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**From:**

**Sent:** Wednesday, October 24, 2012 1:09 PM

**To:**

**Cc:**

**Subject:** Re: 638/863(c) question

The General Explanation of the Tax Reform Act of 1986 (Pub. Law 99-514, May 4, 1987) explains at page 929, first full paragraph, that "Congress intended that income derived from the lease of a vessel not used to transport cargo or persons for hire be characterized as ocean activity income and be sourced in the country of residence of the person earning the income, as prescribed in section 1213 of the Act, rather than as transportation income." Both bareboat charters and time or voyage charters were treated as "transportation services" under pre-1984 Act rules. While the first sentence of this paragraph refers to "bareboat charter hire," the quoted language refers to the "lease of a vessel" and should apply to both bareboat and time or voyage charters.

If the day rate paid to the vessel operator for moving the vessel from Norway to the Gulf is just for moving the vessel and not for transporting cargo or persons, then under this meaning, it should be characterized as ocean activity income. If the day rate is for transporting cargo or persons as well, it would be transportation income.