'It's ridiculous.' Small boats taxed 30x higher than luxury houseboats. 1:37

WATCHDOG

# Luxury houseboat owners get a big tax break in Kentucky. Fishermen pay 30 times more.

BY BILL ESTEP
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***Editor's note:** This is the third in a series of stories about tax breaks and incentive programs that cost Kentucky billions of dollars each year, leaving lawmakers little money to fix Kentucky's ailing pension systems.*

Dozens of high-end houseboats float at Burnside Marina on this sunny October afternoon, not far from where Mark Lunsford loads his 21-foot-long Skeeter bass boat after a few hours of tournament fishing.

Lunsford and many of the other fishermen competing on Lake Cumberland know these luxury houseboats — some 100 feet long with hardwood floors and full kitchens — might cost more than $250,000 to purchase or more than $500 a night to rent.

What these anglers don't realize is that the state property tax rate on their fishing boats is 30 times higher than the tax rate on documented houseboats — meaning they're registered with the U.S. Coast Guard. That means the state allows people to pay less state property tax on a $150,000 houseboat than on a $25,000 fishing boat.

"I'm shocked," says Lunsford, who lives in Lexington. "Something don't seem fair."

The state property tax rate on bass boats, runabouts and pontoons is 45 cents per $100 of value, while the rate on documented houseboats is just 1.5 cents per $100.

So, the state property tax bill on a $25,000 bass boat would be $112.50, while the state would receive $22.50 on a documented houseboat worth $150,000.

"That's unbelievable," Lunsford says. "I believe in paying my taxes, but it should be the same across the board."

In 2016, the total assessed value of documented boats in Kentucky was $139.1 million, according to the state Department of Revenue, but the owners paid just $20,869 in property taxes to the state.

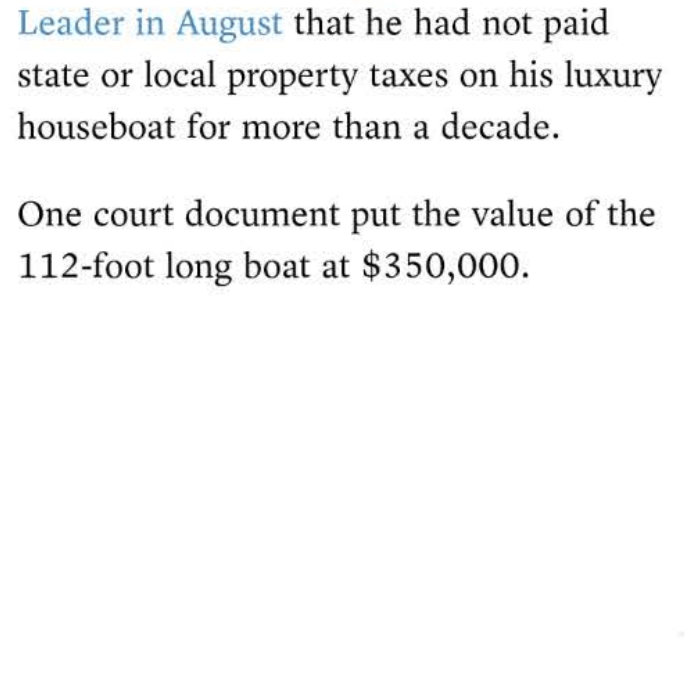
The owners would have paid the state $626,056 if taxed at the same rate as undocumented boats.

Local officials, though, think even that is a low-ball number.

That's because they suspect many owners aren't filing any tax returns on their floating vacation homes.

State Rep. C. Wesley Morgan is one high-profile example. The Richmond Republican acknowledged to the Herald-Leader in August that he had not paid state or local property taxes on his luxury houseboat for more than a decade.

One court document put the value of the 112-foot long boat at $350,000.


State Rep. C. Wesley Morgan, a Republican who represents part of Madison County, has not paid annual taxes that local officials said were due on his 112-foot long houseboat.
**Bill Estep** - bestep@herald-leader.com

Morgan said the manufacturer who sold him the boat in 2004 told him that if he filed paperwork on the vessel with the U.S. Coast Guard, he would not owe property taxes on it.

In fact, owners must either register houseboats with the Coast Guard or get a state title on them, and pay taxes on the value of the vessel in either case.

But local tax assessors in several counties on Kentucky's lakes and rivers told the Herald-Leader some houseboat owners avoid paying property taxes.

Christie Cruce, the PVA in Lyon County, said that when state Department of Revenue officials helped her check on the number of documented houseboats moored in her county in 2011, only 10 to 15 percent of the owners were filing tangible property tax returns.

Cruse said compliance with the law among houseboat owners in her county is still no more than 25 percent, based on the number of tax returns she received this year.

"The rest are not paying anything," Cruce said.

The compliance rate in Clinton County is probably less than 90 percent, said Pat Campbell, the PVA there.

When houseboat owners fail to file tax returns, it costs local governments far more than the state.

Counties and local taxing districts, such as school boards and libraries, typically set tax rates on documented boats far above the state rate.

"It is costing the counties, the local governments," said Cruce.

## Hard-to-find houseboats

There is not an easy system to catch houseboat owners who don't file tax returns on their boats, according to state and local officials.

Unlike with smaller boats, there is nothing on the outside of a houseboat to show if the owner has paid taxes.

On smaller boats, which must have a state title, there is a number and sticker on the hull that shows if the registration is current, similar to the sticker on vehicle license plates. Officers from the state Department of Fish and Wildlife Resources can see if the registration is expired.

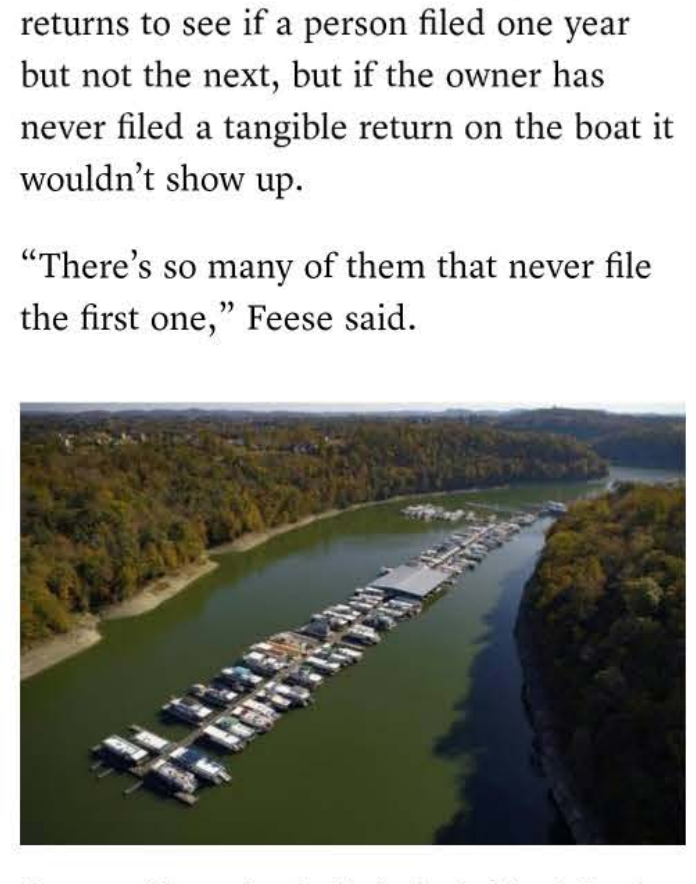
Coast Guard rules require a documented houseboat to have a name and hailing port on the outside of the hull, but not an exterior identification number.

The Coast Guard maintains a database of documented boats in the U.S., but the hailing port listed in the database does not have to match the location of the boat, and there is not a way for tax authorities in Kentucky to search and find all documented boats on a lake or river, officials said.

"It is extremely hard to find these boats," said Jeff Feese, the PVA in Adair County and a former regional field representative for the state Department of Revenue.

State revenue officials can compare tax returns to see if a person filed one year but not the next, but if the owner has never filed a tangible return on the boat it wouldn't show up.

"There's so many of them that never file the first one," Feese said.


Dozens of houseboats sit docked at Lee's Ford Resort Marina in Nancy, Ky., Tuesday, Oct. 31, 2017. The state property tax rate on houseboats is 1.5 cents per $100 value while the rate on small boats is 45 cents per $100.
**Alex Slitz** - aslitz@herald-leader.com

Some marina operators have pushed back hard at times when county tax assessors wanted to walk around the docks to look for documented houseboats not on their rolls.

The state Attorney General's Office said in a May 2012 opinion that several marinas refused access to their docks to property assessors. The opinion said that in most cases, PVAs have the authority to go on docks to assess boats.

## Boosting tourism?

Many houseboat owners argue they face a high property tax burden, even with the state tax break, because of local taxes.

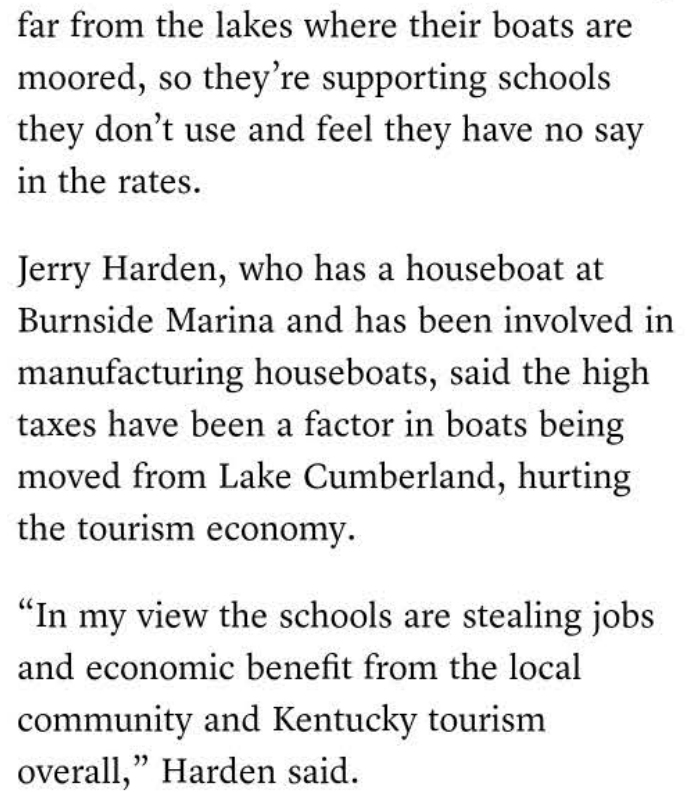
Wayne County PVA Bobby Upchurch said the total property tax bill there on a houseboat valued at $200,000 would be $2,312.

School taxes are a particular sore point. One reason is that they are considerably higher — ranging from 42.6 cents to 54.1 cents per $100 in the counties around Lake Cumberland, for instance.

Another is that many houseboat owners live in other states or in areas of Kentucky far from the lakes where their boats are moored, so they're supporting schools they don't use and feel they have no say in the rates.

Jerry Harden, who has a houseboat at Burnside Marina and has been involved in manufacturing houseboats, said the high taxes have been a factor in boats being moved from Lake Cumberland, hurting the tourism economy.

"In my view the schools are stealing jobs and economic benefit from the local community and Kentucky tourism overall," Harden said.


Jerry Harden has a houseboat docked at Burnside Resort Marina on lake Cumberland in Pulaski County. Harden and others argue that high school taxes on houseboats are unfair.
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Raising state taxes on houseboats in Kentucky would cause some owners to take their boats to other states, said Michelle Edwards, executive director of the Kentucky-Tennessee Marina Association.

Marina operators in Kentucky look nervously toward Tennessee, which has no property tax on boats owned for individual use.

They say Kentucky's reduced state tax rate on houseboats makes it easier for people to buy them and keep them, which boosts tourism and helps the economy.

"Everyone looks at the cost of ownership," said J.D. Hamilton, who owns Lee's Ford Marina Resort in Pulaski County and is head of the marina association on Lake Cumberland.

"You do want to encourage people to buy houseboats," Hamilton said. "They're made here."

Former state Sen. Chris Girdler, a Republican from Somerset who has been involved in the houseboat industry, said each houseboat owner spends thousands of dollars annually in the community where the vessel is moored.

"So, a lower tax rate is definitely a selling point to individuals and would help entice houseboat owners to choose Kentucky to spend that money, rather than say, Tennessee," Girdler said.

## 'There's something unfair about that'

For some people, the much higher state tax rate on fishing boats and other watercraft raises an issue of fairness.

Owners of non-documented boats — sometimes referred to as registered boats — must get a state title on them, just like owners of cars and trucks.

"Nobody else that has a registered boat has that break," said Campbell, the PVA in Clinton County, home to sections of both Lake Cumberland and Dale Hollow Lake.

A fisherman stows gear after participating in a fishing tournament on Lake Cumberland on Oct. 21, 2017. The state property tax rate on small fishing boats like this one is much higher than the rate on houseboats.
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Owners of small boats also pay local property taxes just as houseboat owners do.

Local officials also noted that the tax rate for cars doesn't change based on the vehicle's size or value. Those who drive expensive sports cars pay the same tax rate as those who drive clunkers.

The legislature carved out the tax break for documented watercraft in 1998. Then, as now, the concern was over owners taking their expensive boats and money elsewhere.

Bill Gary, with Green Turtle Bay Resort & Marina on Lake Barkley, told members of the House budget committee in March 1998 that he lost 15 percent of his slip-rental business after a county tax assessor began enforcing the levy more aggressively the year before.

Lowering the tax rate on houseboats would help his business and keep tourism dollars in Kentucky, he told lawmakers.

A lawmaker questioned Gary about the fairness of the proposal, since it would keep the higher tax rate on smaller boats that are more typically owned by Kentucky residents.

"It seems like we're lowering the taxes on the people that got the money and keeping the higher taxes on Kentuckians," said Harry Moberly, a Richmond Democrat who chaired the committee.

Moberly then joined in voting to approve the bill.

Some local officials are not convinced there is any justification for the tax break.

"What's the use of it?" said Tony Lindauer, the property valuation administrator in Jefferson County. "I think it's just a way of getting out of paying taxes on your boat."

Lawmakers also made local taxes optional on documented boats, unlike on smaller boats. So while many counties, schools and local taxing authorities levy a tax on documented boats, not all do.

Former state Sen. Ken Winters, a Republican from Murray, said he was troubled as a lawmaker by the state's differing tax rates on boats that share the same waters.

"There's something unfair about that, isn't there?" said Winters.

## 'A much smarter way'

Winters sponsored a bill in 2012 that local officials said would have made it much easier to catch houseboat owners who shirk their tax payments all together.

The bill would have required marina operators to report information about who rents their slips, mirroring a state law that requires anyone who rents space for a mobile home to report the name of the homeowner and the type and size of the trailer to the county PVA annually so they can be assessed.

It would have required anyone renting space to dock a federally documented boat to give county PVAs a list of renters annually, with the names and addresses of boat owners and information on the vessel.

Winters said marina operators strongly opposed the bill, which died in the Senate budget committee.

Some marina operators, such as Hamilton, think the state should do away with property taxes on houseboats and instead require every boat that uses a Kentucky waterway to pay an annual fee, perhaps based on the size of the boat, and require a state identification number. That would be more uniform and create a way to enforce collections, Hamilton said.

"Everybody pays something. I think that's a much smarter way to do it," he said.

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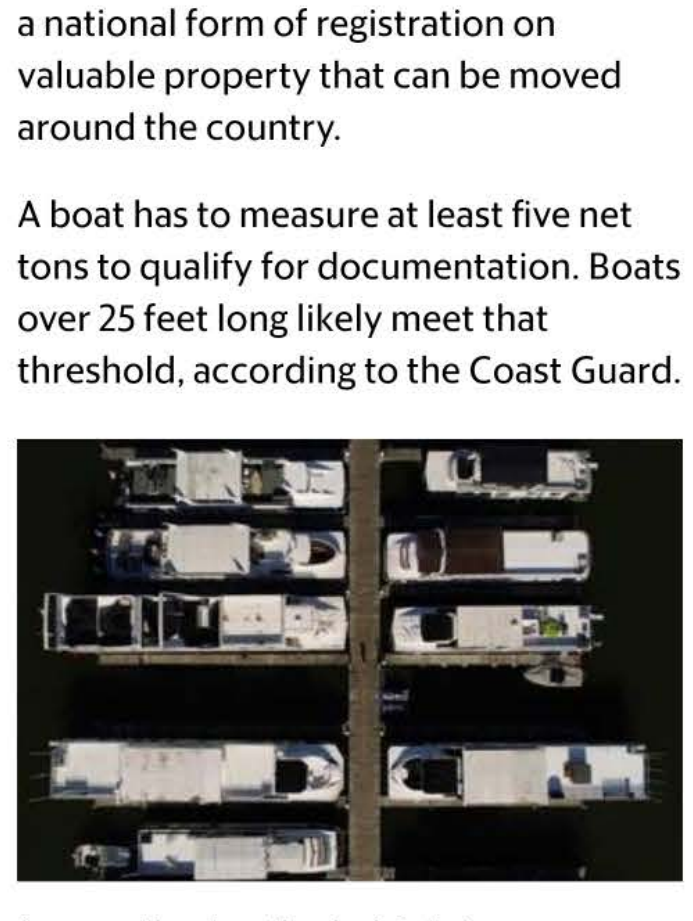
### WHAT IS A DOCUMENTED BOAT?

Owners must document some types of boats that are used for commercial purposes with the U.S. Coast Guard, but the process is optional for houseboats.

Lenders, though, often want owners to document their houseboats because it is a national form of registration on valuable property that can be moved around the country.

A boat has to measure at least five net tons to qualify for documentation. Boats over 25 feet long likely meet that threshold, according to the Coast Guard.


A man walks along the dock in between houseboats at Lee's Ford Resort Marina in Nancy, Ky., Tuesday, Oct. 31, 2017. The state property tax rate on houseboats is 1.5 cents per $100 value while the rate on small boats is 45 cents per $100.
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