



# The Lighthouse

## Tax breaks for boaters

Courtesy *discoverboating.com*  
by *Chris Caswell*

It is probably the secret dream of all boat owners - finding a way to deduct the cost of their boats every April when the IRS comes calling for the annual donation. Surprisingly enough, there are several ways that you can write off some of the cost of your boat and reduce your tax burden. Even better, they're legal and won't require you to change your mailing address to Leavenworth, Kansas.

According to Tanner Kidd, a tax specialist and boating enthusiast from Seattle, "Most boat owners miss out on some valuable deductions because they don't know about these particular loopholes. But anyone who doesn't take full advantage of the tax laws is simply giving money away. It is illegal, of

course, to avoid taxes. It's perfectly legitimate, however, to minimize your taxes."

### Your home afloat

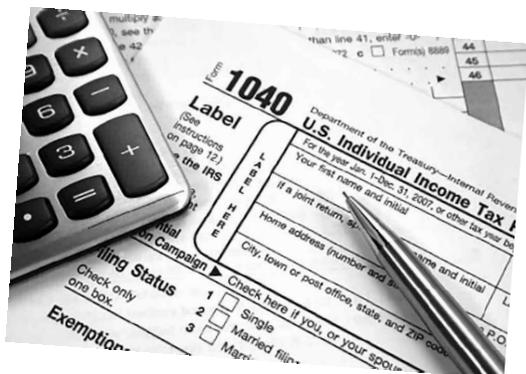
Probably the most commonly misunderstood tax deduction is the write-off of interest paid for a second home which, in this case, is any boat that can be lived aboard. Your tax advisors wouldn't think twice about deducting the mortgage interest if you owned a mountain cabin or a beach cottage, but they often don't realize a boat also qualifies.

Now, before you get your hopes too high, the boat must "reasonably" be livable — your 15-foot jet boat doesn't qualify. The IRS has generally determined, however, that any boat that has at least one berth, a permanent galley, and a head (even if it's just a Porta-

Potti) qualifies for the second home deduction.

There are some caveats here that you need to remember. Obviously, you can't already have a second home you are deducting. If you do, you can choose between the second home and the boat each year for your deduction.

You need to ask the lender with your boat loan for IRS form 1098 to report the interest or, in most cases, you can



*More Tax breaks, page 4*

## Almost Yachty Gras parade party time

*Laissez les bon temps rouler!* It's almost Yachty Gras time — this is a family friendly parade that assembles in Clear Lake proceeds through the Kemah /Seabrook Channel.

Yachty Gras is a three day event starting on January 27, at 7 p.m. with a kick-off party at Sundance Grill at Waterford Harbor. February 3, the boat skippers will meet at 10 a.m. at Sundance for parade registration and logistics. This meeting is mandatory for participation in maintaining a safe parade.

The Grand Night Boat Parade will begin at 7 p.m. on February 3, in the Clear Lake Channel and pass by the Kemah Boardwalk throwing beads to revelers along the



AMERICA'S LARGEST MARDI GRAS BOAT PARADE  
CLEAR LAKE, TEXAS

way, and where the parade judges will tally their votes for the most lavishly decorated boats and most enthusiastic krewe.

Awards will be handed out for first, second and third to the categories of Sail Boats and Power Boats. Grand Prize is given to the over all "Best of Show." The "Community Krewe Award" goes to the marina that has the most registered boats in the Grand Night Parade.

# Cell phone vs VHF radio

Courtesy [boatu.s.org](http://boatu.s.org)

Having a cell phone on board allows you to keep in touch with land-based contacts and businesses easily. They are very convenient but in some situations they shouldn't be used in place of a very high frequency (VHF) radio, the benefits of which we'll address shortly. Here are some things to consider regarding cell-phones.

Cell phones are less reliable on the water. Most are not water resistant, and their range is relatively short due to the proximity of land based towers.

Range is further complicated by the fact that the majority of cell antenna/stations are placed and oriented with land-based use in mind, so the distance offshore that a vessel can remain in contact is frequently shorter.

A cell phone won't allow you to "broadcast" to several boaters at a time which is important in a true emergency.

## *Why VHF is preferred*

Very High Frequency (VHF) marine-band radios have been around for years and remain the primary means of communication for vessels throughout the United States. VHF radios should be your "go-to" device in an emergency unless you are practically shouting distance from shore. The main uses of a VHF radio are:

- Distress calling and safety
- Ship to shore communications
- Navigation (vessels to bridges, etc.)
- Marine operator to place calls to shore

- NOAA weather broadcasts

For reliable on-the-water communications, we recommend using either hand-held or fixed-mount VHF radios. If you experience engine failure, a storm disables you, or you find yourself in a true emergency, a VHF radio can be your lifeline to help. In Coast Guard jurisdictions, VHF's are monitored 24 hours a day, seven days a week. For extra assurance, the U.S.C.G., most TowBoatU.S. and Vessel Assist towers can locate your boat by tracking your VHF signal, but they can't do that with a cell phone.

## *DSC, what could be easier*

A VHF radio equipped with Digital Selective Calling, or DSC, has the equivalent of a "mayday button." All new fixed-mount VHF radios come with this one-button feature, which is usually labeled *distress*. When activated, it automatically broadcasts an encoded distress call that will be picked up by all nearby vessels equipped with DSC as well as U.S. Coast Guards vessels and their shore stations. If the radio is interfaced with your GPS, it will also automatically broadcast the distressed vessel's position. To use DSC, you must obtain an MMSI (Maritime Mobile Service Identity) number. You may do so at our website. There are other great features of the DSC radio such as calling or hailing a fellow boater or a group of boaters that might be traveling or fish-

*More Cell vs. VHF, page 5*

# The Lighthouse

A monthly publication of South Shore Harbour Marina.



**MARINA**

2551 South Shore Blvd. Suite B  
League City, TX 77573  
(281) 334-0515 • Fax (281) 334-0288

## MARINA STAFF

**Donna Rogers**

*Marina Manager*

Donna.Rogers@sshmarina.com

**Chase Cobble**

*Harbormaster*

Chase.Cobble@sshmarina.com

**Virginia Zelenka**

*Accounting Coordinator*

Virginia.Zelenka@sshmarina.com

**Richard Bustamante**

**David Hillis**

**John Killins**

*Fuel Pier/Maintenance*

**Amber Moore**

*Leasing Agent*

Amber.Moore@sshmarina.com

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Published by

## Telltales

A Division of Waterfront Publishing Inc.  
228-B Marina Bay Dr.  
Kemah, Texas 77565

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# Tax breaks

*continued from page 1*

simply get a letter from the lender. If you used an equity line of credit with your home or the boat as security, you're entitled to deduct those interest charges.

Don't forget that you can deduct not just the interest, but also any points paid to get the loan as well as the penalty for an early payoff of the loan.

## *Doing business at sea*

Many boat owners use their boats to entertain clients and potential customers, and this qualifies as a deduction under the entertainment expense category for your business. But be careful here, because the IRS looks very hard at entertainment expenses, so be prepared to document every item thoroughly.

The rules are straightforward for this deduction. You must have a "reasonable expectation" of deriving income or other benefit in the future as a result of your use of the boat. You must actually engage in business discussions while onboard, with the main purpose of the boat to transact business.

Because this is a highly abused deduction, the IRS requires you to keep full documentation for each expense, the dates of use, the location, the reason for the use and the nature of the expected benefit, and the occupations of the persons entertained.

You'll be limited to deducting 50 percent of these costs, as with any other travel or entertainment expenses, and you can't include regular mainte-

nance or depreciation for your boat. What you can include are the costs specifically related to each particular use of the boat: fuel, food and drinks are obvious, but you can also include specific expenses such as a transient mooring fee or the entry fee to a fishing tournament.

## *Sweet charity*

When it comes time to look for a newer or bigger boat, you can sell or trade in your present boat but, in some cases, donating your boat to charity can provide a sizable tax advantage. "You can only deduct the fair market value of the boat," says Kidd, who has handled several boat donations for clients. "You'll need to have an independent appraisal or survey, and you should make sure that it clearly states the market value and not the replacement value, which can be considerably higher and which can trigger an alarm with the IRS."

In most cases, you can pick your favorite charity as long as it is qualified as a non-profit organization. Some groups, such as the Sea Scouts, are equipped to take care of all the paperwork and details involved in a donation.

Even better, you may end up getting more for your boat as a donation than you would if you sold or traded it. A boat with a market value of \$10,000 might only be worth \$5,000 as a trade-in at a dealership, and it might take weeks or months to sell if you sell it yourself. With a donation, the boat is gone immediately and you can gain at the bottom line of your tax debt.

## *Be your own captain*

It's appealing to think of using your

boat as a weekend business. You can take people on harbor tours or for a day of fishing while you enjoy all the benefits of boat ownership and deduct all the costs as a business expense.

The reality, however, can be somewhat different. According to Tom Cutter, who operates a full-time charter boat operation, it can be a lot of hard work.

"To use your boat as a six-pack charter with yourself as the skipper, you need to make sure that the IRS doesn't view yours as a hobby rather than a business. You need to make a genuine effort to make a profit, rather than just enough to cover your costs and get a free day out on the water."

As a starting point, you'll need to get your U.S. Coast Guard license allowing you to skipper up to six guests aboard your boat.

Once in business, you'll be able to write off the depreciation, maintenance, equipment, fuel and mooring costs. Kidd recommends using the purchase price of your boat as a base for a seven-year (or longer) straight line depreciation schedule. You'll also need to keep detailed records of every expense as well as the amount of income. To keep clear of IRS "hobby-loss" rules, he suggests that you aim to make a profit in at least three out of every five years.

Since you probably won't want to devote full use of your boat to chartering, you'll only be able to deduct the expenses for the percentage of time actually used in business. For example, if you charter 20 percent of the time that you operate your boat, you'll be

*More Tax breaks, page 5*

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## Tax breaks

*continued from page 4*

able to deduct 20 percent of the expenses. The exception to that is equipment used purely for chartering, which is then fully deductible.

But, as the charter captain, you'll get a double hit in taxes. You'll pay the income tax on the actual profits of the boat, but you'll also pay self-employment taxes as a sole proprietor.

Some boaters prefer to take a less serious effort toward earning money for their boat, preferring only to charter it occasionally. In that situation, you can still deduct the related expenses, but not as a loss. You'll only be able to reach the break-even point of costs versus income, and you'll have to cover any losses out of your own pocket because the IRS will label you as a hobby business.

Because the IRS is well aware that owners want to enjoy their boats at a reduced cost, boating deductions often warrant an increased examination of your tax return, which may not be worth the effort to save a few dollars.

Because every tax situation is unique, Kidd advises that every boater explore his options with a tax advisor familiar with boating deductions before making decisions.

## Cell vs VHF

*continued from page 2*

ing together. You can do this as long as you know their DSC numbers, with the push of a button instead of having to hail by speaking into the microphone. For more on DSC radios, their features and installation, watch the BoatU.S. Foundation tutorial called, *Can you Hear Me?*.

### *Going the distance . . . EPIRBs and PLBs*

If you are planning an offshore voyage, you need to know VHF radios and cellular telephones are limited in range, usually no more than 15 to 25 miles from shore. Emergency beacons. If you needed help or assistance in an emergency, a satellite Emergency Position Indicating Radio Beacon (EPIRB) or a Personal Locator Beacon (PLB) may be your only hope for rescue.

These beacons are part of a worldwide distress system and are designed to quickly and reliably alert rescue personnel, indicate an accurate position, and guide rescue units to the distress scene when all other communications fail. When activated, these units transmit a unique signal that incorporates your location and in some cases, specific information about your vessel. By law, these beacons must be registered so rescue personnel have reliable information. PLBs are also useful for hiking and other adventures so vessel information can be changed to reflect another activity with a different description.

Since these units can cost hundreds of dollars, the BoatU.S. Foundation for Boating Safety rents EPIRBs and PLBs at a mere fraction of the cost of ownership and makes them available to any boater seeking the peace-of-mind and emergency beacon provided.

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