

CONSTRUCTION RESERVE FUND PROGRAM OVERVIEW

Maritime Administration | November 2024

Program Benefits:

- Promotes the construction, reconstruction, reconditioning, or acquisition of merchant vessels which are necessary for national defense and the development of U.S. commerce.
- Provides for the non-taxability of deposits placed into the fund from the sale (or loss) of a vessel.
- Available for unregistered vessels.

DIFFERENCES BETWEEN CRF AND CCF PROGRAMS

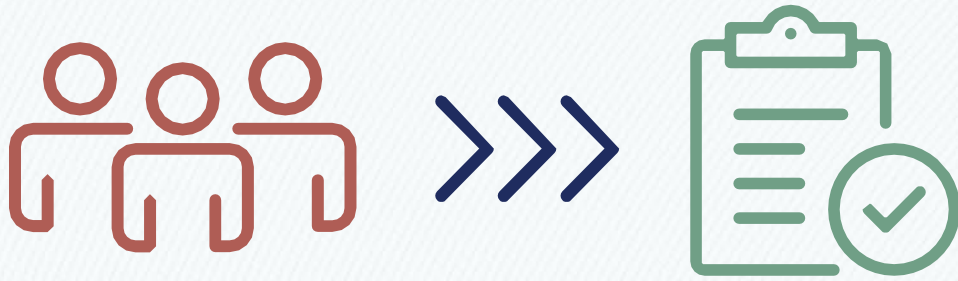
Construction Reserve Fund (CRF):

- Only deposits based upon proceeds from the sale of vessels are tax deferred (operational proceeds can be deposited but tax must be paid)
- Clear deadlines when proceeds received from the sale of vessels must be deposited
- Time limits on the use of deposits for new projects is 3 years
- MARAD countersigns withdrawal checks

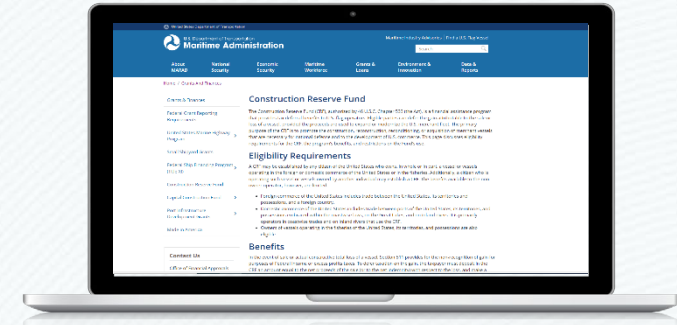
Capital Construction Fund (CCF):

- Deposits based upon the proceeds from the sale of eligible agreement vessels and the operation of eligible agreement vessels are tax deferred
- No deadlines when proceeds from the sale of vessels must be deposited
- Time limit on the use of deposits is 25 years
- MARAD does not countersign withdrawal checks

Who Is Eligible?



- Any citizen of the United States who owns, in whole or in part, a vessel operating in the **foreign or domestic trades** of the United States.
- Any citizen who is operating a vessel in the **foreign or domestic trades** of the United States owned by another individual. (Benefits limited)



Details of CRF eligibility requirements are found on the CRF pages on MARAD's website:
www.maritime.dot.gov/grants/capital-reserve-fund.

Reference: 46 CFR 287.2

APPLICATION FORM

- Use recommended form and affidavit on the CRF webpages or complete and submit required information in 46 CFR Part 287.4 (“Application to establish fund”)
- Applications may be submitted electronically or by mail
- Submit \$225 fee



OFFICE OF FINANCIAL APPROVALS

- Reviews application for completeness and compliance
- Works with applicant to revise application if needed
- Single point of contact between company and MARAD



* MARAD can tentatively establish a CRF account to allow for the deposit while the application is under consideration if there is insufficient time to determine eligibility

If the application is approved by MARAD:

- MARAD will adopt an “Order of the Administration” authorizing the establishment of a CRF account with the depository or depositories designated by the taxpayer and approved by the Administration. A certified copy of the Orders will be furnished the taxpayer.
- The Order will provide for joint control by MARAD and the taxpayer over such account and the conditions governing deposits, withdrawals, and maintenance.
- The taxpayer shall promptly execute an agreement with the depository or depositories satisfactory in form and substance to MARAD to conform to MARAD’s action as set forth in the Order.

FUNDS HELD IN SEPARATE ACCOUNT AT MARAD-APPROVED DEPOSITORY

- Deposits into the CRF account must be made within 60 days after receipt by the taxpayer of amounts representing proceeds of the sale or indemnification for vessel loss.
- FDIC insured (bank) or SIPC member (brokerage)

INVESTMENTS

- Cash and cash equivalents
- Interest bearing securities
- Common and preferred stock

FEDERAL DEPOSIT
INSURANCE CORPORATION



550 17 TH STREET

TIMING OF DEPOSITS

- Deposit from “Eligible Vessels” proceeds of sale must be deposited within 60 days after receipt by the taxpayer
- Earnings for the taxable year may be deposited at any time but remain taxable
- MARAD can tentatively establish a CRF account to allow for the deposit while the application is under consideration if there is insufficient time to determine eligibility

AMOUNTS OF DEPOSITS

- Net proceeds from the sale of a vessel
 - Cost of the vessel less depreciation
 - Brokers commission are deducted
- If vessel is subject to a mortgage, depositor must also deposit an amount covering the mortgage payoff

OBLIGATION OF DEPOSITS

- Within three years from the date of any deposit, such deposit must be obligated under a contract for the construction of a new vessel or vessels
- Not less than 12.5% of the contract price actually paid or irrevocably committed
- Contract must be for a fixed price or base price that may be adjusted by no more than 15%

CONSTRUCTION PERIOD

- Within six (6) months of the date of construction contract at least 5% of the construction must be complete
- Construction must be completed “with reasonable dispatch”

EXTENSIONS

- MARAD can grant two one-year extensions of time within which deposits must be expended or obligated
- Taxpayer must apply and show proper circumstances as determined by MARAD
- Must alert IRS of extensions

WITHDRAWALS

- MARAD must countersign all withdrawals from the CRF account
- If money is improperly deposited it may be withdrawn
- MARAD must alert IRS and allow for a 30 day period in which the IRS can object or consent
- No response equals consent to withdraw



REPORTING and ONGOING REQUIREMENTS

1. MARAD approves withdrawals from the CRF which are associated with the sale of a vessel or vessels. (Note: the withdrawal requests are sent in a form indicating a vessel was sold and the company would like to be reimbursed for that sale)
2. MARAD receives requests from companies to add a vessel or vessels to their fleet in the CRF

1) Can a foreign operator of a vessel access the CRF program?

Yes.

2) What is the timing deposit requirement for CRF?

Deposits into the CRF must be made within 60 days after receipt by the taxpayer of amounts representing proceeds of the sale or indemnification for loss of a vessel.

3) Is there a set application form to be submitted to MARAD?

Regulation 46 CRF Part 287 includes a form of the application. The form is available on the CRF website.

4) Is there an application deadline for CRF?

An application must be submitted within 90 days of sale of a vessel with the required fee.

5) Is there an agreement signed by company and MARAD following internal approval?

No. MARAD issues an Order to the company and bank along with a signature card that is signed by MARAD and kept in the company's folder for cases of incoming disbursements that need signatures for release of their funds for the sale of a vessel or vessels.

6) What are the ongoing reporting requirements or obligations to MARAD, if any?

There is no ongoing reporting requirements. However, MARAD must approve all deposits and withdrawals from any CRF accounts. The withdrawal requests are sent in a specific form with required documentation demonstrating a vessel was purchased and the account holder would like to be reimbursed.

Contact: **OFFICE OF FINANCIAL APPROVALS**

Email: financial.approvals@dot.gov

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Business Hours: 9:00 a.m. – 5:00 p.m. EST,
Monday – Friday