HB 1123

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

House Bill 1123 (Delegate Proctor)
Ways and Means

Motor Vehicle Excise Tax - Purchase Price - Trade-In Allowance

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This bill provides that the total purchase price used to determine the motor vehicle excise tax be reduced by an allowance for a trade-in. No allowances are permitted for other nonmonetary considerations.

This bill is effective July 1, 2001.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues would decline by approximately $43.8 million annually. Expenditures would not be affected.

($ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
SF Revenue	($43.8)	($43.8)	($43.8)	($43.8)	($43.8)
Expenditure	$0	$0	$0	$0	$0
Net Effect	($43.8)	($43.8)	($43.8)	($43.8)	($43.8)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local revenues would decline by approximately $13.8 million annually. Expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Current Law: Titling tax revenues are irrevocably pledged to the payment of debt service on consolidated transportation bonds. No part of the tax or other funds payable to debt service on the bonds may be repealed, diminished, or applied to any other purpose until the bonds and interest are fully paid or complete provision for payment has been made.

Background: Maryland is one of eight states (including Michigan, California, Virginia, and the District of Columbia) that does not allow a credit for trade-ins when calculating the state sales or excise tax on the sale of a new or used vehicle, or does not allow a credit for a trade-in vehicle registered in another state. There are 39 states (including Pennsylvania, New York, and Florida) that allow a credit for trade-in vehicles. Credit allowances in some states are subject to certain limits. For example, in Connecticut and Massachusetts, credit is allowed only if the vehicle is purchased from a licensed dealer. South Carolina caps the trade-in allowance at $300. Three states (Oregon, New Hampshire, and Delaware) do not levy a sales or excise tax on motor vehicle sales or use a document fee in lieu of an excise tax.

State Revenues: The State's share of motor vehicle excise tax revenues would decline by an estimated $43.8 million annually, based on the following facts and assumptions:

- approximately 56% of new vehicle purchases and 35% of used vehicle purchases involve a trade-in;
- about 345,000 new cars and 549,000 used cars are purchased annually;
- the average trade-in value for a new car purchase is $5,400; and
- the average trade-in value for a used car purchase is $640.

Thus, for each of the 193,200 new vehicle purchases annually that involve a trade-in, excise tax revenues of $270 would be lost, for a revenue loss of $52.2 million. For each of the 192,150 used vehicles purchased annually that involve a trade-in, excise tax revenues of $32 would be lost, for a revenue loss of $6.1 million. The net revenue loss would be $57.6 million, accounting for the 1.2% processing fee for dealers. Based on the distribution of excise tax revenues, State revenues would decline by about $43.8 million (the remainder would be a loss to local governments).

State Expenditures: The Department of Transportation (MDOT) advises that special fund expenditures of $35,000 would be incurred to change forms and replace inventories. The Department of Legislative Services advises that this cost can be absorbed within existing budgeted resources.

Local Revenues: A portion of the titling tax is distributed to local governments through the Gasoline and Motor Vehicle Revenue Account of the TTF. Accordingly, local revenues would decline by approximately $13.8 million.

Additional Comments: MDOT advises that motor vehicle excise tax revenues are irrevocably pledged to the payment of debt service for consolidated transportation bonds, and that this bill could raise legal questions because it may impair the department's contractual obligation to its bondholders. The Department of Legislative Services observes that some exemptions to the titling tax for vehicles have been enacted.

MDOT also advises that bond sales for the current forecast period may have to be reduced in order to maintain a 2.5 bond coverage ratio. The Department of Legislative Services advises that even if this bill were to cause bond coverage to drop below 2.5 in the out-years, that ratio is simply an administrative policy. The bond revenue coverage test, established in the department's bond resolutions, mandates only that net revenues and pledged taxes must equal twice the maximum future debt service.

Additional Information

Prior Introductions: An identical bill was introduced as SB 248 in the 1998 session and was given an unfavorable report by the Senate Budget and Taxation Committee. A similar bill that phased in the trade-in exclusion over four years was also introduced in the 2000 session as SB 290 and given an unfavorable report by the Senate Budget and Taxation Committee.

Cross File: None.

Information Source(s): Department of Transportation (Motor Vehicle Administration), Department of Legislative Services

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