



# What to Consider When Buying a Boat

Enjoyment of boating and the life at sea is a passion that is truly timeless. Throughout history, advocates have spanned all ages, professions and tax brackets. While many find falling in love with boating to be almost automatic, making the decision to own a boat requires careful consideration. A lot of effort and expense goes into boating. In addition, because each state has different regulations, purchasing a boat can be rather complex. Understanding the requirements regarding boat operation and safety, sales and use taxes registration and documentation will help make the process much easier. Before preparing to set sail, buyers should consider the following:

## **Pre-purchase planning**

When looking at potential boats to buy, it is important to check boat titles for maritime liens and encumbrances. Using a boat or yacht broker can be very helpful in finding the right vessel. If financing a boat, a maritime mortgage might be a good option. Also, boat dockage is at a premium in many areas, so make sure to find a marina with a good record for customer service that is in a location where you want to do your boating before finalizing any purchase.

## **Boating Safety**

Have you operated boats before, or were you inspired to purchase one after being a passenger? Operating a boat is often a bit of an adjustment. The waterways do not have defined roads like you would find when driving a car, boats are impacted by wind and currents, and boats have no brakes to stop short. It is recommended that the operator (as well as other likely regular passengers, such as your family) take a boating safety course, as well as schedule some time with a licensed captain to teach you the rules of the sea and to learn safe operating practices and how to maneuver the boat. Furthermore, many states/counties have specific rules about when a boating license/safety course is required.

## **Sales Tax**

While always due at the time of purchase, states differ on their sales tax rates and requirements. New York imposes sales tax only on the first \$230,000 of the purchase price. If the buyer has multiple residencies, tax is collected at the rate of local jurisdiction where the boat is mainly used or stored. Nonresidents do not need to pay sales tax on the purchase of a boat in New York unless it is to be registered in the state, but they will need to pay their state's use tax when the boat is brought to their state of residency.

## **Use Tax**

Typically, the use tax has a similar rate to the sales tax in a particular state. It is not paid at the time of purchase but usually at the time of registration. Use tax offsets sales tax when the newly purchased boat crosses state or international borders, so if sales tax is paid on a boat, use tax typically does not need to be paid. In New York, use tax is imposed on residents only and must be paid if the boat purchased in another state is used in New York for 90 consecutive days. New York gives a credit against use tax for sales tax paid upon the boat's purchase in another state, but this is limited by the same \$230,000 cap as the sales tax.

## Deductions

Boat sales tax is generally deductible on a federal tax return but not if the owner is deducting state and local income taxes. Personal property taxes on a boat are deductible on a federal tax return. The rates of personal property tax for boat ownership differ per state. New York, for one, does not impose personal property tax.

## Insurance

While most states do not require boat insurance, it is good idea to consider obtaining it when purchasing a boat. Some states may require boat insurance on specific types of boats or on boats used in state parks or facilities. Also, some marinas have an insurance requirement to dock a boat at their facility, and if you are financing the boat purchase, most banks will require appropriate insurance as well.

## Registration

Like everything else, states have different regulations regarding boat registration. The type of boat is a factor in whether it needs to be registered. New York requires any boat with a motor to be registered through the Department of Motor Vehicles, and the owner must show proof of sales tax payment. Boats or yachts that are at least 14 feet long and registered in New York State are issued title certificates, which are used for proof of ownership. Vessels that are five net tons or more and owned by a U.S. citizen may be documented with the U.S. Coast Guard, and many times boats over a certain dollar threshold are required to be documented as a condition of the underlying financial institution providing the loan. These documented boats will receive New York State registration stickers rather than a registration number. There are some exemptions to New York State registration, such as boats registered out of state that are kept in New York for under 90 days. It is necessary for foreign-flagged vessels entering U.S. waters to follow proper protocol, including bringing proper documentation and obtaining a cruising license.

## Boat Management / Maintenance

If considering a large boat / yacht, hiring a captain and crew requires the consideration of several factors as well. The vessel's owner must determine the kind of service needed and hire a captain and crew that fit such expectations. Owners must also factor in payroll expenses, federal income tax withholding, and FICA tax (if necessary). When considering insurance for the captain and crew, the coverage may need to be global depending on whether the boat will be traveling internationally. Maintaining a boat and its systems becomes a significant component of the cost of boat ownership, and is not something that can be neglected if you want problem-free enjoyment.

Buying a boat can be enjoyable and complicated at the same time. It can be an ideal venue for quality time with family and friends, yet requires careful planning. The costs of boat ownership go far beyond just the cost of the boat itself. Be sure to contact your Anchin relationship partner or Russell Shinsky, a partner in Anchin Private Client, at [info@anchin.com](mailto:info@anchin.com) to help devise your purchasing plan and to address any questions.



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