

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 761
 Ways and Means

(Delegates Hixson and N. King)

Vehicle Excise Tax - Rate

This bill increases the State motor vehicle excise tax rate from 5% to 6% of the fair market value of the vehicle.

The bill takes effect July 1, 2007 and applies to all certificates of title issued in the State on or after July 1, 2007, as well as to all motor vehicles, trailers, or semitrailers subject to the excise tax that are in interstate operation and registered without a title on or after July 1, 2007.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues would increase by \$145.0 million in FY 2008. The State’s portion would be \$110.2 million. Future year revenues reflect projected growth in motor vehicle excise tax revenues. Potential increase in TTF expenditures in FY 2008 only for computer reprogramming costs.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	\$145,000,000	\$150,220,000	\$157,430,600	\$159,949,400	\$165,707,600
SF Expenditure	-	0	0	0	0
Net Effect	\$145,000,000	\$150,220,000	\$157,430,600	\$159,949,400	\$165,707,600

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

Local Effect: Local government revenues will increase by \$34.8 million in FY 2008 and by \$39.8 million in FY 2012. Out-year revenues will increase according to vehicle sales and titling growth.

Small Business Effect: Meaningful. Vehicle dealers that are small businesses will receive additional funds through the excise tax collection fee. Small businesses that

purchase vehicles, such as delivery services and transportation providers, will pay a higher titling tax.

Analysis

Current Law: The motor vehicle excise tax, also known as the titling tax, must be paid at the time of application for an original or subsequent vehicle title. Applicants pay 5% of the fair market value of the vehicle, which is the total purchase price of a new or used vehicle as certified by the dealer.

The total purchase price means the price of a vehicle agreed on by the buyer and the seller, with no allowance for trade-in or other nonmonetary consideration. In the case of motor homes and travel trailers, the total purchase price is the price of a motor home and travel trailer, less the value of any motor home or travel trailer traded in as part of the consideration of the sale. This trade-in allowance is not to exceed the value shown in a national magazine of used motor home and travel trailer values.

Twenty percent of titling tax revenue is distributed directly to the Maryland Department of Transportation (MDOT) and 80% is deposited into the Gasoline and Motor Vehicle Revenue Account, of which 30% is distributed to local governments as highway user revenues. The result is an effective distribution of 76% to MDOT and 24% to local jurisdictions. The law requires that the State's share of funds be used to pay the debt service on MDOT's consolidated transportation bonds. Licensed vehicle dealers may retain the lesser of \$24 per vehicle or 1.2% of the gross excise tax collected as compensation for collecting and remitting the tax.

Background: Vehicle excise tax rates vary considerably among states. A few states, including Alaska, Delaware, Montana, New Hampshire, and Oregon do not assess a titling tax on vehicles. Nineteen states charge a tax higher than Maryland, including Michigan, Texas, Pennsylvania, New Jersey, and Rhode Island. A few states assess the tax on a sliding scale based on the vehicle's weight or value, including the District of Columbia, where vehicles weighing up to 3,500 pounds are subject to a 6% tax and those weighing more than 3,500 pounds but less than 5,000 pounds are taxed at 7%, while vehicles weighing over 5,000 pounds are taxed at 8%. Virginia charges a 3% tax, and local governments often collect an annual personal property tax on vehicles worth more than \$20,000.

In fiscal 2006, titling tax revenues totaled \$720.5 million, of which \$547.6 million was retained by the TTF. The Department of Legislative Services (DLS) forecasts titling tax revenues of \$715.0 million in fiscal 2007 and \$725.0 million in fiscal 2008.

State Fiscal Effect: Assuming that the titling tax generates \$725.0 million in revenue in fiscal 2008, total TTF titling tax revenues will increase by \$145.0 million in fiscal 2008 as a result of the 1% rate increase. This estimate incorporates a deduction of \$1.3 million that will be retained by vehicle dealers as a collection fee. The State will retain 76% of the total, approximately \$110.2 million. **Exhibit 1** details the State and local distribution of the increased revenue in fiscal 2008 through 2012 based on DLS forecasts.

Exhibit 1
Increased Motor Vehicle Excise Tax Revenue Fiscal 2008 to 2012
(\$ in Millions)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
State (TTF)	\$110.2	\$114.2	\$119.6	\$121.6	\$125.9
Local	34.8	36.1	37.8	38.4	39.8
Total	\$145.0	\$150.2	\$157.4	\$159.9	\$165.7

The MVA advises that it would cost \$6,150 to revise its forms to reflect the change. Legislative Services advises that the MVA must revise its forms annually to reflect changes in statute. Accordingly, revising forms is a normal cost of business.

The MVA advises that computer reprogramming costs associated with this bill could total \$51,900. Legislative Services advises that, if other legislation is passed that affects the registration system, economies of scale could be realized. This would reduce the costs associated with this bill and other legislation affecting the MVA system.

Local Revenues: Local governments will receive \$34.8 million in fiscal 2008 through its 24% share of the titling tax revenue. Future revenue increases reflect growth in vehicle titling and sales as shown above.

Small Business Effect: Small businesses that purchase vehicles and vehicle fleets (*e.g.*, delivery and transportation services, contractors) will pay higher titling taxes under the bill. Some of these businesses are predominantly small or self-employed. Vehicle dealers that are small businesses will receive additional funds (\$1.3 million total) from their portion of the titling tax revenue.

Additional Information

Prior Introductions: An identical bill, HB 1422 of 2004, was heard by the House Ways and Means Committee but no further action was taken.

Cross File: None.

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

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mll/hlb

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