

## **Congress Must Adopt Tax Incentives and Commercial Cargo Requirements to Strengthen the U.S. Merchant Marine**

For decades, the United States has sustained a decline in our U.S.-flag fleet, maritime industrial base, and available mariner workforce to crew American vessels. As global trade increasingly depends on foreign-flag vessels—many owned, built, and operated by strategic competitors—the United States has become too dependent on foreign shipping systems beyond its control. This erosion of U.S.-flag capacity has weakened supply chain resilience, reduced American participation in global commerce, and constrained the nation’s ability to reliably move military and critical cargo during times of crisis. Addressing these vulnerabilities requires a comprehensive national maritime policy to restore American competitiveness in international shipping and trade while reinforcing the strategic role of the U.S. Merchant Marine.

A national maritime policy aimed at revitalizing the American maritime and shipbuilding sectors must level the competitive playing field for U.S. businesses and U.S.-flag carriers. Today, U.S. operators are routinely undercut by China and other foreign adversaries that do not adhere to comparable labor, tax, safety, or environmental standards. These competitors frequently rely on Chinese-built vessels and flag-of-convenience (FOC) registries that exploit lower labor costs and regulatory loopholes, enabling them to externalize costs that U.S. operators must bear. Without specific policy interventions, these practices will continue to disadvantage U.S.-flag carriers, discourage domestic investment, and accelerate the decline of the American maritime industrial base. Restoring competitiveness requires policies that reward compliance, support high standards, and counter unfair foreign shipping practices.

Recent actions by the federal government signal an important shift toward confronting these challenges. Initiatives such as the Administration’s Maritime Action Plan (MAP), the introduction of the SHIPS for America Act, and growing federal and private investment in domestic shipyards demonstrate growing bipartisan awareness of the vulnerabilities facing the U.S. Merchant Marine. These efforts represent meaningful steps toward establishing sustained national oversight, directing investment to domestic shipbuilding and repair capacity, and strengthening the maritime workforce. However, no single policy or legislative action will reverse decades of decline on its own. Success will require a coordinated, whole-of-government approach that aligns trade, tax, workforce, defense, and transportation policies and incorporates input from key stakeholders.

An essential foundation for this broader strategy is ensuring that right now, federal policies actively support “Ship American” principles that grow demand for U.S.-flag shipping and rebuild a declining mariner pool. Critical components of such efforts include, but are not limited to: expanding cargo preference, establishing tax incentives for commercial shippers to choose U.S.-flag vessels, and strengthening workforce recruitment and retention.

### **Government Cargo Carried on U.S.-Flag Vessels and Cargo Preference Oversight**

Congress must require that 100 percent of U.S. government cargo be transported on U.S.-flag vessels unless the Maritime Administrator determines that qualified U.S.-flag vessels are

unavailable and formalizes interagency processes for such determinations. Government cargo provides one of the most reliable demand signals for U.S.-flag shipping. Ensuring full utilization of U.S.-flag vessels for government cargo supports fleet viability, mariner employment, and sealift readiness while reducing reliance on foreign-controlled shipping. Congress must codify full U.S.-flag carriage for government cargo and vest clear authority and accountability for non-availability determinations with the Maritime Administrator.

In addition, Congress must strengthen oversight and audit requirements for cargo preference laws and require notification to Congress when federal agencies fail to comply. Cargo preference requirements are ineffective without real enforcement measures. Enhanced oversight ensures agencies meet statutory obligations and that U.S.-flag vessels receive the cargo support intended by Congress. Congress should require regular audits of cargo preference compliance and transparent reporting of violations and corrective actions to Congress.

### **Shipper Tax Incentives for Moving Commercial Cargo on U.S.-Flag Vessels**

Congress should also establish an enhanced tax deduction allowing private shippers to deduct 200 percent of eligible shipping expenses associated with importing or exporting goods on U.S.-flag vessels engaged in international trade. Eligible expenses include international shipping and affiliated intermodal costs under a single bill of lading, and eligibility is limited to qualified U.S.-flag vessels operating under U.S. registry and deemed fit for service by the Maritime Administration.

Private-sector cargo decisions are overwhelmingly cost-driven, and the higher operating costs associated with U.S.-flag vessels place American carriers at a persistent competitive disadvantage against foreign-flag fleets, particularly those operating under flags of convenience or supported by state-backed industrial policies, such as those in China. An enhanced deduction directly addresses this cost differential by reducing the after-tax cost of shipping on U.S.-flag vessels, making them competitive with foreign alternatives without imposing unfunded mandates on American shippers.

Congress must amend the Internal Revenue Code to allow an enhanced deduction equal to 200 percent of eligible international shipping expenses incurred by private shippers using qualified U.S.-flag vessels, with vessel eligibility overseen by the Maritime Administration and effective for taxable years beginning after enactment.

### **Federal Income Tax Exclusion for U.S. Merchant Mariners**

Congress must extend the foreign earned income exclusion under Section 911 of the Internal Revenue Code to U.S. citizen merchant mariners employed aboard commercial vessels that are owned, operated, or chartered by U.S. entities when those vessels are engaged in international commerce or transportation between the United States and foreign countries. The provision treats qualifying mariners as eligible individuals for purposes of Section 911 and allows income earned while serving aboard qualifying vessels to be treated as foreign earned income, regardless of where wages are paid.

Under current law, American merchant mariners are fully subject to U.S. income taxation on wages earned while working in international commerce, placing them—and the U.S.-flag vessels that employ them—at a significant competitive disadvantage compared to foreign mariners who are often exempt from income taxes in their home countries. This tax disparity increases operating costs for U.S.-flag carriers, discourages employment of U.S. mariners, and undermines the competitiveness of the U.S. Merchant Marine in global trade. Extending the Section 911 exclusion to U.S. merchant mariners helps level the playing field with foreign competitors, supports mariner retention and recruitment, and strengthens the availability of trained American crews needed to support sealift and national defense requirements during times of war or national emergency.

Congress must amend Section 911 of the Internal Revenue Code to explicitly include U.S. citizen merchant mariners employed aboard qualifying U.S.-owned, operated, or chartered commercial vessels in international trade as eligible individuals, allowing a portion or all of their earned income to be treated as foreign earned income for federal tax purposes, effective for taxable years beginning after enactment.

## **Conclusion**

The U.S.-flag fleet, maritime industry, and mariner workforce have been in decline for years due to outdated policies and rules that favor foreign-flag operators. To address this, Congress must take clear legislative action to ensure that the cargo preference rules are enforced and monitored, improve the shipper tax deduction for U.S.-flag cargo, and extend Section 911 income tax exclusion to U.S. merchant mariners. By adopting these policies, Congress will help restore American competitiveness in international shipping and trade and reinforce the vital role of the U.S. Merchant Marine.

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