

DIRECTIVE

Subject: Exemption for certain items used by boats transporting freight.
Tax: Sales and Use Tax
Law: Session Law 2023-134, Section 42.14
Issued By: Sales and Use Tax Division
Date: October 30, 2023
Number: SD-23-3

This directive provides the interpretation of the Secretary of Revenue regarding the sales and use tax exemption for certain items used by boats transporting freight.

The following important information is addressed in this directive:

- Effective November 1, 2023, North Carolina expands the sales and use tax exemption for fuel and consumables used by boats transporting freight on inland and intracoastal waterways.
- Who can make exempt purchases?
- What is an eligible vessel?
- What items qualify for the exemption?

Background

[Session Law 2023-134](#) amends N.C. Gen. Stat. § 105-164.13(24) and expands the sales and use tax exemption for fuel and consumables used by boats transporting freight on inland and intracoastal waterways (“Exemption”). The Exemption applies to purchases made on or after November 1, 2023.

The Exemption exempts from sales and use tax:

Sales of fuel and other tangible personal property for use or consumption by or on a watergoing vessel when delivered to an officer or agent of the vessel for the use of the vessel engaged in either of the activities listed below. Sales of fuel and other tangible personal property made to officers, agents, members of the crew, or passengers of these vessels for their personal use are not exempt from payment of the sales tax. The activities are:

- a. The transport of freight in intrastate, interstate, or foreign commerce, whether on the high seas, intracoastal waterways, sounds, or rivers.
- b. The transport of passengers for hire exclusively on the high seas.

Who can make exempt purchases?

Items eligible for the Exemption must be purchased by, and delivered to, an officer or agent of the watergoing vessel.

Items purchased by officers, agents, members of the crew, or passengers of these vessels for their personal use are not exempt from sales and use tax.

What is an Eligible Vessel?

For purposes of the Exemption, the requirements to be an eligible vessel depend on whether the vessel transports freight or transports passengers.

Vessel Transporting Freight – A vessel that transports freight is an eligible vessel if it meets all of the following requirements:

- 1) is watergoing, and
- 2) transports freight in intrastate, interstate, or foreign commerce, whether on the high seas, intracostal waterways, sounds, or rivers.

Vessel Transporting Passengers – A vessel that transports passengers is an eligible vessel if it meets all of the following requirements:

- 1) is watergoing,
- 2) transports passengers for hire, and
- 3) transports the passengers exclusively on the high seas.

What Items Qualify for the Exemption?

Items that qualify for the Exemption are fuel and other tangible personal property used or consumed by an eligible vessel. The item must be used by the vessel while performing a qualifying activity, as discussed above, for the item to be eligible for the Exemption.

Examples of other tangible personal property that qualify for the Exemption include horns, lights, and fire extinguishers used by an eligible vessel performing a qualifying activity.

Assistance

If you have questions about this directive, you may call the Department at 1-877-252-3052 (8:00 am until 4:30 pm EST, Monday through Friday).

To the extent there is any change in the rate or amount of tax, change to a statute or regulation, or new case law subsequent to the date of this directive, the provisions in this directive may be superseded or voided. To the extent that any provisions in any other notice, directive, bulletin, or published guidance regarding the subject of this directive and issued prior to the date of this directive conflict with this directive, the provisions contained in this directive supersede the previous guidance.