Plymouth Institute for Free Enterprise

Distributed Profits Tax Pilot for Shipbuilders

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TOPLINE: Congress should pilot a distributed profits tax with shipbuilders, which would allow companies to freely reinvest their earnings without penalty.

BACKGROUND: In 2025, the Navy spent $39 billion on domestic ship procurement. But aside from military contracts, which account for about 79% of domestic shipbuilders' revenues, the industry has struggled. For each large oceangoing commercial vessel that U.S. shipyards produce, China produces about 400. America's uncompetitiveness is especially noteworthy because the government has devoted significant resources to try to support domestic commercial shipbuilders, including:

- The Jones Act, which bans shipping between U.S. ports on non-U.S. vessels;
- The Small Shipyard Grant Program, which offers grants;
- The Federal Ship Financing Program (Title XI), which offers long-term loans; and
- The Construction Reserve Fund (CRF) and Capital Construction Fund (CCF), which allow owners and operators to defer taxes on certain shipyard project funds.

Tax Challenges: Income taxes present specific challenges to shipbuilders. Shipyards require enormous initial capital investments, leading to unfavorable tax treatment and delayed deductions. Building a single vessel may cost a billion dollars or more, requiring shipbuilders to secure large amounts of capital before starting projects.

Distributed Profits Tax: A distributed profits tax (DPT) would *not* tax companies on earnings that they reinvest in new projects or retain for future investments. Instead, under a DPT, businesses would be taxed only upon returning profits to shareholders through dividends, stock buybacks, etc. A DPT would be an ideal business tax system for a comprehensive reform, but a system for shipbuilders could serve as a pilot.

Action Items (Congress):

- **Allow U.S. shipyards to elect to pay a single flat DPT** on dividends, stock buybacks, and other distributions to owners and shareholders, **in lieu of other federal taxes on the business (and distributions to investors)**.
  - The DPT would be a flat tax, generally *not* allowing deductions or credits.
  - To facilitate transition, a one-time credit could be allowed for estimated income taxes already paid on retained earnings and capital accounts.
- **Phase out Title XI financing, small shipyard grants, CRF, CCF, and the Jones Act**.

How It Would Make Life More Affordable:

- It would make U.S. shipbuilding more competitive, reduce Navy procurement costs for taxpayers, and reduce the cost of shipping goods in the United States.
- If extended to all firms, a DPT would slash compliance costs and unleash growth.

BOTTOMLINE: Current policies have failed to strengthen domestic shipbuilders. It's time for lawmakers to consider a limited-government, free-market approach.