

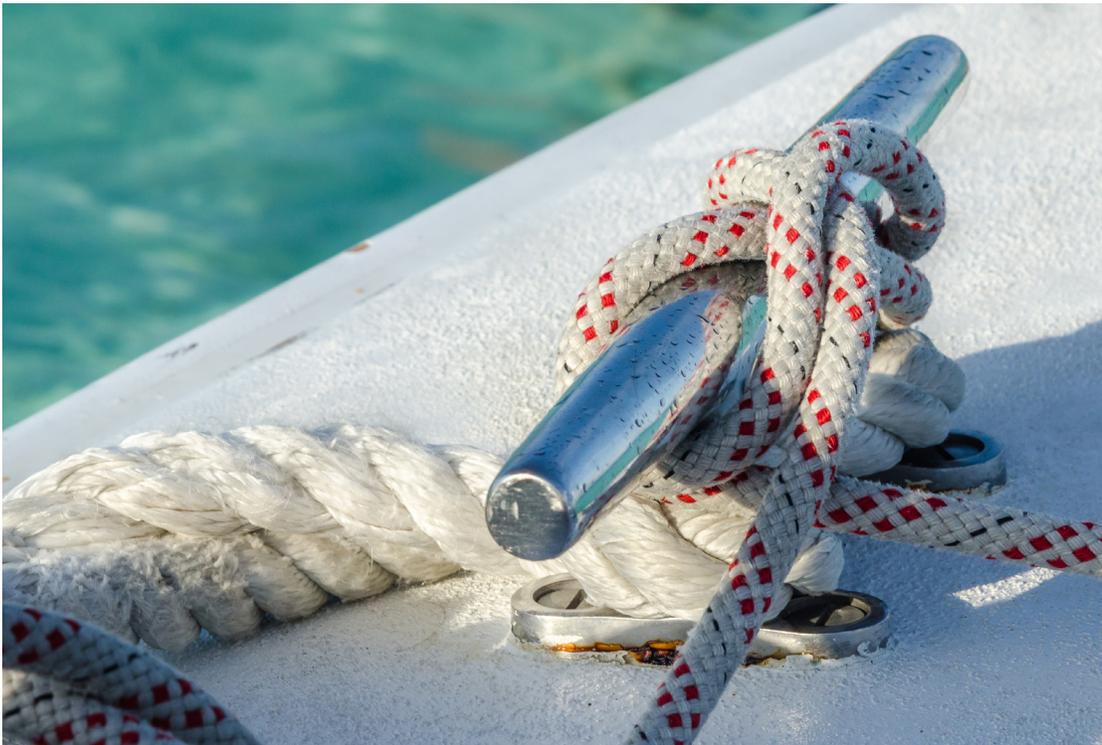
# A Strategic Approach to Buying a Yacht

Customized financing, along with tax and ownership advice, may help amplify the benefits of your purchase

## Key points

- When it comes to purchasing a luxury marine craft such as a yacht, it's important to be sure that you understand all the implications that come with it before you dive in
- Considerations such as ownership structure, taxes, insurance, and where to register your yacht are equally important
- It's important to work with your trusted advisory team, particularly advisory lending professionals, to help make the right financing decisions for your specific situation





**Whether you're a first-time buyer or you are trading your current yacht in for a new model, the purchase of a luxury marine craft is highly personal and a major investment. The purchase, and any acquisition financing, should take into account a variety of factors specific to your personal situation. Cash flow, taxes, liquidity, and lifestyle need to be considered. You want to be sure that your carefully constructed wealth plan is not jeopardized by your purchase, and that you are optimizing any tax-saving opportunities.**

#### **Why financing should be considered**

How you plan to pay for your yacht depends on your particular circumstances. While purchasing outright may be appealing if you want to avoid any interest expense or new debt, there are many reasons to consider financing through your bank. Liquidity preservation and tax benefits are just two compelling reasons.

A customized yacht loan structure takes into consideration a deep understanding of your personal balance sheet, your cash flow and investment plans, plus the interest rate environment. Interest rates and market risks are important considerations; the potential impact of a rise in interest rates and the protections to help mitigate them are important components of your financing plan.

Purchasing a yacht requires substantial capital, so it's important to structure the purchase so the cost of the vessel is funded in the most advantageous way. The best method should minimize the impact on appreciating assets, limit exposure to capital gains taxes, and be consistent with your other financial objectives.

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### **Determining ownership structure**

Owning your luxury yacht in an entity versus individually may have some benefits worth considering. Holding the boat in a limited liability company (LLC) or trust, rather than individually, may offer asset protection. For example, these entity structures allow you to separate insurance coverage for the yacht from your personal lines of coverage and limit the liability to the assets held in the entity.

Ownership of the vessel in an entity can also provide additional flexibility for transfer of ownership and asset protection, and can offer options with regard to taxes and expenses. Using an entity can also be beneficial for the estate settlement process.

### **Selecting the correct flag for your vessel**

The country in which you register your yacht also has financial, tax, and use implications. Do you anticipate hiring any international crew members? Do you anticipate chartering the vessel? If so, will you offer bareboat charters or will they only be for personal passenger use? Do you anticipate traveling into international waters? Where will you be docking the vessel during the year? Is your lender able to grant a loan on a foreign-flagged vessel? Answers to these questions will impact your decision on where to register your yacht.

For example, yachts registered with the United States Coast Guard must have U.S. citizens as members of the crew. If you anticipate seeking international crew members you may want to explore other jurisdictions to register your yacht. Labor costs for U.S. crews are typically higher, but flying the U.S. flag provides you with all of the protections of U.S. Maritime Law.

If you want the yacht to be used for any business or commercial purposes, you must register it with the U.S. Coast Guard. If the yacht will only be for personal use or for personal pleasure charters, then both Coast Guard and foreign flag registration options are available to you.

Depending on the country of registration, there are some restrictions and differences as to where a vessel is docked during the year. If you elect to register overseas, you must explore the costs and any taxation. Not all lenders are comfortable with and understand lending on yachts registered outside of the U.S.

Many luxury craft fly the flag of the Isle of Man, the Cayman Islands, Gibraltar, or the Marshall Islands. Work with an advisory team that understands these nuances and can assist you in determining which flag is most advantageous for you.

### **Accounting for yacht expenses and taxes**

The purchase and potential financing of luxury watercraft requires an understanding of depreciation options plus business and interest deductions. Depreciation of the vessel over time typically is the most significant tax consideration for buyers. Financing of the yacht can be a way to match your cost of acquisition with your tax deduction for depreciation.

A yacht may qualify as a business expense if you charter it or use it for business entertaining. In that case, you may be able to take advantage of Section 179 deductions for accelerated depreciation available on equipment used for business purposes ([www.section179.org](http://www.section179.org)).

In addition, if the yacht qualifies as a primary or second home—which generally is the case as long as it has a sleeping space, a toilet, and cooking facilities—some of the interest on the purchase may be tax deductible. (This deduction applies only to first and second homes.)

Your tax advisor can help you determine the impact of sales, use, and property taxes on your purchase. There are several strategies to mitigate these taxes, such as finalizing the sale in a low or no sales tax jurisdiction. Eligibility for these and other tax benefits depends on your particular circumstances, so it's essential to have effective collaboration by your team of financial professionals.

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#### **A trusted team by your side**

At Wilmington Trust, we are invested in your success. Any large purchase has the potential to affect many aspects of your financial life. Our Private Banking team can help you:

- Explore financing options that complement your personal liquidity position and overall wealth plan
- Develop strategies to help preserve appreciating assets while providing for your new purchase
- Determine the most advantageous country in which to register the yacht, and if in the U.S., consider state tax advantages
- Evaluate the most suitable ownership structure for your new purchase
- Take advantage of depreciation and other tax benefits

**Our Private Banking teams are located throughout the U.S. and work with you personally to assess your needs in conjunction with your overall wealth plan. We will work hand-in-hand with your team of advisors to evaluate your options and craft a customized financing strategy that's designed for your circumstances.**

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