Testimony Before
The Connecticut House of Representatives
Committee on Taxation
March 6, 2011

Hello and thank you for the opportunity to testify regarding the four percent luxury tax under consideration by the committee. My name is David Dickerson and I am director of state government relations for the National Marine Manufacturers Association (NNMA).

NMMA represents more than 1,400 recreational marine businesses including boat, engine and accessory manufacturers.

Before I discuss the luxury tax before you today, I'd like to offer a few quotes from Members of Congress who reversed their position and voted to repeal a luxury tax on boats in 1993, just two years after it was enacted.

"Congress passed this tax at a time of budgetary crisis, under the belief that by imposing this luxury tax, we would tax those who are most able to pay, and the conclusion was drawn that there were no consequences for that decision. We now know from experience and we know from the data that is not the case. In fact, there have been some estimates that it cost more money to collect this tax than what it is actually bringing in. US Senator Connie Mack, FL.

"Since the tax took effect, hundreds of builders of large and small boats have spoken of it as a stake driven into the heart of an industry already suffering from the recession, tighter bank rules on financing and fallout from the gulf war." NYT, 1992

This luxury tax has been a total disaster in every respect," Senator John H. Chafee, Republican of RI said in urging repeal.

The imposition of a federal luxury tax in 1991 was a defining moment for NMMA. The massive decline in sales that followed the luxury tax on boats costing more than $100,000 brought the industry together as never before. We had no choice. Dealerships, manufacturers and their suppliers were laying off thousands of employees.

Then, as now, the tax was considered one of many new sources of revenue that elected officials turned to in a tough budget situation. Then as now, the economy was in the tank. Then as now, the boating industry was already experiencing significant loss of sales.

Today's economic hardships have slammed discretionary purchases such as boats to an unprecedented degree. Sales have dropped 70 percent. Nearly 40 percent of all dealerships have gone under. Thousands upon thousands of manufacturing jobs have been lost. In fact, our industry is so hard hit that many established manufacturers of name-brand boats simply shut down their factories in 2009 and 2010. One of the largest boat builders in the world went Chapter 7. Even NMMA has shrunk by more than half.

I can't speak for other industries, but a tax on boats – one of the few American industries that manufacturers its goods with American workers – hits the workers hardest. The buyer can wait for better times, for the tax to be repealed, for the opportunity to register their boats in neighboring states. The workers can not. I am glad to say that sales have begun to pick up a few percentage points. But on the horizon is a boating season facing high fuel prices that may once again pull the consumer away from boating. For goodness sake, please don't put this tax in place.

The history of the 1991 tax raises legitimate concerns about its unintended consequences.

The luxury tax in 1991 was repealed just two years later because it not only failed to raise the revenue that was predicted, but was estimated by some to be counterproductive by raising unemployment costs above the tax's revenue.

Here's what Senator John Breaux said at the time:

"There is no question that the economy has hurt the boat-building business, but I think that they were just barely treading water. And what Congress did was come up and kind of put our foot on top of their heads and just shoved them under the water line, and as a result, they really are drowning."

For the first time, marine dealers and manufacturers faced a policy that, within months decreased sales of all boats, not just those that would have been affected by the tax. Sales declined 40 percent. Well-established brands such as Viking, Hatteras and Sea Ray experienced this devastating loss of sales, resulting not only in job losses among manufacturers, but also for component builders such as Faria Marine Instruments and Lewmar Ltd. of Connecticut.

The impact of a luxury tax, particularly one that is assessed only in one state, will devastate Connecticut boat dealers, boat yards and marinas. It is essential that this committee take the lesson taught by the 1991 luxury tax and vote to not impose it upon Connecticut boaters.

One unforeseen consequence of the national tax was the confusion among the public. Rather than grasp the fact that the national luxury tax only applied to the cost of new boat sales above $100,000, the public assumed the tax applied to all boat sales. This unfortunate perception added to the dramatic sales decrease across all segments of the marine industry.

The other tax proposals in the administration's budget would add more costs to boat use. In addition to the luxury tax, there is the proposed general increase in sales taxes, fuel taxes and personal property taxes as well as the extension of the sales tax to include marine boatyard, marina and storage services. In sum, boaters will pay significantly more in taxes whether they use, buy or maintain their boats – even those that spend most of their days on a trailer.

The industry is still reeling from a 70 percent loss of sales during the recession, a sales drop that has put up to 40 percent of Connecticut marine dealers out of business. Sales have yet to bottom out in key boat segments that will be most affected by these multiple tax increases.

It is with these multiple impacts in mind that I request that the committee vote to remove the luxury tax proposal from the 2011-12 state budget now before it.

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