

Statement of the Shipbuilders Council of America

Submitted to the

Subcommittee on Oversight

and the

Subcommittee on Select Revenue Measures

Committee on Ways and Means

United States House of Representatives

on

Modernizing the Capital Construction Fund Program to Create U.S. Maritime Industry Jobs

February 1, 2012

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The Shipbuilders Council of America (SCA) commends the Subcommittees for holding their February 1 hearing on maritime tax issues and appreciates the opportunity to provide these comments for the hearing record. SCA is the national trade association representing the U.S. shipyard industry. Our members constitute the shipyard industrial base that builds, repairs, maintains and modernizes the largest and most advanced Navy and Coast Guard in the world. In addition, SCA members build, repair and service America's fleet of commercial vessels. In total, SCA is comprised of 51 companies that own and operate over 130 shipyards and directly employ over 75,000 Americans on all three U.S. coasts, the Great Lakes, inland waterways system, Alaska and Hawaii. In addition, SCA represents 72 shipyard suppliers who support the industry and provide jobs in all 50 states.

SCA takes this opportunity to address an important maritime tax issue, the need to improve the Capital Construction Fund (CCF) program. Removing regulatory obstacles and modernizing the CCF program can help create jobs and economic growth, benefitting vessel operators, mariners, and shipyards.

**CCF for Maintenance, Repairs and Modifications.**

**Overview.** One of the very few tools available to modernize the U.S.-flag vessel fleet is the Capital Construction Fund. A Capital Construction Fund is a tax advantaged account that, to simplify, allows the owner or operator of a U.S.-flag vessel to deposit funds into the account, deferring taxes on the funds deposited. Funds can accumulate in the account to facilitate vessel acquisition. These are a company's own funds, not taxpayer funds, so no appropriation is required. The CCF program is administered by the Maritime Administration, USDOT, with tax aspects administered jointly with the Treasury Department (IRS).

Shipbuilding generates jobs and other benefits.

Building a new large oceangoing vessel can support 300 or more direct jobs for 1-2 years and up to 4 times as many jobs in supplier industries.

After construction, shipboard jobs are generated, which are good for the economy and help maintain a pool of mariners to aid in the national defense.

New vessels are environmentally superior to the vessels they replace both in terms of fuel efficiency and other systems.

Ship construction helps maintain the nation's industrial base, including but not limited to the defense industrial base.

**Current Law.** The Capital Construction Fund (CCF) was established in Title VI of the Merchant Marine Act of 1936, which authorized the creation of reserve funds into which U.S.-citizen vessel operators engaged in providing foreign trade U.S.-flag services could deposit earnings, tax free, for use in the construction of vessels to be employed in such services. Following World War II, the tax-free status was modified to limit the tax benefit on such uses to tax deferral. The Merchant Marine Act of 1970 continued the tax deferral approach and added non-contiguous vessel services (Alaska, Hawaii, Puerto Rico and Great Lakes) as qualifying trades under the CCF. Subsequently, U.S. Maritime Administration (MarAd) implementation of the CCF program included the addition of certain Gulf of Mexico and other offshore trades.

The CCF program assists U.S. vessel operators to accumulate the capital necessary to replace or expand their U.S.-flag fleets on a before-tax basis. The program authorizes the deferral of federal income tax on the income from vessel operations and the gain on the sale of vessels deposited into CCF accounts. For example, deposits will reduce a vessel's operating income for the taxable year by the amount of the deposit. The tax deferral ends when a "qualified" withdrawal from the fund to finance qualified vessel construction is made. When the qualified vessel is placed in service, the cost basis for the vessel is reduced by the amount of the CCF tax deferred financing, and the Federal government begins to recoup the deferred tax through reduced depreciation deductions.

Any U.S.-citizen owning or leasing one or more U.S.-built, U.S.-flagged vessels engaged in the foreign or domestic trades may establish CCF accounts administered by MarAd. Eligibility to establish CCF accounts is broad. A bank or financial institution may establish a CCF account in a vessel lease financing arrangement and shelter income for debt repayment.

**Proposed Changes.** The current program allows any U.S.-built, U.S.-flag vessel owner or operator to establish a CCF fund with MarAd regardless of where that vessel operates. However, qualified withdrawals from the fund may only be used to construct or reconstruct vessels in U.S. shipyards for service in the U.S.-foreign, non-contiguous domestic, or Great Lakes trades, or in support of operations on the Outer Continental Shelf. SCA supports legislation to expand the CCF program to allow qualified withdrawals for the maintenance and repair of U.S. or foreign built U.S.-flag vessels, provided that such maintenance and repair is performed in U.S. shipyards. In addition, this would allow U.S. shipyards to establish a CCF account for the purposes of maintaining and building new drydock facilities for the repair and maintenance of vessels in the U.S.

**Rationale.** The Congress, in DoD authorization legislation over the past several years, has expressed its belief that a strong ship repair industrial base is vital to the national security of the United States. Enabling U.S.-flag vessel owners and operators to establish CCF funds for

maintenance and repair of any U.S.-flag vessel in U.S. shipyards will help sustain the shipyard infrastructure at little or no cost to the Nation's taxpayers. This modest expansion of the CCF program will help U.S. shipyards compete on a more level playing field against subsidized foreign shipyards and will result in additional job creation at America's ship repair yards.

**CCF Leasing Should Be Effected Promptly**

The CCF program should also be modernized to allow funds in a CCF to be used for lease payments, not just mortgage (purchase) payments. The current restrictive approach limits the ability of vessel operators to make the most effective financial decisions when considering acquiring U.S. built vessels. Taking a more modern, flexible approach could facilitate some vessel acquisitions, has the potential to create American jobs in shipbuilding and other benefits, and should be put in place.

SCA thanks the Subcommittee for its consideration and welcomes its support in achieving elimination of the barriers to job creation that we have described in this statement.

**Contact Information**

Shipbuilders Council of America

Matthew Paxton, President

655 15<sup>th</sup> Street, NW

Suite 225

Phone: 202-772-5577

Email: [mpaxton@balljanik.com](mailto:mpaxton@balljanik.com)