registration by use of a demonstration number sticker. The second is the typical registration, also called permanent registration by the N.C.W.R.C., which is either a one-year or three year registration.

If it is exclusively held for sale, and not for use, the vessel does not have to be permanently registered (the typical registration for watercraft). The dealer or business owner can contact the N.C.W.R.C. and request a special registration for the watercraft known as a “demonstration number.” This special sticker authorizes a business to allow the watercraft to be “test driven” on the waterways of North Carolina before the vessel is purchased by an individual or company. The sticker is provided at no charge, but limits the amount of time the vessel can be on the water in a demonstration mode. For example, a business may bring several boats to a boat show with the intent of selling as many boats as possible. In order to satisfy the potential buyer’s expectation of the boat, the business may place a temporary “demonstration number” on the side of the boat, and then take the boat to the nearest waterway for a “test run.” This allows the potential buyer an opportunity to see it perform prior to purchase. At this point, the vessel is not permanently registered with N.C.W.R.C. in the name of the business or the potential buyer. Our division (Property Tax Division) considers this vessel to be exempt inventory if the vessel meets the other requirements of NCGS 105-273 (8a). The above example is very similar to a “demo tag” on an automobile dealer’s car for sale on a sales lot.

On the other hand, if the vessel has been received as a trade in, and has been permanently registered with the N.C.W.R.C. (one or three year registration) in the name of the business that received it as a trade in or in the name of an individual, it is an indication that the vessel is not exclusively held for sale. In short, a vessel held for sale is not required to be permanently registered by the North Carolina Wildlife Resources Commission.

In summary, the Property Tax Division of the North Carolina Department of Revenue recommends that if a watercraft is registered with the N.C.W.R.C. then this watercraft is taxable as personal property, unless the owner proves exemption. If a watercraft is not registered with the N.C.W.R.C. or uses a “demonstration sticker” and meets the other definitions of exempt inventory, then we consider the watercraft to be inventory and not taxable. The type of registration is not a requirement in the definition of exempt inventory, however it can be an indicator of the intended use of the property.