



# **Washington Recreational Boats: Economic Impact Research**

## **Research Report**

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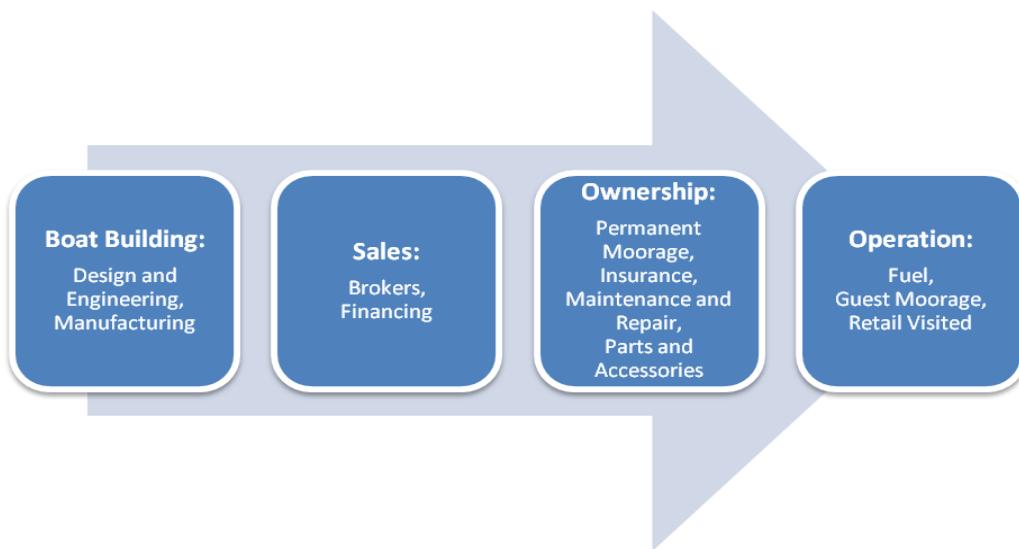
# Introduction

## ***Background and Research Goal***

Although Washington State enjoys some of the world's most appealing boating waters, the state is currently governed by some of the nation's highest taxes on boat owners. In addition to a sales tax on boats purchased within the state, Washington levies a use tax on boats purchased elsewhere and used within the state for more than a few months per year. These taxes cause many resident recreational boat owners to keep their vessels and conduct all of their recreational boating activities out of state. Additionally, they deter owners in other states from visiting Washington for extended cruising as well as repair and maintenance work.

Two factors suggest that Washington's current tax and fee policies for recreational boats may be economically inefficient. First, although they are often casually dismissed as toys for the rich, the spending required to purchase, equip, maintain and operate a recreational boat has far-reaching economic effects. The diagram below illustrates some of the expenditures that recreational boats require throughout their life cycle, generating revenue, employment and taxes wherever they go.

### **Spending on Recreational Boats throughout Ownership Life Cycle**



The second key factor is the inherently mobile nature of recreational boats. These vessels can easily be moved from place to place, taking their economic activity with them. Thus, Washington's taxes may be driving away recreational boats that would otherwise act as floating engines for the local economy.

Motivated by this concept, a bill is currently under consideration by the Washington legislature. This measure would cap the taxable value of recreational boats at \$300,000, resulting in a maximum sales and use tax charge of about \$28,500 for recreational boats purchased or brought into the state. Additionally, the legislation would allow recreational boats owned by out-of-state entities (such as corporations, trusts and LLCs) access to two types to cruising permits, which are currently available only to vessels owned by individuals. This change would allow these entity-owned vessels to remain in the state for longer temporary periods without incurring use tax liability.

To determine what tax and fee policies can strike the ideal balance between revenue generation and economic activity, it is necessary to understand the existing and potential economic impact of recreational boats in Washington. Accordingly, this research is intended to provide a quantitative estimate of the total economic impact on Washington State resulting from recreational boats, including effects on employment and tax base. Additionally, the research will estimate the economic impacts resulting from changes in recreational boating activity resulting from the proposed legislation, including the net effects on state tax revenues.

## ***Research Objectives***

The research was designed to accomplish the following objectives:

- Provide an overview of Washington's current policies regarding taxes, fees, and cruising permits with regard to recreational boats.
- Discuss strategies being employed by both resident and non-resident recreational boat owners to limit state taxes.
- Compare the tax and fee policies of other coastal jurisdictions, especially the other West Coast states and British Columbia.
- Profile Washington's recreational boat-related industries, with respect to revenues, recreational boats served, employment, and compensation.
- Describe measures taken by other states to reduce recreational boat-related taxes and fees, and where possible, discuss the effect of these measures on recreational boating activity and the state economy.
- Assess the current level of recreational boat ownership and activity in Washington, including:
  - Number of registered vessels by length
  - Average value
  - Annual sales activity, both new and resale
  - State revenues collected through taxes and fees assessed on recreational boats
  - Typical spending by recreational boat owners on a range of recreational boat-related goods and services
- Measure the total economic impact on the state from recreational boat-related spending, including overall economic activity, employment, labor income, and tax revenue.
- Identify and categorize the recreational boats deterred from Washington due to the current tax and fee policies.
- Estimate the economic impact of an increase in Washington's recreational boat population and activity due to tax and fee changes.
- Calculate the expected net change in the state's tax revenues that would result from tax and fee reforms, taking into account the loss of revenues from a tax reduction and the gains in revenues from additional recreational boats and recreational boating activity.
- Summarize the total economic impact of Washington's marine recreation sector, including recreational boats as well as smaller vessels.

## **Research Methodology**

### ***Secondary Research***

The secondary research component consisted of a review of existing data produced by a range of private and public sector sources, including:

- National Marine Manufacturers Association
- Recreational Marine Research Council
- Boat US (Boat Owners Association of the United States)
- Northwest Marine Trade Association
- Pacific Maritime Title
- Washington State Department of Licensing
- Washington State Department of Revenue
- Agencies in other states responsible for boat registration and taxes
- United States Coast Guard
- United States Census Bureau

Secondary research was used to gather information topics including:

- Recreational boat sales, registrations, purchase prices and assessed valuations
- State policies regarding taxes, fees, cruising permits, etc.
- Recreational boat-related industries: firm counts, employment, revenues, etc.
- State revenues collected from taxes and fees on recreational boats
- Methodologies and findings from other recreational marine economic impact studies, including vessel spending profiles and total impacts

### ***Key Person Interviews***

Key person interviews were conducted with experts on the regional recreational boating industry, as well as tax, fee and regulatory policies. Participants included recreational boat brokers, attorneys and other specialists in recreational boat transactions, representatives from other industries that serve recreational boats, and staff from the state government agencies that administer the taxes and fees on Washington recreational boats.

## ***Recreational Boat-Related Business Survey***

This research component consisted of a survey of businesses in 16 distinct sectors involved in the state recreational boating industry. The business survey served to collect data on per-recreational boat business revenues that could be cross-checked against the results of the owner survey. Additionally, this survey obtained additional information about the structure of the respective industries, such as employment breakdowns and salary ranges, and the proportion of revenue derived from visiting recreational boats based outside of the state.

## ***British Columbia Recreational Boat Census and Statistical Sample***

A physical census was conducted to confirm anecdotal accounts that a large number of recreational boats owned by Washington residents were being moored in Vancouver Island, as an alternative to paying Washington's use tax on recreational boats. The objective of the census was to count, identify and categorize American recreational boats moored at five marinas in the Sidney, BC area:

- Van Isle Marina
- Port Sidney Marina
- North Saanich Marina
- Westport Marina
- Canoe Cove Marina

Jim Hebert and a research analyst personally conducted the census with assistance from a local recreational boat broker on February 14, 2011. It consisted of an inspection of all visible recreational boats in the relevant size and class categories. Vessels were identified as US-owned based on indicators such as the place of registration and hailing port. Photographs were taken of all US boats for use in later analysis. After collection of the data, vessel names and hailing ports were cross-checked against the Coast Guard documented vessel database to obtain information on characteristics including length, model, and age.

Additionally, a telephone survey was conducted among all other marinas in the Vancouver, BC and Vancouver Island areas, to obtain summary information on recreational boat occupancy. This information was combined with the categorization obtained from the census to estimate the population of US recreational boats at other Canadian marinas.

## ***IMPLAN Economic Model***

IMPLAN Professional is a computer based economic impact assessment modeling system. Combined with the IMPLAN data file for a specific study area, it allows the user to develop local level input-output models that can estimate the economic impact of a new development and to assess the "ripple effects" caused by increasing or decreasing expenditures in various parts of an economy.

The input-output analysis used by IMPLAN employs a two-stage modeling process:

1. Descriptive modeling
2. Predictive modeling

### **Descriptive Model**

The descriptive model is a representation of the existing interactions between economic sectors within a given study area (e.g. Washington State, a county or combination of counties). This model uses a system called regional economic accounts to describe a local economy in terms of the flow of dollars from purchasers to producers within the region. A descriptive model presents a detailed picture of each of more than 400 industry sectors, including data on total employment, sales, inputs used in production, and interaction with economies outside the study area.

An additional layer of information called Social Accounting data is also added to the model, allowing analysts to examine non-commercial transactions, such as payment of taxes by businesses and households.

### **Predictive Model**

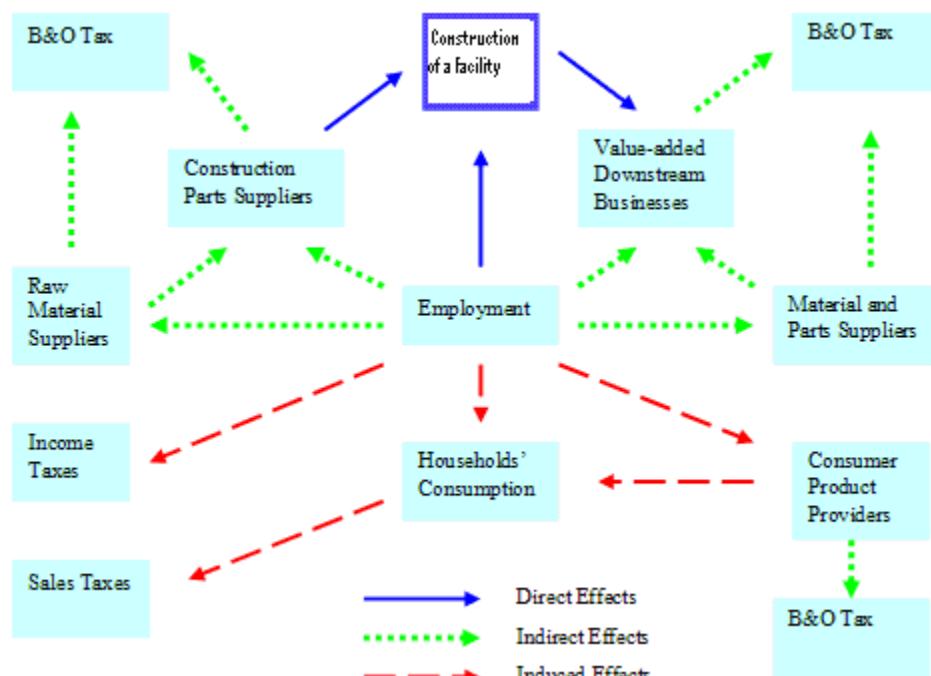
A Predictive Model assesses the total impact of an economic event on the overall economy of the area being studied. The key concept behind the Predictive Model is called a multiplier: using the descriptive model as a basis, the program calculates how each dollar of a selected economic event will affect all other industries in the area. Because of this linear nature of the multiplier, the economic impact can easily be scaled to account for inputs of different sizes.

The impact of an economic stimulus can be broken down into three components: direct effects, indirect effects, and induced effects. To illustrate each of these concepts,

suppose that a company decides to invest in Washington by constructing a new housing development.

- **Direct effects** represent the immediate impact of an economic change on the industry directly involved. In the housing construction example, direct effects would include gross revenues earned by the contractors working on the project.
- **Indirect effects** represent the changes in inter-industry purchases as the economy responds to the new demands of the directly affected industries. Following the same example, local suppliers of construction materials would increase their economic activities in order to meet new demand by the contractors.
- **Induced effects** represent the changes in spending from households as income increases due to the changes in production. In the example, construction workers would receive additional wages by working on the new housing project. They would then spend a portion of those wages on consumer goods, such as food, clothing, and entertainment, from other Washington businesses.

The effects stimulated by an example construction project are illustrated below:



*Note: This diagram is for illustration purposes only, and is by no means an exclusive list of all economic effects.*

## Key Multipliers

The following table lists the multipliers used in the IMPLAN Washington State model for some of the major industry sectors affected by recreational boating activity.

Multipliers for Major Recreational Boat-Related Sectors						
Industry Sector	Total Economic Output	Value Added	Direct Labor Income	Total Labor Income	Direct Employment	Total Employment
Boat building	1.77	0.74	0.26	0.51	4.50	9.52
Boat sellers (margin)	1.83	1.33	0.70	0.97	13.50	19.64
Fuel sales	1.68	1.24	0.51	0.73	12.60	17.60
Accessory and equipment sales	1.67	1.25	0.52	0.74	16.17	21.08
Maintenance and repair	1.78	0.83	0.32	0.57	9.19	9.48
Detailing and cleaning	1.91	1.01	0.39	0.65	16.85	22.34
Marinas	1.76	1.18	0.32	0.58	10.98	16.55

## *Use of this Report*

Hebert Research has made every effort to produce the highest quality research product possible within the agreed specifications, budget and time schedule. Hebert Research uses those statistical techniques which, in its opinion, are the most accurate possible. However, inherent in any statistical process is a possibility of error, which must be taken into account in evaluating the results. Statistical research can predict respondent attitudes and behavior only as of the time of the sampling, within the parameters of the project, and within the margin of error inherent within the techniques used. Evaluations and interpretations of statistical research findings, and decisions based on them, are solely the responsibility of the customer and not that of Hebert Research. The conclusions, summaries and interpretations provided by Hebert Research are based strictly on the analysis of the data gathered and are not to be construed as recommendations. Therefore, Hebert Research neither warrants their viability nor assumes responsibility for the success or failure of any customer actions subsequently taken based on these findings.

# Overview of Washington State Taxes, Fees and Policies

The following section summarizes the tax and fee policies currently in effect in the State of Washington with respect to recreational boats.

## ***Sales and Use Tax***

With certain exceptions, Washington law requires vessels sold or kept in the state to register and pay a one-time sales and use tax. This requirement includes:

- Washington residents must pay sales or use tax when they purchase a boat in-state (new or used).
- Washington residents must pay sales or use tax if they purchase a boat out of state, and subsequently bring it into Washington.
- Non-residents must pay sales or use tax when they purchase a boat in-state, unless the boat departs the state within 45 days of purchase (can be extended up to 12 months with a use permit).
- Non-residents must pay sales or use tax if they bring a boat purchased out of state for more than the allowed visiting period (discussed in detail below).

### **Application of Sales v. Use Tax**

Sales tax is collected by the Department of Revenue on transactions conducted by an entity authorized to collect the tax, such as a boat dealership. Both new and resale transactions are subject to sales tax.

Use tax is collected by the Department of Licensing concurrently with vessel registration, and applies to all transactions where sales tax was not collected. The most common scenarios for use tax include:

- Private party transactions, such as the sale of a recreational boat through a classified ad
- Sales conducted through a buyer and/or seller's broker, where the transaction is closed directly between a buyer and seller
- Taxes assessed when a boat originally purchased out-of-state is brought into Washington

### **Sales and Use Tax Rates**

The standard sales tax rate is applied to both sales and use tax transactions. This consists of the state base rate, plus additional charges in certain counties and cities.

Although the tax rates are the same for both sales and use tax within a given jurisdiction, different criteria are used in determining the jurisdiction of the transaction, and hence the applicable tax rate. Sales tax transactions are judged to occur at the place of purchase (i.e. where the new owner assumes control of the vessel). Use taxes, however, are levied based on the location where the vessel is primarily kept. As will be discussed later in this report, this discrepancy results in transactions designed to achieve the most favorable tax rate.

If an owner purchased a vessel out of state and paid sales or use tax on the original purchase, he or she may deduct the amount of the tax originally paid from the use tax owed.

### **Taxes on Nonresident Visitors**

As discussed above, a non-Washington resident who brings an out-of state boat (a boat registered in another state or documented through the Coast Guard) into Washington must pay use tax if the vessel remains in Washington for a sufficient length of time. This applies even if the vessel is only visiting, with no intention to permanently locate in the state. Unless an additional permit is obtained, out-of-state vessels incur use tax liability if they are present within Washington for more than 60 days per calendar year.

Currently, two types of permits are available to extend this period. However, the permits are available only for boats owned by individuals; those owned by entities (e.g., corporations, LLCs or trust) must adhere to the 60 day limit.

- Cruising Permits extend the tax-free period by 60 days. Up to two cruising permits may be obtained per calendar year, allowing a vessel to remain in the state for a total of 180 days without registering or paying use tax. A nominal fee is charged for cruising permits.
- Use Permits allow a vessel to remain in-state for an entire year without registering or paying use tax. The cost of the user permit is higher than cruising permits, at \$500 (for boats under 50 feet) or \$800 (50 feet or longer). In addition, for 24 months after the permit expires, the vessel may not return to Washington at all.

## ***Additional Taxes and Fees***

Washington-registered vessels are required to renew their registration each year. In addition to a nominal boat registration fee, owners must pay an excise tax equal to 0.5% of the vessel's assessed value. Various other fees, such as an invasive species charge, may apply depending on the location and type of boat. Vessels documented with the US Coast Guard are not required to register, but still must pay the excise tax and submit annual paperwork to the Washington State Department of Licensing (DOL).

## ***Measures Undertaken to Limit Taxes and Fees***

The key person interviews and secondary research revealed several strategies that recreational boat owners may employ to limit the taxes and fees they pay on their vessels.

### **Nonpayment of Taxes**

The simplest way to have a boat in Washington without paying the assessed taxes and fees is to never register one's boat or send the required payment. This is generally not possible for a vessel purchased from in-state dealer, who would collect sales taxes and/or report the transaction to DOL. However, for private party purchases and vessels brought into the state, it is up to the owner to initiate the registration process. An owner of an unregistered vessel naturally runs the risk of having the unregistered boat noticed by authorities such as the Department of Revenue (DOR) and local law enforcement. Thus, this technique is presumably most common for vessels kept at private docks, rather than marinas or other public areas where observation is more likely.

Due to the inherent lack of documentation, it is uncertain how many vessels are currently employing this strategy. A 2004 Seattle P-I article on the subject estimated that 10% to 20% of large vessels failed to pay the annual excise tax, either intentionally or inadvertently, but noted that increased enforcement had sharply reduced the rate of nonpayment since the 1980s. However, violations still remain: in 1998, a prominent software executive was caught keeping his untaxed 62-foot recreational boat at his Mercer Island home, and the next year a 58-foot California-based vessel was cited in Roche Harbor for staying too long in-state without registering.

### **Delivery Outside State Water Boundary**

The formal transfer of recreational boat ownership is often conducted offshore, outside of the three-mile boundary of Washington territorial waters. Because such transactions do not occur within the state of Washington, they provide the following advantages:

- If a Washington resident purchases the recreational boat for use in-state, the transaction will be governed by use tax instead of sales tax. Since use tax is based on the jurisdiction where the vessel will be primarily kept, this may result in a reduced tax rate. For example, on a recreational boat purchased offshore and then moored in Anacortes, the applicable use tax rate would be 8.2%. If the same recreational boat were purchased in Seattle and then moved to Anacortes, a 9.5% sales tax rate would have applied.
- A Washington resident cannot purchase a boat in Washington without paying sales tax, even if the boat would be immediately moved out of state. However, a Washington resident could purchase a Washington boat outside of territorial waters, and then move it to a permanent out of state home such as British Columbia. No tax would be required under this scenario.
- Finally, out-of state buyers may elect to take possession outside of territorial waters, even if the boat would leave the state within the grace period. This is generally done to eliminate the need for the paperwork that would be required to establish the tax-exempt status of the transaction.

### **Commercial Charter Service**

A recreational boat may be registered as a commercial charter vessel. In this case, a different set of tax structures and regulations apply. Taxes are based on the revenues of the charter operation, personal property tax applies rather than excise tax, certain expenses are tax-deductible, etc. However, to legally qualify, the vessel must have bona fide use as a charter vessel. Owners may use the recreational boat for recreation only if on an equal footing with other customers; uses must be recorded and taxed as transactions.

Although chartering of recreational boats is not uncommon, expert accounts suggest that owners primarily charter their vessels for the actual revenue received, rather than the tax consequences.

### **Recreational Boating Outside of Washington**

The most economically significant way that recreational boat owners respond to Washington's sales and use taxes on recreational boats is to simply not bring their

vessels into the state. As this report will discuss in greater detail, numerous Washington residents never bring their recreational boats to their home state. Moreover, nonresidents who might otherwise spend several months in the state for cruising or maintenance work are deterred by the prospect of paying significant taxes to a state in which they are only temporary visitors.

British Columbia is a particularly attractive alternative to Washington for recreational boat owners deterred in this way, due to the lack of any comparable tax, a relatively short travel distance, and attractive cruising destinations such as the Vancouver Island, the Gulf Islands, and the Inside Passage leading to Alaska.

## Comparison of Taxes, Fees and Policies in Other Jurisdictions

### ***Summary of U.S. Coastal States***

The table below summarizes the vessel registration, tax and fee policies in other coastal U.S. states. Some other states' policies are highly complex, so exceptions may apply to the general rules stated below. In addition, taxes and fees assessed at state, county, and other local levels may differ from the prevailing statewide rates, or impose additional charges such as personal property taxes.

More detailed descriptions follow for the West Coast states of Alaska, Oregon, and California, as well as selected other states which have altered their tax policies.

State	Reg. Grace Period	State Base Sales/Use Tax Rate*	Credit for Prev. Tax	Reg. Required for USCG Doc'd**	Details and Notes
<b>Atlantic and Gulf Coast States</b>					
Maine	60 days	5%	Yes	Yes	2% sales/use tax for nonresident boats. See detailed discussion below.
New Hampshire	30 days	0%	N/A	Yes	No state sales tax
Massachusetts	60 days	6.25%	Yes	No	
Rhode Island	90 days	0%	N/A	Yes	Sales/use tax on boats repealed in 1993. See detailed discussion below.
Connecticut	60 days	6%	Yes	Yes	
New York	90 days	8.75%	Yes	Yes	Exemption for vessels brought in for repair.
New Jersey	180 days	7%	Yes	Yes	
Delaware	60 days	0%	N/A	No	No state sales tax.
Maryland	90 days	5%	Yes	Yes	5% use tax applies to nonresident boats used primary in MD.
Virginia	90 days	2%	Yes	No	Sales/use tax liability capped at \$2,000.
North Carolina	90 days	3%*	Yes	No	No sales tax on used boats. New boat tax value capped at \$1,500.
South Carolina	60 days	5%	Yes	No	Sales/use tax liability capped at \$300. Up to 10.5% property tax; see detailed discussion below.
Georgia	60 days	4%	Yes	Yes	
Florida	90 days	6%	Yes	Yes	Sales tax is capped at \$18,000. Vessels brought into the state for repair exempt from registration requirement.
Alabama	90 days	2%	Yes	Yes	
Mississippi	60 days	7%	Yes	No	

State	Reg. Grace Period	State Base Sales/Use Tax Rate*	Credit for Prev. Tax	Reg. Required for USCG Doc'd**	Details and Notes
Louisiana	90 days	4%	Yes	Yes	Casual sales between individuals are exempt from the sales and use tax.
Texas	90 days	6.25%	Yes	Yes	20-day registration grace period for new purchases
<b>Pacific Coast States</b>					
Alaska	90 days	0%	N/A	No	No state sales tax.
Washington	60 days	6.5%	Yes	Yes	See detailed discussion above.
Oregon	60 days	0%	N/A	Yes	No state sales tax.
California	120 days	8.25%	Yes	No	See detailed discussion below.
Hawaii	60 days	0%	N/A	No	Gross Receipts Tax (4-4.5%) levied on most businesses, including boat sellers. This generally results in higher sale prices.

\*Actual sales and use tax rates are typically higher than the state base rate due to additional locality rates.

\*\* US Coast Guard documentation is a form of federal registration available to vessels over 5 tons. It is generally optional for recreational boats.

## **Detailed Descriptions for other West Coast Jurisdictions**

### **British Columbia**

Vessels that permanently register in Canada may face several types of taxes, including import duties (waived for vessels constructed in North America) and sales taxes. However, US-owned boats considered to be visiting are not subject to taxes of any kind. To maintain visiting status, a boat must leave Canadian waters at least once every six months. Additionally, the six-month period may be extended if the vessel is having work performed by a Canadian boatyard. In practice, this means that a recreational boat may easily be kept in British Columbia virtually full-time without assuming any tax liability. Visiting US vessels do not need to obtain any Canadian registration or licensing (though operators must have a safety license).

### **Alaska**

Alaska does not impose a state sales tax, so recreational boats in the state are not required to pay sales or use tax. Alaska residents are required to register their vessels within 90 days of bringing them into the state, or 20 days within purchasing a new vessel. Nonresidents visiting the state are not required (or even permitted) to register their vessels in Alaska regardless of the length of the visit. US Coast Guard document

vessels are also not required to register. Vessel registration costs \$24 for powered vessels and \$10 for non-powered vessels, and is effective for a three-year period.

### **Oregon**

Similarly, Oregon does not assess a state sales tax, meaning that there is no comparable use tax. Oregon residents must register their vessels with the state within 60 days of purchase or entry. USCG documented vessels are required to register if they are “primarily used in Oregon waters.” Registration is effective for two years, with a cost of \$5 plus \$3 per linear foot (for example, a 40 foot recreational boat would pay \$125).

### **California**

California’s registration, tax and fee requirements are relatively complex, and have changed several times in recent years. Like Washington, California assesses a sales tax consisting of a statewide base rate (8.25%) and additional rates for certain cities and counties. The highest total rate in the state, 9.75%, applies to the greater Los Angeles area.

Sales tax applies to all recreational boat purchases taking place within the state – even for vessels purchased by nonresidents who intend to move the vessel out of state. Thus, transactions outside the state’s territorial boundaries are quite common.

Use tax *may* be required for a boat that is brought into California within 365 days of the purchase date (vessels brought in after one year are fully exempt). However, use tax only applies if the vessel is intended to be used primarily in California. The following criteria are generally used to determine whether a boat is intended for California use and therefore subject to use tax:

- For California residents, use tax is presumed to apply if the vessel ever enters the state within 12 months of purchase.
- For nonresidents, use tax is presumed to apply if the vessel remains in California for more than half of the first 12 months of ownership.
- An exemption can be obtained if the owner presents credible evidence that the vessel is intended for use primarily out-of-state, such as registration in another state.
- Vessels are also exempt if brought into the state for repair, retrofit or modification, and used no more than 25 hours for recreational or incidental purposes.

Instead of the “12 month rule” described above, California previously used a 90-day period to determine whether use tax was owed. This lead to a common practice where

recreational boat buyers would purchase their boats outside of California waters and wait 90 days before returning to the state. Ensenada, Mexico was a particularly popular destination for this so-called “90 day yacht club,” a term coined by a guidebook explaining the procedure. In 2004 the California legislature lengthened the required period from 90 days to 12 months, but this measure expired in 2007 without being renewed, providing a brief return for the 90-day rule. However, the California legislature re-enacted the 12 month rule in 2008, this time with no sunset provision.

Additionally, vessels in California are subject to personal property taxes. The tax rate depends on jurisdiction, but the prevailing rate is approximately 1.2% of assessed value.

A vessel registered in other states must be registered in California within 120 days of entry if it “will be used upon California waterways the majority of the time.” Coast Guard documented vessels are not required to register.

### ***Reforms Conducted in Selected Other States***

The following accounts involve other states that have reformed their registration, tax and fee policies in order to increase recreational boating activity. States are listed in chronological order of the reforms, from oldest to newest.

#### **Rhode Island**

In 1993, Rhode Island repealed all sales and use taxes on recreational boats. This has established the state as a popular mooring location for recreational boats owned by residents of other Northeastern states. As an appraisal of Rhode Island marinas performed by Thomas M. Ross explains:

*[A]pproximately one-third of the State's boat registrations is owned by out-of-staters. Rhode Island eliminated the sales tax on used or new boats in 1993. Since that time, dockage space has become scarce in the state, as it is now seen as a sales tax haven for boat buyers, many of them from Connecticut and New York. To avoid paying sales tax on a boat, a buyer must purchase, register, and keep the vessel here. The economic benefits of this tax law has [sic] been broad to the local economy.”*

As the following table shows, the per capita boat registration rate in Rhode Island is substantially higher than in surrounding states. Rhode Island has a total of 42,524 total registered boats, but would only be expected to have 27,490 based on the rates seen in

nearby states. This is consistent with Mr. Ross' finding that 30% of boats registered in Rhode Island are owned by nonresidents.

State	Boat Registrations per Capita
Rhode Island	<b>0.0404</b>
Connecticut	0.0220
Massachusetts	0.0314
New York	0.0248
Avg. other States	<b>0.0261</b>

According to a 2007 Recreational Marine Research Council economic impact analysis, the total impact of the state's recreational marine industry provides \$416 million in revenues and more than 3,500 jobs. Of this total activity, \$147 million in spending and over 1,200 jobs can be attributed to Rhode Island's boat surplus (the number of registrations above what would be expected based on surrounding state's per capita ownership rates). Rhode Island's tax policies are likely not the only driver of the unusually large fleet of registered boats – the "Ocean State" has a strong nautical heritage and close access to water throughout– but the favorable financial conditions are undoubtedly a significant factor in attracting boats.

Rhode Island's tax-free status briefly made political news in 2010 when it emerged that Massachusetts Senator John Kerry kept his 76-foot recreational boat moored in Rhode Island rather than his home state. Sen. Kerry issued a statement that the boat was kept in Rhode Island "for long-term maintenance, upkeep and charter purposes," but voluntarily paid Massachusetts the \$500,000 the state would have charged in taxes.

### **South Carolina**

South Carolina imposes a low sales and use tax (capped at only \$300). However, personal property tax rates in the state are extremely high, with annual charges of up to 10.5% of a vessel's assessed value. In an effort to offset the high cost imposed by the personal property tax rate, several South Carolina counties have enacted reforms within the last five years. Some have altered the tax structure so that only a portion of the vessel's value is subject to tax assessment. Additionally, many counties have also extended the nontaxable visiting period for recreational boats registered out of state from 60 to 180 days. However, many recreational boat owners reportedly still keep their boats in state for only 179 days per year.

Statewide vessel registration and sales data has not shown a noticeable effect of these changes; in fact, sales and registrations have generally been decreasing since 2007. However, the tax and fee reforms were only conducted in some jurisdictions, and even under some of the more lenient rules – 180 visiting days allowed, and a reduced property tax valuation – a high annual property tax charge is still imposed. Additionally, the current recession has caused a steep nationwide fall in boat activity, which would tend to overshadow any gains made. Finally, nearby states such as North Carolina and Florida both offer more favorable tax and fee structures for recreational boats. Thus, it appears that the moderate reforms made in South Carolina are unlikely to lead to major increases in the recreational boat population.

### **Maine**

Maine imposes sales tax on nonresidents who purchase a boat in Maine and keep it in-state for more than 30 days. Additionally, the state applies a use tax to vessels used in Maine within one year of purchase, similar to the policy in California. In 2010, in an effort to attract visiting recreational boats, the sales tax rate for vessels registered in other states was reduced from 5% (the same rate charged to in-state vessels) to 2%.

### **Florida**

The Florida marine industry recently organized a campaign to reduce the state's taxes on recreational boats, arguing that this would create new jobs and tax revenue by attracting these vessels, and all their associated economic activity, to the state. A study was commissioned to assess the state of megayacht-related industries in Florida and measure the impact they provide to the state. The study found that each visiting megayacht provided about \$488,000 in revenue to South Florida. On the whole, these vessels provided \$220 million in annual revenue to South Florida maintenance and repair providers, and an additional Brokerage and charter commissions provided an additional \$150 million in revenue. Furthermore, a single charter megayacht based in Florida would contribute \$2.6 million directly to the local economy, and \$5.1 million including secondary effects.

In the summer of 2010, the state passed the Jobs for Florida Bill, which included a measure capping the state sales tax on recreational boats at \$18,000 (\$300,000 maximum taxable value, at 6% sales tax rate).

The author of the megayacht economic impact study has reported that it is too early to quantitatively assess the effectiveness of the tax cap legislation. However, anecdotal accounts suggest that Florida recreational boat brokers have seen a substantial increase in sales, both to Americans planning to keep their vessels in-state, and to international

buyers interested in flagging their recreational boats in a location with advantageous tax policies.

# Current Recreational Boat Population and Sales in Washington State

## *Population of Recreational Boats Registered in Washington*

The following table reports the registered population of recreational boats in Washington State, including US Coast Guard documented vessels. Also included is the average assessed value for each length class, based on the number of vessels and the total excise tax assessed.

This report focuses on the current potential economic impacts of those recreational boats that would be affected by the proposed tax cap legislation – i.e., those valued at over \$300,000. Among the fleet existing vessels, this valuation level generally coincides with a length of 50 feet or greater. Of course, some newer and/or higher quality recreational boats of less than 50 feet are likely to exceed this threshold, and some large vessels are likely to be worth less than \$300,000, but these outliers should roughly cancel out. Washington Department of Licensing data indicates that 1,000 such vessels were registered in the state in 2010. This figure is used as the basis for the economic impact estimates.

2010 Washington Recreational Boat Registrations		
Vessel Length	Registered Vessels	Avg. Est. Value
35-40 ft	4,979*	\$98,511
41-45 ft	2,213*	\$149,208
46-50 ft	1,086*	\$237,996
51-55 ft	425	\$373,151
56-60 ft	244	\$534,282
61-65 ft	172	\$755,853
66-70 ft	53	\$1,038,823
71-75 ft	35	\$1,230,561
76-80 ft	34	\$1,509,931
81-85 ft	13	\$1,780,124
Over 85 ft	24	\$2,436,431
<b>Total 35-50 ft</b>	<b>8,278</b>	<b>\$130,363</b>
<b>Total Over 50 ft</b>	<b>1,000</b>	<b>\$650,042</b>
<b>Total</b>	<b>9,278</b>	<b>\$186,375</b>

\*not included in the total impact calculations

## ***Recreational Boat Sales in Washington***

The number of recreational boat sales is based on NMTA data for the most recent 4-quarter period available (Q4 2009 to Q3 2010). Price estimates for new sales are based on NMMA data on recreational boat retail prices by vessel length. Estimates for resale prices are based on vessel assessed valuations and a database of Washington state transactions. Note that the average retail prices of all recreational boats 35 feet or longer exceed the threshold of \$300,000. However, based on assessed value, used sales of the same length classes do not reach this threshold. Therefore, sales of new recreational boats between 35 and 50 feet in length are included in the population that would be affected by the proposed legislation, but resale vessels in these length classes are not.

Recreational Boat Sales for Most Recent 4-Quarter Period (Q4 2009-Q3 2010)				
Vessel Length	New Sales	Used Sales	Total Sales	Est. Sales Revenue
35-38 ft	33	213*	246	\$35,272,326
39-42 ft	21	161*	182	\$31,550,355
43-46 ft	8	62*	70	\$14,030,357
47-50 ft	13	36*	49	\$16,411,857
51-54 ft	7	23	30	\$14,969,365
55-58 ft	4	7	11	\$7,309,019
59-62	3	11	14	\$12,269,686
63-66	0	4	4	\$3,391,182
67-70	4	3	7	\$21,165,537
Over 70 feet	3	29	32	\$53,246,034
Total over 35 ft	96	549	645	\$209,615,718
Total 35-50 ft	75	472	547	\$97,264,896
Total over 50 ft	21	77	98	\$112,350,823
<b>Total over \$300,000</b>	<b>96</b>	<b>77</b>	<b>152</b>	<b>\$150,531,676</b>

\*not included in the total impact calculations

## Current Recreational Boat-Related Spending in Washington

### *Spending by Washington-Based Recreational Boats*

This section estimates the total spending by the owners of Washington recreational boats with market values of \$300,000 or more. Average per-recreational boat spending figures are derived from three sources: the recreational boat owner survey, the business survey (where appropriate), key person interviews with industry experts, and a model of boat spending published by the Recreational Marine Research Council.

The recreational boating economy is characterized by a relatively small number of very large vessels, or “megayachts,” whose spending may be orders of magnitude greater than moderately-sized recreational boats. These outliers make it difficult to accurately estimate the overall average spending for recreational boats using a single point average. Therefore, other than for initial costs, the recreational boat population and spending profiles have been stratified into two tiers: recreational boats between 50 and 85 feet, and vessels 85 feet and larger.

The expenditures are grouped into three categories:

1. Initial costs are one-type expenditures associated with purchasing a new boat, other than the purchase price (discussed in the previous section). The per-recreational boat average was multiplied by the total number of new and used recreational boat sales to produce total statewide spending.

Initial Costs		
Expenditure Type	Average Per Recreational Boat	Total Annual Spending
Initial Outfitting and Upgrades	\$39,273	\$6,558,591
Transportation and Delivery	\$7,452	\$1,244,484
<b>Total</b>	<b>\$46,725</b>	<b>\$7,803,075</b>

2. Annual ownership costs are expenditures required to keep and maintain a vessel, such as permanent moorage, insurance and routine maintenance. Total spending figures refer to the entire expenditures of the 1,000-recreational boat fleet currently registered in Washington.

Annual Ownership Costs			
Expenditure Type	Average Per Recreational Boat: 50-85 Feet	Average Per Recreational Boat: 85+ Feet	Total Annual Spending
Insurance	\$3,637	\$9,746	\$3,783,616
Permanent Moorage	\$5,366	\$14,700	\$5,590,016
Surveying and Inspection	\$589	\$958	\$597,856
Maintenance and Repair	\$30,397	\$99,580	\$32,057,392
Detailing and Cleaning	\$1,818	\$7,309	\$1,949,784
Chandlery, Accessories and Electronics	\$3,959	\$13,409	\$4,185,800
<b>Total</b>	<b>\$45,766</b>	<b>\$145,702</b>	<b>\$48,164,464</b>

The next table provides a detailed breakdown of the individual maintenance cost estimations used to reach the total average maintenance costs reported above.

Item	Frequency (Years)	Average Cost Per Job		Prorated Annual Cost	
		50-85 ft	85+ ft	50-85 ft	85+ft
Haulout, power wash, etc.	1.5	\$3,000	\$6,000	\$2,000	\$4,000
Incidental repairs during haulout (prop, blisters, etc)	1.5	\$3,000	\$6,000	\$2,000	\$4,000
Painting	8	\$84,500	\$130,000	\$10,563	\$16,250
Teak work	8	\$7,000	\$35,000	\$875	\$4,375
Major upgrade/refit	15	\$100,000	\$500,000	\$6,667	\$33,333
Major maintenance (cooling, etc)	7	\$15,000	\$60,000	\$2,143	\$8,571
Annual engine/generator service	1	\$2,750	\$10,000	\$2,750	\$10,000
Engine overhaul	(1% of fleet per year)	\$225,000	\$1,125,000	\$2,250	\$11,250
Generator overhaul	10	\$8,000	\$50,000	\$800	\$5,000
Stabilizer/thruster install	(1% of fleet per year)	\$10,000	\$80,000	\$100	\$800
Stabilizer/thruster service	4.00	\$1,000	\$8,000	\$250	\$2,000

<b>Total</b>	<b>\$30,397</b>	<b>\$99,580</b>
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3. Operating costs are expenditures incurred when using the recreational boat, such as fuel, guest moorage and provisions. The estimates were obtained by combining each owner's daily spending on each expense category and the average number of days per the vessel is operated within Washington. Again, the total spending refers to the aggregate expenditures of the 1,000 vessels registered in-state

Annual Operating Costs			
Expenditure Type	Average Per Recreational Boat: 50-85 Feet	Average Per recreational Boat: 85+ Feet	Total Annual Spending
Fuel	\$6,122	\$23,264	\$6,533,408
Guest Moorage	\$2,154	\$6,915	\$2,268,264
Hotels	\$13	\$176	\$16,912
Restaurants	\$2,783	\$12,252	\$3,010,256
Air Transportation	\$932	\$1,544	\$946,688
Ground Transportation	\$115	\$3,594	\$198,496
Entertainment and Recreation	\$455	\$1,760	\$486,320
Grocery and other retail	\$4,994	\$17,442	\$5,292,752
Crew costs	\$0	\$82,590	\$1,982,160
<b>Total</b>	<b>\$17,568</b>	<b>\$149,537</b>	<b>\$20,735,256</b>

## ***Spending by Visiting Recreational Boats***

No official data is kept on the number of out-of state recreational boats that visit Washington each year. According to the Department of Licensing, 241 cruising permits were issued to visiting vessels in 2010. However, as discussed previously, visiting vessels only need to obtain a cruising permit if they remain in-state for more than 60 days in a given year.

Estimates of visiting recreational boat spending were obtained through the business survey, in which businesses reported the percent of their recreational boat-related revenues derived from visiting out-of-state recreational boats. This ratio was compared to the in-state recreational boat spending totals reported above, resulting in the following estimates of total spending for visiting recreational boats.

Total Spending by Visiting Recreational Boats	
Expense Category	Total Visiting Recreational Boat Spending
Guest moorage	\$637,158
Chandlery	\$1,046,450
Fuel	\$1,156,484
Restaurant	\$3,533,779
Grocery and other retail	\$6,213,231
Maintenance	\$4,790,184
Detailing	\$216,643
Surveying	\$81,526
<b>Total</b>	<b>\$17,675,455</b>

## Current Economic Impact of Recreational Boating in Washington

The following section reports the total economic impacts resulting from the existing recreational boat activities and spending described above, as determined by the IMPLAN model.

### ***Economic Output Impacts***

As discussed above, recreational boats in Washington State are responsible for \$244.2 million in direct economic activity, including vessel sales, ownership and operating costs, as well as spending by visiting recreational boats. Indirect and induced spending generates an additional \$98.9 million in annual activity, for a total economic impact of \$343.1 million per year. Value added (economic output minus the cost of intermediate inputs, such as supplies consumed) comprises \$124.3 million of the total economic activity.

Expenditure Type	Direct	Indirect	Induced	Total Output
Boat Sales and Initial Costs	\$157,633,725	\$8,473,414	\$24,473,071	\$190,580,210
Annual Ownership Costs	\$48,164,464	\$16,950,860	\$19,813,457	\$84,928,782
Operating Costs	\$20,735,256	\$5,459,988	\$10,353,994	\$36,549,237
Visiting Recreational Boats	\$17,675,460	\$5,090,491	\$8,255,778	\$31,021,729
<b>Total</b>	<b>\$244,208,905</b>	<b>\$35,974,753</b>	<b>\$62,896,300</b>	<b>\$343,079,958</b>

<b>Expenditure Type</b>	<b>Total Value Added</b>
Boat Sales and Initial Costs	\$35,462,720
Annual Ownership Costs	\$45,079,544
Operating Costs	\$24,542,193
Visiting Recreational Boats	\$19,196,832
<b>Total</b>	<b>\$124,281,289</b>

## ***Employment Impacts***

About 1,250 people in Washington are employed in industries directly serving recreational boats. Including secondary effects, recreational boats are responsible for creating 1,923 total jobs. These positions will generate a total of \$110.2 million in labor income.

Region	Direct Employment	Total Employment Impact	Direct Labor Income	Total Labor Income
Boat Sales and Initial Costs	455.2	685.4	\$24,734,504	\$35,462,720
Annual Ownership Costs	313.3	557.2	\$16,330,990	\$28,711,213
Operating Costs	264.7	373.8	\$9,868,210	\$14,969,364
Visiting Recreational Boats	216.6	306.9	\$17,675,460	\$31,021,729
<b>Total</b>	<b>1249.8</b>	<b>1923.3</b>	<b>\$68,609,164</b>	<b>\$110,165,026</b>

## ***Tax Impacts***

### **Recreational Boat Sales, Use Taxes and Registration Fees**

The Department of Licensing collected about \$3.25 million in taxes and fees from recreational boats valued at \$300,000 or more in 2010, including registration fees, excise taxes, and use taxes. Additionally, DOR collected an estimated \$8.11 million in sales tax on sales of new \$300,000+ recreational boats, and \$6.19 million on resale transactions over the same value threshold. Thus, the two agencies levied a total of \$17.55 million in direct taxes and fees on recreational boats.

## **Taxes from Recreational Boat Spending and Secondary Effects**

The one-time, annual and operating expenditures by recreational boat owners provide the state with tax revenues through a variety of additional channels, including:

- Retail sales tax on goods purchases and select services
- Leasehold tax on moorage
- B&O taxes on all business activity, including boat sellers

Excluding sales taxes on vessels, which were included above, direct business taxes provide an estimated \$8.5 million in annual revenue to state and local government.

Additionally, the indirect and induced effects of recreational boat spending generate a second round of own tax revenues, totaling approximately \$5.4 million per year.

### **Total Tax Revenues**

The following table summarizes the tax revenue effects discussed above. In total, the recreational boating industry is responsible for about \$31.5 million in tax revenue each year.

State Tax Impact of Current Recreational Boats	
Category	Annual Tax Revenue
Sales Taxes on Boat Purchases	\$14,289,268
Taxes and Fees Collected by DOL	\$3,246,195
Taxes on Direct Spending (excl. boat seller sales tax)	\$8,545,076
Taxes on Indirect and Induced Spending	\$5,396,653
<b>Total Tax Revenue</b>	<b>\$31,477,192</b>

## Comparison to Washington State Skiing Industry

The following section compares the current Washington State recreational boating industry to the Washington State skiing industry.

### ***Economic Output Impacts***

Though similar in terms of direct output, the recreational boating and skiing industry differ greatly in terms of indirect and induced output. The Washington State skiing industry has a direct economic output of \$244.50 million, which is comparable to the recreational boating industry's direct economic output of \$244.21 million.

Washington's skiing industry produces more indirect and induced output, valuing \$143.60 and \$266.70 million respectively, compared to the recreational boating industry's \$35.97 million of indirect output and \$62.90 million of induced output. This leads to a higher total output of the skiing industry than the recreational boating industry, at \$664.80 and \$343.08 million respectively.

Total Economic Output (in Millions of Dollars)				
Industry	Direct	Indirect	Induced	Total Output
Recreational Boating	\$244.21	\$35.97	\$62.90	\$343.08
Skiing	\$244.50	\$153.60	\$266.70	\$664.80

### ***Other Economic Effects***

The Washington State skiing industry is, in general, larger than the recreational boating industry. The skiing industry leads to a total value added of \$395.20 million compared to the recreational boating industry's \$124.28 million. Additionally, the skiing industry leads to a greater number of jobs, 5,251 as compared to 1,923. The size of Washington State's skiing industry leads to a larger impact on state tax revenue. The skiing industry results in \$46.30 million whereas the recreational boating industry has an impact of \$31.48 million.

Comparison of Economic Impact in Washington State			
Industry	Total Value Added (\$ Millions)	Total Employment Impact (# Jobs)	State Tax Impact (\$ Millions)
Recreational Boating	\$124.28	1,923	\$31.48
Skiing	\$395.20	5,251	\$46.30

## **Additional Recreational Boat Activity Expected from Proposed Legislation**

As discussed previously in this report, the Washington legislature is considering a bill to reform recreational boat taxes and fees. The bill has two main components:

1. Entity-owned, out-of-state recreational boats would be allowed to purchase cruising and use permits on the same terms currently available to individual-owned vessels. These permits would allow visiting recreational boats to remain in Washington longer without facing use tax liability.
2. For sales and use tax, the taxable value of recreational boats would be capped at \$300,000. At a 9.5% tax rate, this means a maximum tax liability of \$28,500 for a vessel purchased in or brought into the state.

The expected effects of each of the two components are described below.

### ***Cruising Permits for Entity-Owned Recreational Boats***

According to Department of Licensing data, 241 cruising permits were issued in 2010. These permits are currently only available to recreational boats owned by individuals, as opposed to entities.

Due to the diffuse nature of potential recreational boat visitors living in other states or countries, it was not possible to obtain an estimate of potential cruising permit use through survey research. However, recreational boat management experts, including those based in other jurisdictions, suggested that substantial numbers of entity-owned vessels would likely use these permits. In particular, many recreational boats make an annual migration up and down the Pacific Coast, cruising Alaska and Canada during the summer, returning to California in the fall for maintenance, and wintering in Mexico or transiting via the Panama Canal. Many of these vessels would spend part of their summer cruising time in Washington if the threat of use tax liability were not present.

Additionally, several pieces of evidence indicate that the entity-owned visits would be economically significant. First, the percentage of recreational boats that are entity-owned increases steadily with vessel size and value; virtually all of the “megayachts” are owned under an entity structure. Thus, this reform would open the state to visitation

by larger and higher-spending class of vessels than those that can currently obtain cruising and use permits. Second, recreational boat owners using an entity arrangement tend to be savvy and well-advised on financial and legal issues relating to their vessels. This suggests that these well-informed and cost-conscious owners will be likely to respond to the new opportunity provided by these permits.

Based on these considerations, it was estimated that 241 cruising permits would be issued to entity-owned vessels – the same number issued to individual-owned recreational boats in 2010. At 60 days per permit, this would provide these vessels with the right to remain in Washington for a total of 14,460 total operating days. (Note: not all vessels may use the full 60 days allowed by each permit. However, some vessels may not come to Washington at all if permits were not available, causing an increase in visitation greater than 60 days per permit. The 60-day average accounts for these offsetting factors).

## ***Sales and Use Tax Cap***

As previously discussed, anecdotal evidence suggests that a significant number of recreational boat owners, including Washington residents and residents of other states, keep their vessels outside of Washington so as not to incur sales or use tax.

Many of these diverted vessels reside in British Columbia, a nearby, tax-free location that enjoys similarly attractive cruising waters to those of Washington. However, experts have suggested that the vast majority of these boats would be located in Washington if not for the tax policies. Boat owners who must journey to Canada every time they use their boat face substantial hassle and expense, including plane or ferry rides and lengthy border crossings. Additionally, fuel and maintenance costs are significantly higher in Canada than in the United States, particularly with the currently strong Canadian dollar.

Experts have also suggested that a substantial number of boats currently located in California, or sold there in the future, would be likely to relocate to Washington if the legislation were enacted. California currently has a stringent tax scheme that requires boats purchased there to either vacate the state for 12 months or pay the full sales tax rate. Thus, it is common for vessels to spend a year in another location such as BC, Mexico, or Oregon. If taxes in Washington were reduced, it is likely that a substantial stream of new boats would reside in Washington each year.

Furthermore, California has several disadvantages even for recreational boats that are no longer liable for sales and use tax. First, its personal property tax, an annual tax based on assessed value, is substantially higher than Washington's excise tax. Rates vary based on locality, but typically range between 1.5 and 2% per year. Finally, despite a warmer climate, California does not have a strong reputation for attractive cruising waters. In particular, the majority of the coast is unprotected and often rough.

Based on a census of five British Columbia marinas and a telephone survey of other marinas in the area, it is estimated that 519 recreational boats valued at over \$300,000 are currently moored in Canadian marinas, and that virtually all of these vessels would be in Washington if not for the state's tax policies. Further, based on consultation with recreational boat planning experts in California, an estimated 265 vessels will permanently relocate to Washington due to the sales and use tax adjustment. This provides a total of 784 recreational boats newly based in Washington.

As with visiting entity-owned recreational boats, permanently relocating vessels are likely to have a higher average market value than those currently in the state. This is because more valuable vessels are more likely to receive advising on their taxation strategies and cruising plans; they will have larger sums of money at stake in tax issues, providing an greater incentive to respond to policy changes.

Smaller numbers of recreational boats may also be kept at non-marina locations in BC, such as private homes, as well as tax-free US states such as Oregon and Alaska, but a reliable count of such vessels could not be obtained.

Projected Distribution of New WA-Based Recreational Boats		
Vessel Length	Registered Vessels	Avg. Est. Value
51-55 ft	333	\$466,244
56-60 ft	191	\$679,641
61-65 ft	135	\$944,605
66-70 ft	42	\$1,261,136
71-75 ft	27	\$1,629,235
76-80 ft	27	\$2,048,900
81-85 ft	10	\$2,520,133
Over 85 ft	19	\$2,940,505
<b>Total</b>	<b>784</b>	<b>\$823,318</b>

## Predicted Economic Impact of Proposed Legislation

The following section describes the expected economic impact of changes in recreational boating activity resulting from the proposed legislation.

### ***Effects on Recreational Boat Spending***

The increased recreational boat activity described in the preceding section will generate corresponding increases in economic activity.

#### **Increase in Visiting Entity-Owned Recreational Boats**

As discussed in the preceding section, entity-owned recreational boats would be expected to purchase approximately 241 cruising permits per year, and would consequently remain in Washington for 14,460 additional vessel-days. These vessels would spend over \$17 million per year while in Washington.

The research has indicated that entity-owned recreational boats skew towards larger sizes and higher market values. Therefore, the average expenditure profiles used for the Washington-based population were adjusted to account for a higher average value among entity-owned recreational boats.

#### **Increase in State Recreational Boat Population Due to Sales and Use Tax Cap**

As discussed in the preceding section, it is expected that 784 total vessels would permanently relocate from British Columbia and California to Washington if the sales and use taxes were capped. Again, the average spending profile was adjusted based on a higher expected average value. For all 784 vessels, this results in total ownership and operating spending of more than \$69 million per year.

#### **Increase in Recreational Boat Sales Due to Sales and Use Tax Cap**

In addition, the tax cap is expected to increase the sales of new and used recreational boats in Washington by lowering the effective price paid by the consumer. This increase can manifest in several ways. First, individuals who would have purchased a new recreational boat even under the current tax policy may decide to “re-invest” the tax savings into a higher value vessel. Second, current recreational boat owners who would otherwise have kept their existing recreational boat may decide to upgrade to a newer or larger vessel. Finally, individuals who do not own a recreational boat at all may take the opportunity to enter the recreational boat market.

Since this research did not involve individuals who do not currently own a recreational boat, is it not possible to directly estimate the total increase in sales. However, as a conservative estimate, it is reasonable to assume that the increase in the value of total recreational boat sales will at least equal the reduction in taxes. For example, assume a prospective buyer had previously planned to purchase a recreational boat listed at \$1 million, which would currently entail a \$95,000 sales tax payment. If the proposed legislation capped the tax liability at \$28,500, the tax savings would total \$66,500. Since this hypothetical buyer had already budgeted \$1,095,000 for a recreational boat, he or she could be expected to spend the savings on additional options or equipment for the recreational boat.

Thus, new recreational boat sales can be expected to equal, at a minimum, the volume of the sales tax no longer collected (discussed in the following section) , or about **\$9.4 million per year**.

Note: the relationship between the price of a good and the quantity sold is known as price elasticity, and is a topic of significant study in economics. The scenario described above, where a change in the price facing the consumer causes an increase in demand that keeps the total expenditure constant, is known as “unit elastic” demand. Luxury goods are generally considered to be highly price-elastic (meaning that a small change in price leads to a large change in demand), since it is usually easy to substitute one luxury good for another. Recreational boats are literally a textbook example of high price elasticity in the economics literature: the short-lived federal luxury tax in the early 1990s is notorious for causing a very steep decline in recreational boat purchases. Thus, the converse is also generally understood to be true, meaning that a 9.5% tax reduction is likely to produce a disproportionate increase in the total value of recreational boat sales. However, to produce a conservative estimate, this analysis retains the assumption of unit elastic demand.

## **Economic Output Effects**

The following tables report the economic impacts expected from the recreational boating activity changes described above. The increases in the population of visiting and resident recreational boats, as well as the increase in recreational boat sales, would generate a total of \$29.4 million per year in direct spending. Including secondary effects, this would create \$164.4 million in total annual economic activity, of which \$92.7 million is value added.

Expenditure Type	Direct	Indirect	Induced	Total Output
Visiting Entity-Owned Recreational Boats	\$17,121,390	\$4,497,139	\$8,259,357	\$29,877,940
Additional Recreational Boat Sales	\$9,370,009	\$456,823	\$1,363,903	\$11,190,735
Annual Ownership Costs	\$48,986,663	\$14,240,100	\$20,151,616	\$86,378,379
Operating Costs	\$20,950,803	\$5,513,735	\$10,441,644	\$36,906,183
<b>Total</b>	<b>\$96,428,865</b>	<b>\$24,707,797</b>	<b>\$40,216,520</b>	<b>\$164,353,237</b>

Expenditure Type	Total Value Added
Visiting Entity-Owned Recreational Boats	\$20,139,078
Additional Recreational Boat Sales	\$2,745,226
Annual Ownership Costs	\$45,079,544
Operating Costs	\$24,791,031
<b>Total</b>	<b>\$92,754,879</b>

## ***Employment Effects***

The increase in demand from the tax reform legislation would create 837 jobs in sectors directly serving recreational boats, and a total of 1,295 jobs including secondary effects. The labor income earned through these newly-created jobs would total \$58.2 million per year.

Region	Direct Employment	Total Employment Impact	Direct Labor Income	Total Labor Income Impact
Visiting Entity-Owned Recreational Boats	225.3	312.6	\$7,861,578	\$11,941,635
Additional Recreational Boat Sales	25.5	38.2	\$1,385,776	\$1,976,534
Annual Ownership Costs	318.4	566.7	\$16,609,508	\$29,201,231
Operating Costs	267.8	377.8	\$9,951,260	\$15,096,120
<b>Total</b>	<b>837.0</b>	<b>1295.3</b>	<b>\$35,808,122</b>	<b>\$58,215,520</b>

## ***Summary of Tax Impacts***

To determine the total tax impact, it is necessary to compare the decreases in direct revenue resulting from the tax reductions, against the additional taxes paid by recreational boats brought to Washington by the reforms, as well as the tax receipts from business activity directly or indirectly generated by recreational boat spending.

### **Tax Effect of Cruising Permit Reform**

The cruising permit reform measure could decrease state use revenues in two possible ways.

1. Entity-owned vessels desiring to stay in Washington for longer than the current 60-day period, who otherwise would have paid use tax, will now instead acquire a cruising or use permit.
2. Washington residents use an offshore entity ownership structure to disguise their in-state status, avoiding the use tax they would be obligated to pay upon bringing their vessel into the state.

However, both of these effects are expected to be negligible. As it stands, few if any vessels would pay the considerable use tax payment simply to visit Washington for a

few months in a given year, so use tax loses should be minimal to nonexistent. The second effect is dependent upon implementation and enforcement of the bill, but should mitigate the potential for abuse.

#### **Decrease in Sales and Use Tax for Existing Transactions**

If recreational boat sales figures remained unchanged, sales taxes on new recreational boats would decrease due to the cap, from \$8.1 million to approximately \$2.7 million per year (a loss of \$5.4 million). Similarly, sales taxes and use tax paid on the resale of recreational boats would decrease by \$4.0 million. Finally, use tax on vessels brought into the state would decrease by approximately \$993,000.

#### **Increase in Use Tax for New Vessels**

If the enactment of the proposed legislation caused 784 recreational boats valued at over \$300,000 to relocate to Washington, those vessels would consequently pay use tax at the new rate. At the capped value of \$300,000, each vessel would pay approximately \$28,500, raising a total of \$22.3 million in additional revenue.

#### **Increase in Annual Excise Tax**

The 784 new recreational boats would also pay annual excise tax (0.5% of assessed value).

#### **Increase in Business Taxes**

The permanently relocating recreational boats, visiting entity-owned recreational boats, and new recreational boats sold because of the tax reform will all generate economic activity in Washington, which will provide returns through sales, B&O, leasehold and other taxes.

### ***Three Year Projection of Tax Impacts***

The table below provides a three-year projection for the overall tax impact of the legislation. Several parameters are built into this model:

- 2% annual increase in recreational boat prices and spending
- 3% annual increase in the number of recreational boats sold
- The predicted increases in relocating and visiting recreational boats will take three years to fully manifest. 33% of the effect occurs each year (e.g. each year, one-third of the predicted 784 recreational boats will relocate).

<b>Three Year Projection of Fleet Size and Tax Impacts</b>			
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
New recreational boats sold due to legislation	7.2	7.4	7.7
Total fleet size (no legislation)	1,020	1,040	1,061
Total fleet size (legislation)	1,289	1,578	1,868
Sales tax revenue lost (new sales)	(\$5,370,013)	(\$5,697,047)	(\$5,867,958)
Sales tax revenue lost (used sales)	(\$3,999,997)	(\$4,119,997)	(\$4,243,597)
Use tax revenue lost	(\$432,619)	(\$445,598)	(\$458,965)
New use Tax Revenue	\$7,562,000	\$7,562,000	\$7,562,000
New sales tax revenue	\$205,770	\$211,943	\$218,301
New excise tax revenue	\$702,249	\$1,405,065	\$2,108,464
Tax Revenue from new recreational boat activity	\$3,466,702	\$7,074,923	\$10,829,084
<b>Net Annual Tax Impact</b>	<b>\$2,134,092</b>	<b>\$5,991,290</b>	<b>\$10,147,329</b>
<b>Cumulative Tax Impact</b>	<b>\$2,134,092</b>	<b>\$8,125,382</b>	<b>\$18,272,711</b>

## Conclusions

1. Washington currently charges sales tax or the equivalent amount in use tax for recreational boats purchased for use in the state, vessels brought into the state by residents, and visiting out-of-state vessels that visit for more than 60 days per year (individual-owned recreational boats may extend this period with cruising or use permits).
2. Boat owners may employ several strategies to limit the taxes assessed on recreational boats. The strategy most relevant to this report is simply not bringing a recreational boat into the state's waters. This is economically harmful to Washington, because the spending associated with owning and operating a recreational boat does not take place within the state, and thus does not contribute to the local economy.
3. Tax and fee policies vary widely among coastal states in the United States. Several states, including the Pacific states of Alaska, Hawaii and Oregon, levy no sales or use tax on boat purchases. British Columbia also offers a tax-free place for US owners to keep their recreational boats. Taking into account the tax rate applied as well as the application of taxes to visiting recreational boats, Washington has some of the most restrictive recreational boat tax and fee policies in the nation.
4. Numerous states have embarked on efforts to reform the taxes and fees they assess on recreational boats. Rhode Island, which eliminated sales and use taxes on boats in 1993, has established a thriving recreational marine sector with significant economic impacts. For states that embarked on such reforms more recently, including Maine, South Carolina, and Florida, it is still too early to assess the economic effect.
5. At least one state, California, has responded to the economic and budget crisis by tightening its recreational boat tax policies. California extended the time a newly-purchased vessel must remain outside of California to eliminate tax liability from 90 days to 12 months.
6. As of 2010, there are a total of 9,278 recreational boats 35 feet or larger registered in Washington. Approximately 1,000 of these vessels have a value greater than \$300,000 – the category of vessels that would be affected by the proposed tax cap legislation.
7. Currently, annual recreational boat sales in Washington total approximately 645 transactions: 96 new vessels and 549 resales. Of the 645 vessels sold,

approximately 152 sold for more than \$300,000 and would thus be affected by the tax cap.

8. Owners of recreational boats over \$300,000 in value spend an average of over \$45,000 on upgrades and delivery at the time of purchase.
9. Owners of 50-85 foot vessels spend an average of more than \$45,766 per year on ownership costs such as maintenance and guest moorage, and an additional \$17,568 on operating costs such as fuel, restaurants and groceries.
10. The average expenditures are much higher for owners of vessels larger than 85 feet. These recreational boats spend an average of 45,766 per year on ownership costs, and \$149,537 on operating costs.
11. Each year, recreational boats that visit Washington from other states and countries spend an additional \$17.7 million in the state.
12. Including secondary effects, recreational boats valued at over \$300,000 generate a total of \$434.1 million in economic activity each year for Washington. This spending creates a total of 1,923 jobs, and \$110.2 million in labor income.
13. The State of Washington collects a total of \$31.5 million in tax income from these recreational boats, including sales and use taxes, annual fees, and taxes on direct and secondary business activity.
14. Approximately 784 recreational boats being kept in British Columbia and California would likely relocate to the state if these taxes were reduced.
15. If they relocated to Washington, the 784 recreational boats would spend about \$70 million per year in-state for ownership and operating costs.
16. Capping the sales tax on vessel purchases is expected to generate at least \$9.4 million per year in additional recreational boat sales revenue.
17. If entity-owned vessels were allowed to obtain cruising and use permits, 241 vessels would be expected to participate, spending \$17.1 million per year in Washington.
18. In total, the proposed legislation is expected to generate \$32.1 million per year in direct spending, \$47.1 million in total economic activity, 370 total jobs, and \$19.6 million in labor income per year.
19. The proposed legislation would reduce the tax revenue collected on current recreational boat sales, but would also provide new sources of tax revenue due to additional recreational boating activity. Over three years, the legislation would create a cumulative increase of over \$18 million in tax revenues.

## Appendix: Economic Impact of Washington's Recreational Marine Sector

The following are estimates of the total economic impact provided by Washington's entire recreational boating sector. This includes smaller vessels as well as the recreational boats described in the body of the report. Additionally, the total impact includes economic activity for vessels that do not remain in Washington, such as manufacturing of boats for sale in other states.

The economic impact estimates are based on data collected by the NMMA in 2008. This included per-vessel and total ownership and operating costs, as well as revenues for businesses in boating-related industries (NAICS codes). Care was taken to avoid double-counting activities captured in both business revenue and owner spending data.

Similar to the recreational boat spending impacts, data has been divided into annual ownership costs, such as insurance and storage/moorage, and operating costs such as fuel and grocery purchases. "Other business" revenues include all additional industries in the recreational marine sector, such as boat building, part and accessory manufacturing, wholesale and retail, and services such as boat rental, chartering and instruction.

### ***Output Impacts***

Expenditure Type	Direct	Indirect	Induced	Total Output
Other Business Revenues	\$954,087,017	\$342,017,912	\$417,477,459	\$1,713,582,388
Annual Ownership Costs	\$888,797,899	\$341,882,188	\$371,354,880	\$1,602,034,968
Operating Costs	\$340,440,424	\$118,520,740	\$154,734,566	\$613,695,730
<b>Total</b>	<b>\$2,183,325,340</b>	<b>\$802,420,840</b>	<b>\$943,566,906</b>	<b>\$3,929,320,544</b>

<b>Expenditure Type</b>	<b>Total Value Added</b>
Visiting Entity-Owned Recreational Boats	\$1,140,936
Additional Recreational Boat Sales	\$2,537,857
Annual Ownership Costs	\$11,259,653
Operating Costs	\$9,962,479
<b>Total</b>	<b>\$24,900,925</b>

## ***Employment Impacts***

Region	Direct Employment	Total Employment Impact	Direct Labor Income	Total Labor Income
Other Business Revenues	5,767	10,773	\$354,469,566	\$604,898,247
Annual Ownership Costs	6,089	10,911	\$296,608,703	\$537,859,146
Operating Costs	4,499	6,354	\$136,173,199	\$223,984,652
<b>Total</b>	<b>16,355</b>	<b>28,038</b>	<b>\$787,251,458</b>	<b>\$1,366,742,045</b>