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Welcome to the Era of Maritime Prosperity Zones and the Rebirth of the American Shipbuilding Industry

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By: Geoffrey J. Troan, Vista Site Selection

One of the pillars of the Trump Administration has been a desire to rebuild the shipbuilding and repairing business in the United States. This echoes earlier concerns by the U.S. Navy (that must build and repair all its ships in the United States) regarding the lack of, and age of, the shipbuilding and repairing infrastructure in the country.

To that end the White House recently issued an Executive Order defining Maritime Prosperity Zones (MPZs) to be created across the United States, in a manner similar to the Federal Opportunity Zone (OZ) program that was created under the first Trump administration. As the Executive Order reads, the MPZs are to be defined by July 8, 2025, with the benefits defined by November 2025.

For those unfamiliar with economic development legislation, zone legislation is enabling legislation, where the zones function to limit tax advantages and other business incentives to a tight geographic profile, avoiding a windfall of tax shelters across a broad geography. Specific incentives programs can then be applied to the zones, creating a focused approach for desired economic transformation (in this case new maritime construction, maintenance, repair, overhaul, and conversion -MROC).

Having spoken to a number of states on the matter, Vista Site Selection believes that the July 8, 2025, deadline was really a target for the U.S. Department Commerce to define what can be a zone. The states will then subsequently define specific geographies. Creating the geographies for the MPZs is going to be a significantly more complex process than the process used for creating OZs. In 2018, the government was just looking to encourage investment in depressed areas, so the OZs were simply defined by low-income census tracts. In hindsight, that didn’t turn out to be optimal, as the census information used was dated, nuances of the census geographies inadvertently picked up many university towns, and the final tracts didn't always jive with state and local economic growth planning.

The MTZs will have to be defined around ports and then spread back across what is left of the national maritime support infrastructure supply chain. This supply chain stretches across all fifty states and Puerto Rico. The MTZs need to encompass inland clusters such as the area around Crane Naval Surface Warfare Center in Indiana, heritage contractor facilities across the country, and small businesses that support the U.S. Navy and commercial shipyards and repair facilities. Vista is currently building AI algorithms to identify those geographies as an aid to the states in creating final zone designations.

Rebuilding the U.S. commercial shipbuilding and MROC industry is at best a high-risk venture for private industry, with success very much dependent on the correct positioning of the MPZs and the level and type of business incentives targeted at them. Expanding U.S. Navy and Coast Guard production is much more assured, as the success of U.S. commerce over the past century has depended largely on a command of the seas, and the assurance of the free movement of global trade. Allowing that command to slip would put global and U.S. commerce at risk.

Thus, there is a relative assurance of the need for a larger Navy, with increased levels of on-station performance. As such, a good risk mitigation strategy for a shipbuilding and MROC firm, might be to construct infrastructure with an eye on military business as a core, and gradually reintroduce additional commercial capacity over time. This scenario also benefits the military, as Navy ship requirements tend to fluctuate significantly, so the commercial traffic could be used to fill military production gaps and stabilize the skilled workforce.

Now, what should the benefits of an MPZ be? The Executive Order implies that the incentives would parallel those created for OZ's for the 2018 program. OZ business incentives were three-fold. First, a qualified investor could invest in an OZ company (a QOF or Qualified Opportunity Fund) and defer unrelated capital gains for up to a decade. Second, the capital gains tax on these deferrals was then discounted by 10%-15%. Finally, the owners of the QOF could sell the business after ten years without paying federal long-term capital gains on the sale. This was a good model for start-ups who are always chasing equity capital, and their founders, who could sell their interest after major growth with no tax impact. It was not near as an attractive business incentive for heritage corporations who financed from internal capital and didn't plan on selling off the QOF operating unit at some point.

This type of incentive would be problematic for an MPZ designation. Shipbuilding and repair is largely a very capital-intensive business led by large heritage companies. While there is room for start-ups in the new maritime infrastructure especially in the sea and sub-sea drone sector, it would be more helpful to develop incentives in line with the New Markets Tax Credit (NMTC) program.

The MPZs should incorporate a salable federal tax credit script similar to the NMTC program without the interim community development entity participation. In this model, investing start-ups and heritage corporations would receive salable federal tax credit script against their investment in new maritime infrastructure in an MPZ, which it could either apply against its own federal tax liability or sell at a discount to other high liability federal taxpayers.

To encourage more ship construction and MROC in U.S. ports, the MPZs could also incorporate a tariff waiver on their cargo for a number of sailings for ships either built in the U.S., or subject to a major overhaul or conversion here.

The creation of the MPZ program will play a key role in rejuvenating shipbuilding and MROC in the U.S. for both commercial and military applications. While we must wait on the U.S. Department of Commerce and the states to define the actual benefits of the MPZ zones, now is the time to ensure that your heritage and planned new operations are included in zone designations, or you could easily find your business at a substantial cost disadvantage for production. If the program is administered like previous federal business incentives zone designations, once the zones are set, there will be no opportunity to alter them.

About the author: Geoffrey (Jeff) Troan is an aerospace industry consultant with more than 40 years' experience in supporting technology companies and manufacturers in siting, expanding, and consolidating business operations. He worked for Lockheed Martin for more than 30 years in both operating and corporate oversight positions, retiring as a vice president of finance in corporate treasury in 2014. For the past 11 years, Jeff has performed as an industry consultant, supporting both heritage firms and start-ups to navigate the commercial and federal government contracting world. He is currently a partner, founder and senior managing director with Vista Site Selection LLC, an ancillary company of Vorys. He can be reached at via email at GJTroan@VistaSiteSelection.com, or via phone at 202.747.5644.