

## **Yacht Owners Seek To Salvage Deduction For Second Homes**

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Kent Webb plans to write off part of the interest he pays to finance what he considers his second home, a luxury fishing boat named the Moonlighter.

Calling such tax breaks loopholes for the wealthy, congressional Democrats have other ideas.

They want to eliminate the 73-year-old North Carolina physician's deduction as part of proposed tax-code revisions this year, potentially the biggest revamp since 1986 and one in which lawmakers have pledged to scrutinize every tax break.

The second-home mortgage deduction, which also benefits owners of cabins and recreational vehicles, is the boating industry's biggest tax break and applies to vessels ranging from tiny sailboats to multimillion-dollar yachts.

Besides having at least a temporary toilet and camp stove, the only other Internal Revenue Service qualifying requirement is that taxpayers spend at least 14 nights a year in their second home if they also sometimes rent it out to others.

"It has been a significant factor in my decision-making," said Webb, whose 60-foot (18.3-meter) yacht was listed for \$2.6 million when it was for sale in 2013. "It is so unfair to target people who want to use their boat as a second home."

Boat manufacturers are gearing up to protect the break, leveraging campaign contributions and drafting form letters for boaters to send to lawmakers. The industry has more than \$35 billion in annual U.S. sales of products and services, according to the Chicago-based National Marine Manufacturers Association.

### Elimination Advocates

The Ending Subsidies for Yachts Act, barring the deduction for new mortgages on boats, is pushed by two Democrats in the Republican-led House, Representatives Mike Quigley of Illinois and Tim Walz of Minnesota. They highlight estimates from the bipartisan Joint Committee on Taxation that suggest savings of more than \$150 million over 10 years, a number that would grow as the deduction is phased out.

The interest deduction for second homes, with an estimated cost of \$8 billion a year, is part of the broader mortgage interest deduction, the future of which is up for debate. The break for boats is a tiny proportion of the second-home total.

Taxpayers can deduct interest on up to \$1.1 million in mortgages on two homes: a "main home" where they live most of the time and a second home. The IRS doesn't require them to say how much interest is for the first or second home, and the agency doesn't have data on the cost of the boating break.

### Not Sympathetic

"I'm not sympathetic for a second-home deduction used largely as leisure," Quigley said. "If we need revenue and we need to make cuts, I have a hard time putting second homes as a priority."

Quigley said it "verges on the absurd" that boats have to be "subsidized" at the expense of other things such as food stamps and funding for more police and the military. He'd also like to see the deduction eliminated for RVs, although that isn't written into his legislation.

Representative Candice Miller, a Michigan Republican with longstanding ties to the boating industry and co-chairman of the 114-member Congressional Boating Caucus, declined an interview request about the merits of the tax break.

"It's been spun as a deduction that's taken by wealthy people," said Nicole Vasilaros, director of regulatory and legal affairs for the National Marine Manufacturers Association. "That's a political tactic."

### Industry Letter

An industry letter drafted for boat owners to send to lawmakers says the proposal is "wrong-headed and would accomplish nothing except putting American boat builders out of work at a time when the industry is still on its knees and not recovered from the worst downturn since the Great Depression."

After bottoming out in 2010, the boating industry is recovering. Purchases of powerboats -- which include yachts, pontoons and fishing vessels -- rose 13.8 percent during the third quarter of 2013 compared with the same period a year earlier, according to figures from Statistical Surveys Inc., a research company based in Grand Rapids, Michigan.

Lake Forest, Illinois-based Brunswick Corp., the leading U.S. boat manufacturer, saw its share price increase 58.3 percent in 2013, compared with a gain of 29.6 percent for the Standard & Poor's 500 Index.

Boating industry advocates say an elimination of the deduction would hurt sales. They point to the industry's downturn that followed a 10 percent excise tax on boats priced above \$100,000 that was started in 1991 and repealed in 1993.

### 'Extremely Damaging'

"It could be extremely damaging," said Chris Berkeley, a loan officer with Intercoastal Financial Group in Fort Pierce, Florida.

The deduction is mostly used by "middle-class" boaters because the wealthy already tend to have multiple homes on land, Vasilaros said. The average boat loan is for \$49,000 and more than three-quarters of owners have annual household incomes of less than \$100,000, she said, adding that the industry estimates about 5 percent of the 12 million boats registered in the U.S. qualify for the deduction.

The boat manufacturers don't have data on how many boat owners use the deduction, or their income level, Vasilaros said.

In Webb's case, the physician said that although he's used the deduction on previous vessels, he doesn't on his current one because his primary home mortgage already exceeds the \$1.1 million limit. He plans to get a smaller home, then use the tax break for his boat.

Senator Chafee

An effort to do away with the boat provision in 1987 was pushed back in part by then-U.S. Senator John Chafee of Rhode Island, a top shipmaking state.

"If this whole deduction is going to be eliminated for all players, we would not be happy about it," Vasilaros said. "But it would at least be fair."

Since 2001, the boat manufacturers association has contributed roughly \$850,000 to federal candidates, according to the Center for Responsive Politics in Washington. Brunswick's political action committee gave about \$330,000 to federal candidates during that period.

Last week, at an annual five-day boat show in Chicago, dozens of vessels filled the sprawling McCormick Place convention center. David and Tracy Lindke of Holland, Michigan, were among the shoppers.

The couple already has a 40-foot (12.2 meter) boat named "Stella." They don't currently take the deduction, although they said they will if they purchase a bigger boat.

Standing next to a \$1.2 million vessel on display at the show, David Lindke predicted the proposal would hurt boat sales and ultimately the government. "You will lose more tax revenue than you would gain," he said.

The bill is H.R. 2563.