



STATE BOARD OF EQUALIZATION

(916) 445-3723

September 13, 1976

Mr. [O]
Vice President
Finance and Administration
[S]
XXXXX --- ---
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S- -- XX-XXXXXX

Dear Mr. [O]:

This is in response to your letter of September 1 to Board Member Richard Nevins.

You state that you are engaged in the for-hire operation of passenger pleasure cruise ships in foreign commerce.

You have leased from [I] and installed on each of your ships a data processing machine to assist you in the record-keeping in connection with feeding, housing and serving your passengers. You state that the machine is substantially attached to the ship by various anchoring and attachment devices and is connected to the ship's electrical power system.

Under the circumstances that you have described, the data processing machine is a component part of the ship and, since the ship is used in transporting persons for hire in foreign commerce, the sale or use of the machine is exempt from sales or use tax pursuant to Section 6368 of the Revenue and Taxation Code and Regulation 1594. Regulation 1594 provides that to be exempt as a "component part" of a watercraft, the property must be an integral part of the watercraft, affixed or attached thereto in a substantial manner when in use. As examples, the regulation refers to:

"All property affixed or attached to the structure of the watercraft used while thus affixed or attached for navigation or operation, such as: radio transmitters, receivers and other radio equipment, radar equipment, intercommunications systems...."

The data processing machine, as you have described it, fairly falls within this meaning of "component part."

The type of exemption certificate that you should furnish to [I] is affected by the fact that the ship is "mobile transportation equipment" as defined in Section 6023 of the Revenue and Taxation Code. The lease of the machine, accordingly, is excluded from the definition of "sale" by Section 6006(g) (4). Thus the tax, if it were applicable, would be a use tax on measured by its purchase price of the raw materials.

I suggest that you give to [I] a certificate in the following form, which is adapted from the certificate in Regulation 1594, a copy of which is enclosed:

Watercraft Exemption Certificate

I hereby certify:

That the watercraft identified below is used in the transportation by water of persons for hire in foreign commerce;

That the data processing machines which I shall lease from [I] are tax exempt under Section 6363 of the Sales and Use Tax Law and Regulation 1594 as tangible personal property becoming a component part of watercraft in the course of improving the same, which watercraft will be used principally in the operation described above.

Signature of Lessee _____

Address _____

Date of this Certificate _____

Seller's Permit No. (if any) _____

Names of Watercraft for which certifying lessee
will be making leases:

Very truly yours,

T. P. Putnam
Assistant Chief Counsel

TPP:lb
Enclosure