

Statement of

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Before the

Small Business Subcommittee on
Oversight, Investigations and Regulations

of the

U.S. House of Representatives

**Re: Sinking the Marine Industry:
How Regulations are Affecting Today's Marine Businesses**

July 12, 2012

I am Jeff Erdman, Government Relations chair of the Florida Yacht Brokers Association (FYBA). Our association represents 1142 licensed and bonded brokers and 430 small businesses throughout the state of Florida. We appreciate the opportunity to share with you our thoughts on a number of issues that we believe warrant your attention and action by Congress.

Mr. Chairman, as the national debate ebbs and flows over whether cutting taxes will spur economic growth and job creation, I would like to report that Florida's recent experiment in capping a sales and use tax on boats beginning July 1, 2010 has resulted in the state collecting nearly ten times as much sales tax revenue as was projected during its first year.

Why did the state of Florida take this gamble? With an \$18 billion marine industry employing 220,000 Floridians, the Sunshine State has been especially hard-hit by the Great Recession. Our research indicated that Florida's marine industry was losing sales to nearby states and especially to foreign countries with lower or no sales taxes at all.

We sought help from the Florida legislature pointing out that at 6%, the state's sales and use tax was counterproductive. Many small business owners testified that it provided an incentive for Floridians to purchase boats out of state and maintain and provision them elsewhere, resulting in a loss of jobs and economic activity in Florida. The hefty use tax also discouraged non-residents from bringing their boats to Florida for service and provisioning.

Who could blame the consumer? A new 34-ft. powerboat costing \$400,000, for example, would have to pay an additional \$24,000 in taxes. In comparison, South Carolina has a \$300 sales tax cap on boats and in North Carolina the cap is \$1,500. To make matters worse, no sales taxes are levied in a number of Caribbean nations including the U.S. and British Virgin Islands as well as the Cayman Islands. As a result, more than 6 out of 10 buyers of boats sold by Florida brokers were registering and operating their boats outside of Florida in order to legally avoid paying Florida's sales or use tax.

This situation was especially damaging to Florida's marine industry where the aggregate price of brokered boats sold is nearly equal to that of all of the boats sold in the rest of the U.S.

The Florida legislature agreed that action was needed and passed legislation putting an \$18,000 sales and use tax cap on boats purchased or brought into Florida.

Mr. Chairman, in its first full year the new sales and use tax cap has generated in excess of \$13.46 million in direct sales tax revenue for the state, compared to a \$1.5 million first-year loss that had been projected by a Florida legislative staff analysis. Furthermore, sales of boats 40 to 60 ft. in Florida have increased 35 percent, those 60 to 100 ft. by 50% and those over 100 ft. by 80%.

Thomas J. Murray and Associates Inc. conducted the initial research and subsequent survey. Among the survey's findings:

- The average sales price for post-cap transactions in Florida was \$907,002 - nearly double the pretax value of closings taking place in Florida prior to the cap.
- In the post-cap era, transactions for which either no sales tax was paid, or the closing was conducted out-of-state, dropped from 21.5% in the pre-cap era to an estimated 12.8% following implementation of the sales tax cap.

Mr. Chairman, our experience with putting a lid on taxes clearly demonstrates that setting a reasonable tax basis for high dollar purchases provides an incentive for more boats to be purchased, provisioned and kept plying our waterways. We are convinced that this will translate into more jobs for those working in the marine

industry.

We believe that additional economic activity can be spurred in the marine industry and more jobs created if Congress approves legislation relaxing current restrictions on the sale of foreign-flagged vessels.

Under current U.S. law, foreign built vessels over 24m/80 ft. that have not been imported to the U.S. can only be offered for sale or charter and shown to U.S. citizens at a boat show for up to six months – generally the period between October and March during which major boat shows are held in Ft. Lauderdale, Miami and Palm Beach.

The problem we face is that according to the most recent statistics compiled by YachtWorld.com., during the period 2010 to 2011 it took 496 days to sell a vessel larger than 80 ft. in Florida and an astonishing 766 days to sell a vessel of this caliber elsewhere in the U.S. As you can well imagine, it's not easy being a small businessperson in a business so hamstrung by federal regulations.

In our view, this six-month limitation is not only arbitrary but is costing our economy jobs and tax revenue. For example, there are now approximately 300 boats on the market worth about \$1.8 billion that cannot be offered to U.S. citizens while in U.S. waters. Since our

research shows that each of these boats would have spent an average of 13 percent of its listing price on upgrades and improvements when sold, we are losing \$234 million in post-sale economic activity that could be generating more jobs right here in the U.S.

The FYBA recommends changing the law to create a Central Listing Bond that would allow any size boat to be offered for sale or charter in the U.S. anywhere and anytime, until the vessel is sold.

We could also use some help in streamlining the overlapping reporting requirements imposed on visiting foreign yachts by the Department of Homeland Security. Allowing foreign-flagged vessels to report to one central site for U.S. Customs, the U.S. Coast Guard and the U.S. Immigration Service might not only be more efficient, but more effective.

We are convinced that these changes will not only will be good for the marine industry but for the U.S. Treasury as well.

The fact is that of the 4,000 superyachts plying the waters of the world, a skilled workforce of more than 28,000 employees has built 21% of this fleet in the U.S. But, building these boats here in the U.S. is only part of the economic picture.

Encouraging the foreign owners of these big boats to visit the U.S. or put their vessels up for sale here is big business. While they may spend upwards of \$500,000 per visit, the following analysis demonstrates a net economic impact of more than \$4 million if we convince the owner of just one foreign-flagged 180-ft. yacht to keep his vessel in the U.S. for a year.

Total Annual Expenses for a 180-ft. Yacht Kept in the U.S.

\$1.4 million	Crew salaries
\$1.0 million	Maintenance and repair
\$400,000	Fuel
\$350,000	Dockage/ports
\$250,000	Crew and guest expenditures
\$240,000	Vessel insurance
\$165,000	Classification, regulatory and management fees
\$140,000	Vessel communications
\$110,000	Provisioning
\$20,000	Crew education and medical training
\$4,075,000	Total

Mr. Chairman, it is no exaggeration to say that the Great Recession has devastated a U.S. recreational marine industry that once dominated the world's markets, but which has been in a slump for some time. New-boat sales (less canoes and kayaks) have plummeted more than 50 percent since 2000, from 465,000 to 228,920. In fact,

from 1988 to 2010 annual sales of new outboard boats have sunk from 355,000 to 112,000, inboards boats from 20,900 to 7,300, stern drive boats from 148,000 to 18,700 and sailboats from 14,500 to 4,300.

All of us in the U.S. recreational boating industry and especially our colleagues in the Marine Industries Association of South Florida and the National Marine Manufacturers Association have been working overtime to turn around this uniquely American industry that has an annual economic impact of \$72 billion which produces goods and services that are enjoyed by 83 million Americans who recreate on our waterways.

I would also note that 83 percent of the boats sold in the U.S. were made in the U.S. We could use your help to breathe new life into the sails of an industry that is a now net exporter, but which will face increasing competition in the years to come from lower cost foreign boat builders and marine manufacturers.

Thank you for the opportunity to present our views. We look forward to working with members of the subcommittee on these issues and I am happy to respond to any questions you might have.