

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 710 (Delegate Moe, *et al.*)
 Ways and Means

Vehicle Laws - For-Rent Vehicles - Rental Fee

This bill imposes a \$5 fee for each motor vehicle rented, excluding vehicles that construction companies and funeral homes rent to another person. The fee is paid by the motor vehicle renter. The fee must be separately stated on the rental agreement and is not subject to tax. The bill directs the Comptroller to forward, at the end of each quarter, 50% of the fees to counties and municipalities, in accordance with State highway user revenue requirements. The Comptroller must adopt regulations to administer and collect the fee and otherwise enforce the bill.

The bill takes effect July 1, 2004 and terminates June 30, 2009.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues would increase by approximately \$14.3 million annually, of which the State will retain \$7.1 million; future year growth reflects a projected 2.5% growth in vehicle rentals. General fund expenditures would increase in FY 2005 only for computer costs.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SF Revenue	\$14,253,200	\$14,609,600	\$14,974,800	\$15,349,200	\$15,732,900
GF Expenditure	12,000	0	0	0	0
Net Effect	\$14,241,200	\$14,609,600	\$14,974,800	\$15,349,200	\$15,732,900

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

Local Effect: Local government revenues, as a share of State fee revenues, would increase by \$7.1 million in FY 2005.

Small Business Effect: Small businesses that rent vehicles, including moving companies and service stations, may incur additional administrative costs.

Analysis

Current Law: There is currently no “per-transaction” charge on motor vehicle rentals.

Background: Rentals of passenger cars and multipurpose vehicles are subject to an 11.5% sales tax, if the vehicle is rented for a period of 180 days or less, the lessor does not furnish a driver, and the vehicle is not used for transporting passengers or property for hire. Certain rental trucks are taxed at 8%. The sales tax on rental vehicles raised approximately \$23.6 million for the TTF in fiscal 2003.

State Revenues: This bill could raise approximately \$14.3 million per year based on the following information and assumptions: (1) the Maryland Aviation Administration reports that there were approximately 950,216 vehicle rental transactions at BWI Airport in 2003; and (2) it is assumed that BWI rentals reflect approximately one-third of total vehicle rental transactions in Maryland. Accordingly, if the \$5 fee was assessed on 2.9 million total transactions, revenues could total \$14,253,240.

It is further assumed that demand for vehicle rentals – whether for business or personal travel, or as a replacement for a vehicle in a repair shop – is relatively inelastic and would not decline as a result of the \$5 per transaction fee. Out-year revenue increases assume a 2.5% increase in rentals.

State Expenditures: The Comptroller’s Office advises that it would incur approximately \$12,000 annually in programming costs to collect the fee. The Comptroller advises that it can administer the tax with existing personnel resources; however, it may divert audit personnel from other tax programs.

Local Government Revenues: Local governments will receive half of the revenues raised by the fee, or approximately \$7.1 million in fiscal 2005.

Additional Comments: The Comptroller’s Office interprets the bill’s language to apply a \$5 fee to each rental vehicle, rather than to each rental transaction. Under that interpretation, the level of revenues raised would be much lower (approximately \$356,400). The bill’s language should be amended to clarify the application of the fee.

Additional Information

Prior Introductions: HB 142 was introduced in the 2003 session and heard by the Ways and Means Committee, which took no action. HB 142 proposed a \$3 fee rather than \$5 and did not provide any exemptions or local distributions.

Cross File: None.

Information Source(s): Maryland Department of Transportation, Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - February 29, 2004
lc/mdr

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