

## PROTECT THE MORTGAGE INTEREST DEDUCTION

### BACKGROUND

President Bush established a nine-member tax advisory panel to simplify the U.S. tax code. The panel recently submitted its recommendations to Treasury Secretary John Snow, who will advise the President on its recommendations and set a course for future legislation. The panel recommended slashing the current \$1.1 million mortgage interest deduction cap by nearly 60% to 80% and eliminating it for second residences, including boats.

### THE MORTGAGE INTEREST DEDUCTION MAKES BOATING MORE AFFORDABLE FOR MIDDLE CLASS FAMILIES

A taxpayer can currently deduct qualified interest on his/her mortgage for a principal or secondary residence up to a total value of \$1.1 million.<sup>1</sup>

- Boats that provide basic living accommodations including a sleeping space, a toilet and cooking facilities are eligible as second homes and qualify for the deduction.<sup>2</sup> This category includes even smaller trailerable boats that can be hauled by the family pickup truck or SUV. If the boat is chartered out, the taxpayer must use the boat for personal purposes for either more than 14 days or 10% of the number of days during the year the boat was actually rented.<sup>3</sup>

Almost all boaters (98%) are also home owners and most live in towns or rural areas. There are 13 million registered boats and 69 million boaters nationwide with California, Michigan, Florida, Minnesota and Texas ranking as the top boating states in the country.<sup>4</sup>

- The median household income for new boat owners falls between \$75K and \$99K. The median household income for pre-owned boat owners is between \$50K to 74K.
- According to NMMA statistics, over 25,000 new cruiser-type boats meeting the IRS requirement were sold last year. More than half were modest sized boats of 30 feet and under.<sup>5</sup>
- NMMA also estimates that there are 7 to 9 times as many boats meeting the requirement in the used boat market.

### CUTS WOULD RESULT IN UNPRECEDENTED MANUFACTURING JOB LOSS

Eliminating the second home provision and/or drastically reducing the cap on the mortgage interest deduction will have an immediate and direct impact on the boating industry and put the jobs of hundreds of thousands who manufacture boats, engines and boat accessories in jeopardy.

- The ill-conceived 1990 luxury tax on yachts over \$100,000, a small section of the industry compared to cruisers, caused a 77% drop in sales after one year and resulted in 25,000 layoffs in the boat building industry. This cut would put the jobs of tens of thousands more in jeopardy.

### ACTION NEEDED

Urge the President and your member of Congress to oppose the Presidential Tax Advisory Panel's recommendation and any subsequent legislation that would lower the mortgage interest deduction cap or eliminate the second home provision. For more information, contact NMMA Legislative Counsel Jeffrey Gabriel at [jgabriel@nmma.org](mailto:jgabriel@nmma.org).

<sup>1</sup> IRC section 163 (h)(2)

<sup>2</sup> IRC section 163(h)(4),

<sup>3</sup> IRC section 280A (d) (1).

<sup>4</sup> States 6-20 are Wisconsin, New York, Ohio, South Carolina, Illinois, North Carolina, Pennsylvania, Georgia, Missouri, Louisiana, Washington, Alabama, Tennessee, Virginia and Oklahoma. The 9.6 million boats registered in these states represent 75% of all registered boats in the U.S. NMMA Market Statistics, *2004 Recreational Boating Statistical Abstract* at 2 & 33.

<sup>5</sup> NMMA Market Statistics, *2004 Recreational Boating Statistical Abstract* at 81.