Coburn Amendment 2696: Eliminate Yacht Subsidies

Tax expenditures, including the mortgage interest deduction, predominately help the well off

- According to the Congressional Budget Office (CBO), **more than 50% of tax expenditures** in the individual income tax system are distributed **to the top 20% of households by income**[1]
- One of the largest tax expenditures is the mortgage interest deduction, which cost roughly $89.6 billion in 2013 in lost revenue
- A homeowner can deduct the interest paid on a mortgage covering a primary or secondary home capped at a total of $1 million in debt
- While most assume the mortgage interest deduction largely benefits middle and lower income earners, this is simply not the case – in 2012, 77 percent of the benefits from the mortgage interest deduction went to homeowners with incomes above $100,000
- The application of the mortgage interest deduction to second homes–which costs $8 billion per year – further highlights that those benefitting from this tax break are among the most well off

Yachts, luxury boats, and other watercraft can be considered 2nd homes eligible for the mortgage interest deduction

- A boat is considered a dwelling eligible for the mortgage interest deduction as long as it has a sleeping, cooking, and toilet facility and the owner lives in it for at least two weeks a year[2]
- Roughly 600,000 boats registered in the United States qualify for the deduction[3]
- According to a Seattle Post-Intelligencer investigative report, "boat manufacturers nowadays have the tax deduction in mind when they install the proper amenities in small boats."[4]
- The same report found based on anecdotal evidence and reports of enforcement backlog problems that the IRS had no way of knowing whether the owners occupied the boat for the required 14 days per year
- The Joint Committee on Taxation estimates that yacht subsidies will cost the federal government $63 million in the next 5 years and $158 million over the next 10 years[5]

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[1] http://www.cbo.gov/sites/default/files/cbofiles/attachments/43768_DistributionTaxExpenditures.pdf
[2] http://www.irs.gov/publications/p936/ar02.html
[3] http://www.bloomberg.com/news/2014-01-23/yacht-owners-seek-to-salvage-deduction-for-second-homes.html
[4] http://www.seattlepi.com/local/article/Declaring-your-boat-a-second-home-can-bring-big-1159212.php#page-1

Incentivizing yacht purchases through the tax code is not a public policy goal and should be eliminated

- The federal government incentivizing yacht purchases with tax subsidies would not have a public policy justification under normal budget conditions – subsidizing yachts while simultaneously running $600 billion deficits on top of a $17 trillion national debt is inexcusable
- While the President and many pundits have highlighted income inequality issues recently – promoting employment deterrents such as raising the minimum wage or extending long-term unemployment benefits – these issues should instead be considered under the context of federal policy that provides unemployment payments for millionaires, subsidized crop insurance for wealthy farmers, and a complex tax system that benefits those that can take advantage of loopholes
- Coburn amendment 2696 takes a small step towards common sense by eliminating eligibility of yachts and other watercraft for the 2nd home mortgage interest deduction

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[5] JCT letter to Representative Quigley