TESTIMONY of Don MacKenzie
OWNER – Boats Incorporated, Niantic, CT
Monday March 18, 2013

IN SUPPORT OF S.B. No. 1117 (RAISED) AN ACT CONCERNING THE TAXATION OF DIGITAL DOWNLOADS, BOATS AND MARIJUANA, AND EXPANDING THE TAX CREDITS AVAILABLE UNDER THE NEIGHBORHOOD ASSISTANCE ACT

Prior to submitting my written testimony I took the time to look up the best way to prepare and deliver my testimony and I was happy to learn that this is one of the most effective ways to inform legislators about how the impact that proposed legislation will affect not only the citizens, but our state as well. In addition, it stated that legislators aren't always aware of the implications of a certain piece of legislation and honest, fact filled testimony may indeed help them in considering all of the options before making their decisions.

In regards to Raised Bill 1117, I hope the latter is the case and my testimony will help you achieve what you are trying to do, raise tax revenue for our state.

Currently, there is a Luxury Tax of .65% on boats that are over $100,000. According to the Dept. of Revenue, the tax collected on boats that sold over $100,000 was only $70,000. It was hoped that those who had the where with all to make such a purchase would chip in an additional .65% to the states' coffers. The problem, the tax is optional. Meaning those who can, are simply opting not to make the purchase thereby costing the state the 6.35% we could have collected. They are opting out for two (2) reasons, one it is perceived that the luxury tax is an additional 7%. Secondly, those who have the money to make that kind of purchase won't even consider making such a purchase with a penalty attached, so they simply don't make the purchase...it's their decision. The data obtained from DRS clearly shows the Luxury Tax is not generating any revenue, but actually costing the state as those who can buy choose not to.

Prior to the implementation of the Luxury Tax in one of the worst economies our country has ever seen, my company sold $3.1M in boats that exceeded $100,000. Last year my company had a growth of 34% yet boats that sold over $100,000 were only $1.4M.

Big boats sold in our state, stay in our state. They live here and want to recreate here. They rent slips which are taxable. They buy goods that are taxable and most importantly their purchases provide employment. If the Luxury Tax is removed, those buyers will return. Our sales of larger boats were twice what they were in the recession versus sales today. The reason is the Luxury Tax. The state is literally giving away 6.35% while chasing .65%.

The $70,000 raised in Luxury Tax last year will pay the salary of one mid to upper level state employee with benefits. Was that the goal? I understand what the intent of the Luxury Tax was but again, the tax is optional. If they choose not to buy, then they don't and zero tax is collected as there was no transaction.

Not only do we have the facts in how much this tax is costing our state in revenue and jobs, but we have history as well. In 1991 the federal Government implemented a Luxury Tax on boats that were more than $100,000. In very short order it was revealed that the taxes collected were $97 million lower than anticipated as those who could, simply opted not to buy. There was a drop of 77% in large boat sales, and boat builders laid off an estimated 25,000 workers. The tax was quickly repealed in 1993. The economic damage the Luxury Tax created in 1991 coupled with the sales history we have today has to reveal this tax costs our state much more money that it even hoped to collect.

My support for passage of this bill is not to give the rich a tax break, but to remove the penalty for making such a purchase so we can keep people working. Those who can make such a purchase create economy and the state gets 6.35% instead of 0%. While chasing an additional .65%, that state gets no revenue as they simply choose not to buy.

That decision not to buy does not hurt them one bit, but it sure has an impact on sales tax revenue for our state and jobs for our state. Nothing happens until someone buys something.

Inside Politics: A hard-earned lesson

The Washington Times ^ | January 7, 2003 | Greg Pierce

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"Most Americans celebrated as the ball fell in Times Square New Year's Eve. But for auto dealers this new year is especially sweet. January 1 marked the expiration of the federal luxury tax on cars, the last vestige of the destructive luxury tax package in the infamous 1990 budget deal," the Wall Street Journal says.

"Starting in 1991, Washington levied a 10 percent tax on cars valued above $30,000, boats above $100,000, jewelry and furs above $10,000 and private planes above $250,000. Democrats like Ted Kennedy and then-Senate Majority Leader George Mitchell crowed publicly about how the rich would finally be paying their fair share and privately about convincing President George H.W. Bush to renounce his 'no new taxes' pledge," the newspaper said in an editorial.

"But it wasn't long before even those die-hard class warriors noticed they'd badly missed their mark. The taxes took in $97 million less in their first year than had been projected — for the simple reason that people were buying a lot fewer of these goods. Boat building, a key industry in Messrs. Mitchell and Kennedy's home states of Maine and Massachusetts, was particularly hard hit. Yacht retailers reported a 77 percent drop in sales that year, while boat builders estimated layoffs at 25,000. With bipartisan support, all but the car tax was repealed in 1993, and in 1996 Congress voted to phase that out too. January 1 was disappearance day.

"The end of any federal tax is such a rarity that it's well worth celebrating. And the luxury-tax lesson of economic damage is worth keeping in mind as politicians begin to wail that President Bush's new tax proposals aren't punitive enough on the rich."