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## *The nautical sector in the Balearics: a great present and amazing future*

A recent study of the nautical sector's economic impact, presented by the Complutense University of Madrid on March 8 at the 6th Nautical Congress of the National Association of Nautical Companies (ANEN), determined that its macroeconomic impact on our islands was in the region of some 3,000 jobs, with operating revenues of 408 million and a gross added value of 171 million euro, which goes to show that, together with the hospitality sector, it constitutes one of the drivers of the Balearic economy. At a national level, these same magnitudes translate into 82,000 jobs, operating income of 12 billion and a gross added value of 4.8 billion Euros, with the Balearic Islands coming second in the national ranking, very close to Catalonia, in first place. The main characteristics of the nautical sector are the preeminence of micro-companies in the productive field (90.6% of companies have between 1 and 9 workers), a process of constant renovation (38.1% of companies were set up in the last 10 years) and high multiplier coefficients, which show the effect

that the activity of the nautical sector, both indirectly and as a knock-on effect generates in the economy. The latter factor is especially relevant given that, for every euro of added value generated in the sector, 5 euro are generated in the total economy and, for every job created in the nautical sector, 4.2 jobs are created in other economic sectors.

In relation to employment, that created by the nautical sector is high quality employment and with remuneration which is much higher than the average for other sectors. Possibly due to its powerful growth in recent years, another characteristic of the sector is the great difficulty companies have when it comes to finding skilled workers, who on many occasions have to be hired from abroad. In this regard it is important to highlight that on March 2 the Council of Ministers passed two royal decrees establishing and regulating the content of the new intermediate level vocational training courses for the repair and maintenance of recreational vessels, which will, without a doubt,



help to improve workers' skills over the coming years and, consequently, move towards a greater professionalization of the sector. ANEN has participated actively, being closely involved in the working groups that were set up to define course content and characteristics.

The economic activities that make up the nautical sector are varied and include sub-sectors such as construction, boat repair and maintenance, boat rental (charter), electrical and electronic equipment, marinas, distribution and retail trade of nautical products, training, etc. Each of these subsectors generates a domino effect or drag effect on the rest of the sub-sectors and on the economy in general, so that growth in any one of them positively affects the rest and this, in turn, ends up positively impacting household income for those who are either directly employed in the sector itself or indirectly in other linked sectors by what is known in economics as a "knock-on effect".

To cite just one of the sub-sectors, the turnover from chartering large yachts in the Balearic Islands increased by 39% in the 2017 season compared with the previous year, which not only means increased turnover for other sub-sectors, but also in the amount of revenue raised by the Treasury which, just in terms of VAT, was 41% more than in the previous year, reaching a figure of 10 million euro. It is also true that this high increase in activity is sometimes misleading because we start from low figures in absolute terms if we compare ourselves with other neighboring countries and direct competitors in the Mediterranean such as France or Italy. And we have to note that in Spain, until the summer season of 2014, boats over 15 meters in length could not be chartered without prepaying the "special tax on certain means of transport" (IEDMT) -better known as matriculation tax-, which meant paying 12% of the boat's value, and which in practice, meant this niche market was non-existent. It wasn't until October 2013 when a legislative amendment was

made to the Excise Duty Act 38/1992, of 28 December (LIE), which eliminated the 15-meter limit, so that those boats dedicated exclusively to the commercial activity of chartering in Spain were able to request an IEDMT exemption from the tax authorities. As a result of this legislative amendment, which was supported by both ANEN, AEGY (The Spanish Association of Large Yachts) and AENIB (ANEN's partner in the Balearic Islands), turnover in this particular market has multiplied 11-fold in four years.

The above is only one example of the enormous importance that regulatory changes can have on real activity, being very beneficial for both the private sector and the Treasury, in what the Anglo-Saxons call a "win-win scenario". This is what the nautical sector is demanding of the authorities, to be put on an equal footing with our European neighbors, especially in the tax field. One of these demands is the complete scrapping of IEDMT on recreational craft, irrespective of their length and whether they are for private or commercial use. IEDMT is a tax that does not exist in any of the neighboring countries, and which implies, for those wishing to acquire a boat over 8 meters in length for private use, paying 33% of its value in the tax (21% VAT plus 12% IEDMT), which is by far the highest tax burden in Europe. The tax authorities know that repealing IEDMT would boost the recreational nautical sector and would result in higher revenue in terms of other taxes such as VAT, fuel duty, and personal income tax on salaries earned, etc. The "Lagares report" of March 23, 2014 on the reform of the tax system supported this, and the main political parties in our country have stated on many occasions since 2010 that they are in favor of its elimination, however, as Diogenes "The Cynic" said, motion is proved by walking.

Let us hope that political decisions and subsequent regulatory change will happen as soon as possible, as it will not only be positive for the economy in general, but also for both the nautical sector and the Treasury in particular.