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CAPITOL REPORT

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Is Kerry an unwitting icon for Bush tax cuts?

Controversy over ex-presidential candidate's yacht might offer lessons

By **Jeffry Bartash**, MarketWatch

WASHINGTON (MarketWatch) -- Sen. John Kerry is once again at the forefront of a national debate on whether to raise taxes on the rich -- but not in the way he intended.

The former presidential candidate set off a mini-firestorm after the revelation that he avoided \$500,000 in Massachusetts taxes by docking his new \$7 million yacht in nearby Rhode Island. Kerry, who's often called for higher taxes on the rich, has since promised to pay the taxes to his home state. He also insists he never sought to avoid them. [See Kerry interview with Boston Globe.](#)

Whatever Kerry's intentions, the controversy would seem to demonstrate the effects of higher taxes, even on the very wealthy.

Kerry's own actions, which initially deprived Massachusetts of badly needed revenue, seemingly shows that higher taxes can have a cost -- in the form of taxes avoided, jobs not created or goods and services not purchased.

"The question is, is it worth it to generate more revenue for the government at the expense of the private economy?" said Dan Mitchell, an economist at the libertarian-leaning Cato Institute in Washington.



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The question is not an easy one. After all, governments at every level need to tax the wealthy and not-so-rich alike to pay for necessary services.

What has always divided liberals and conservatives is over how much to tax. If taxes are too low, government cannot pay for itself. If they are too high, the economy will suffer and hurt the ability of ordinary Americans to find jobs.

In a nation where one in 10 Americans is now out of work, anything that discourages job creation is something that should be avoided.

That's why Republicans argue for keeping tax cuts for every American, even the wealthy, signed by former President George W. Bush. They say an increase in taxes on the rich while the economy is still struggling will hurt small businesses and further dampen job growth, potentially triggering another recession.

The Obama administration and most Democrats want to let the tax cuts for the wealthy expire while keeping them for the middle class. Calling conservative arguments overwrought, they say the government needs the extra money to pay for vital programs and to reduce the national debt in the long run.

"Just because people try to avoid taxes is not a reason to abandon them," said Michael Ettlinger, an economic analyst at the liberal-leaning Center for American Progress. "We wouldn't have any taxes then."

Who's right? Both sides have put forth reams of data and studies to prove their case, but most voters choose sides based on their own ideology. So let's return to the Kerry yacht imbroglio.

Costs and benefits

The truth is, there are many reasons to base a yacht in Rhode Island instead of Massachusetts. The state has great harbors, a long history as a mecca for recreational sailing and an extremely skilled maritime industry that's the envy of neighbors. After World War Two, the U.S. Navy often used Newport as a respite for the Atlantic fleet.

In 1993, Rhode Island sought to cement its reputation as the premier destination of mariners in the Northeast by eliminating its sales and excise taxes on yachts. Rival states Maine and Massachusetts failed to follow suit, keeping their sales taxes at 5%.

The result: the Rhode Island boating industry sailed well ahead of its New England rivals.

The rich are completely different animals

Dan Mitchell, economist at the Cato Institute

In an article last week, the normally liberal editorial page of the Providence Journal actually took delight in the Kerry flap because it gave Rhode Island a "national plug as a tax refuge." The paper argued that the absence of taxes actually generated more overall revenue for the state.

"By holding down taxes on yachts, the state has maintained a first-class pleasure-boat industry that keeps builders, maintenance workers and marina operators on the job, even in a down economy, earning Rhode Island more than it otherwise would through higher levies," the Journal intoned. "The reason the state provides such excellent maintenance, upkeep and charter opportunities -- all high on Senator Kerry's list -- is because its tax climate encourages such business."

Maine apparently has drawn the same conclusion. The state just cut its sales tax on out-of-state owners who buy a yacht in Maine. The tax was reduced to 2% from 5%.

According to conservatives, the policy of Rhode Island shows why it's important to keep federal taxes on the low side, even for the wealthy, because of the economic activity they generate by spending or investing their money instead of hiding it.

"The rich are completely different animals" than nine-to-five workers who end up paying whatever tax they are assessed, Mitchell said. "They have all sorts of means to look for tax advantages if rates rise too much."

Not so fast, liberals such as Ettlenger argue. He noted the absence of reliable data to show that Rhode Island generates more revenue from its no-tax policy on yachts.

He also doubts wealthy boaters such as Kerry, who's officially listed as the richest member of the U.S. Senate with \$231 million in assets, would determine where to dock a yacht based mainly on tax rates. "At his income level, it's not a big deal."

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