



May 25, 2021

Chairman Merrin, Vice Chair Riedel and Ranking Member Sobecki and all members of the House Ways and Means Committee, thank you for the opportunity to provide comments in favor of House Bill 314 on behalf of Vermilion Yacht Sales. This bill addresses a sensitive subject that has caused challenges both for our boaters directly and for yards working to navigate in the best interest of their clients and their employees.

My family yard, Moes Marine Service, has been in business since 1938 and not closely associated with boat sales so I was not aware of the intricacies of the Ohio Tax Code when it comes to boat sales. That quickly changed when I started MJM Yachts Vermilion in 2014, as I was immediately urged by others in the industry to make sure I understood all facets of the Code and develop a solid working relationship with the Ohio Taxation Department. What I discovered was eye-opening, and as I worked with my fellow MJM Dealers across the US I also found that we have in Ohio quite a unique situation and put us at a competitive disadvantage when it comes to both service and sales of boats and yachts.

The stories I was told basically fell into two categories:

1. Service - Owner of \$1M yacht comes down from Michigan for service and refit at Ohio's highly respected boatyards over the winter. Owner paid \$60,000 (6%) in tax in MI when he purchased the vessel. While in Ohio for winter, he replaces engines, puts in new electronics, and paints the boat for a total yard bill of around \$107,000 (which includes 7% or \$7000 in tax on labor, storage and materials). Yard nails the project, sends him away very happy. Yard employees are very happy as they have full employment throughout the winter. Later that year, owner receives bill from Ohio Department of Taxation indicating that he was in the waterways of Ohio for more than 30 days and is now due Use tax in the amount of \$10,000 (difference between tax that was already paid in MI and what would be due in that Ohio county, in this case it would be 7% OH tax less 6% MI tax or $1\% * \$1M$ equals \$10,000). Owner is now not happy, attorneys are now involved, owner tells all his friends, yard makes concessions to make it up to client and resolve, but everyone loses.
2. Sales - Ohio Dealer obtains agreement on brokerage boat valued at \$1M to client based in Florida in December but boat is stored in back of winter storage building and cannot be removed until May. New owner would pay \$18K max tax to Ohio (the tax that would be due in FL) instead of the \$70,000 (7% due in Ohio) since he is removing it from Ohio within 30 days; however, he can't get it out of building so closing has to be postponed for 4 months until the yard knows they can remove boat from building and load on truck or launch to exit the waterway of Ohio within the 30 days we've historically been given. The challenge here is that postponing closing gives a lot of time for random events to occur that could negate the transaction or prevent other transactions from closing if the proceeds from the sale of that boat are to be used in the purchase of another boat. The impact here is lost time managing sales tax considerations and the potential for lost commissions and sales on this and other related transactions. If we were to close the deals in December and the boat stays in Ohio for more

than 30 days, we risk having the owner receive a letter from Ohio Taxation for the additional \$52K in tax (difference between the \$70K due if boat stayed in Ohio and \$18K if it was removed in 30 days). Generally, these type late fall/early winter brokerage sales also translate into winter work such as engine service, electronics upgrades and other projects that create tax revenue for Ohio with labor and materials so their newly purchased boat is ready to go in the water in spring.

The product line I do most of our work with, MJM Yachts, ranges in price from brokerage sales of \$275K up to new boat sales of up to \$2.5M, so the cost of error is high both from a direct cash impact and loss of reputation. The brand is super-regional so we have buyers and brokers calling from all over the US when we have product available. In each transaction that has out-of-state Buyer or where the boat is to be removed from Ohio, I discuss tax considerations up front as I see an agreement approaching. Invariably this leads to an exasperated buyer who calls his attorney and accountant for further understanding and guidance.

On the service scenario, I've encountered the 30-day window on multiple occasions:

- In August 2015, we sold a dealer stock boat to a resident of Florida who contracted with us for refit that included various carpentry customizations, installation of washer/dryer and watermaker (approximately \$35K). This was an intensive refit that involved cutting several holes in the boat in various locations so we needed the transaction closed before beginning the refit; however, we knew we technically had only 30 days to complete the project and we knew the schedule was going to be tight. In order to get the sale, we had to pledge to push through as hard as we could to get the project complete. Owner would have happily given us 60 days or more to complete the project, but we did not want him to get the excess tax bill (which in this case would be from \$18k to \$116K) so we pushed overtime and rush delivery on parts when necessary. The owner left the waterways of Ohio after 32 days and headed north to the Detroit River, and we were exhausted. Staying for the winter or having an extra month would have been preferred.
- In Fall 2019, we were approached by a Michigan boater to search for a brokerage 40z, bring it back to our yard for refit, and then deliver.

I hope these stories help shine a light on why passing House Bill 314 is so important. I hope this committee is able to help our marine industry thrive by favorably passing this bill.