making waves
NMMA POLICY BRIEF

PROTECT THE INTEREST DEDUCTION FOR BOATS QUALIFYING AS SECOND HOME

BACKGROUND

The Internal Revenue Code provides that taxpayers may deduct qualified interest payments on a principal residence and one other residence. Certain boats qualify for a second home interest deduction. This deduction is an important incentive for recreational boat sales and encouraging growth in the industry. The entire second mortgage interest deduction, including land-based second homes, recreational vehicles (RVs) and boats, has been estimated by the Congressional Budget office to cost the US Treasury up to $1 billion per year. Most of this cost can be attributed to the deduction for land-based second homes. Qualifying boats make up perhaps 1% of this total.

THE SECOND HOME 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.
- Boats that provide basic living accommodations including a sleeping space, a toilet, and cooking facilities qualify as second homes and are eligible for the deduction. If the boat is chartered, the taxpayer must use the boat for personal purposes for either more than 14 days or for 10% of the number of days during the year the boat was rented.
- There are 17 million boats and 83 million boaters nationwide.
- The median household income for boat owners falls between $50K and $75K.
- 75% of all boat owners have a household income of less than $100,000.
- 5600 new cruiser-type boats meeting the IRS requirement were sold last year and less than 5% of all boats in use qualify for this deduction.
- Consumer boat loans average $48,900, with 83% of borrowers earning less than $250,000 per year.

CUTS WOULD RESULT IN UNPRECEDENTED MANUFACTURING JOB LOSS

Eliminating the interest deduction for boats that currently qualify for such will have an immediate and direct impact on the boating industry and will place in jeopardy the jobs of hundreds of thousands of workers who manufacture boats, engines and boat accessories. The loss of this deduction may be the difference between staying in boating or leaving boating for thousands of middle class American families. There is great misconception that eliminating this interest deduction would target “yachts” owned by rich people and that the American taxpayer is subsidizing the wealthy lifestyle. In reality, the rich most often pay cash for their boats, rather than financing them. They rarely take the interest payment deduction because of the $1.1 million cap which many of them already hit on their primary mortgages. The middle class will be most affected by the elimination of this important deduction. A “yacht,” by definition, is any vessel that is 26 feet or longer and the deduction on interest expense is only applicable if the boat has a head, galley, and sleeping berth. We know that a 26-footer is hardly what we think of when we hear the word “yacht.” If land-sited dwellings and RVs can qualify for a mortgage deduction as a second home—and they can—why should a live-aboard boat be excluded simply because it floats on the water instead of being placed on land or driven down the highway?

ACTION NEEDED

Stop efforts to eliminate or reduce the interest deduction for boats that currently qualify as second homes as the tax code is revised. For more information, contact NMMA Legislative Director Jim Currie at jcurrie@nmma.org or 202 737-9760.

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