

Department of Legislative Services  
Maryland General Assembly  
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 485 (Senator McFadden)  
Budget and Taxation

---

Vehicle Laws - Excise Tax Exemptions - Leased Vehicles

---

This bill extends the exemption from the vehicle excise tax that currently applies to vehicles purchased by specified entities to apply also to vehicles *leased* by these entities.

---

**Fiscal Summary**

**State Effect:** Transportation Trust Fund (TTF) revenues decrease significantly – likely by more than \$5 million annually – due to the expanded application of the current vehicle excise tax exemption to specified vehicle leases. TTF expenditures increase by about \$41,000 in FY 2014, which accounts for the bill’s effective date, for an additional position at the Motor Vehicle Administration (MVA) and for computer reprogramming. Assuming State agencies continue to purchase, rather than lease, vehicles, expenditures are not otherwise directly affected.

**Local Effect:** Local government revenues decrease, likely by less than \$1 million annually statewide, due to the reduced collection of vehicle excise taxes distributed as local highway user funds. Local government expenditures may decrease minimally for a jurisdiction that leases vehicles for its fleet due to the exemption from the payment of the vehicle excise tax.

**Small Business Effect:** Potential meaningful beneficial impact on small business dealerships that engage in vehicle leasing and derive a greater share of profits from lease transactions than from vehicle sales.

---

## Analysis

**Current Law/Background:** An excise tax is imposed for each original and subsequent certificate of title issued by MVA for a motor vehicle, a trailer, a semitrailer, a moped, a motor scooter, or an off-highway recreational vehicle for which sales and use tax is not collected at the time of purchase and for specified vehicles in interstate operation.

Exempt from the vehicle excise tax are 25 specified types of vehicles or vehicles owned by specified entities. Several examples of exempt vehicles include a mobile home, a vehicle owned by the State or a local government, a vehicle owned and held for use by the public by a unit of a national veterans' organization, and a school bus owned by a § 501(c)(3) religious organization or a private school. However, none of the exemptions applies to a leased vehicle.

**State Fiscal Effect:** TTF revenues decrease significantly as a result of the exemption from the vehicle excise tax for vehicles leased by specified entities under the bill. A reliable estimate of this decrease cannot be made because MVA does not track the number of tax-exempt transactions by type or by the entity involved and because of uncertainty regarding the demand for vehicle leases by the entities specified in the bill. However, *for illustrative purposes only*, TTF revenues retained by the State decrease by about \$4.1 million annually under the following information and conservative assumptions:

- there were 137,000 tax-exempt transactions in fiscal 2012;
- 15% of tax-exempt transactions are leases;
- 10% of tax-exempt leases involve one of the entities specified in the bill; and
- the average purchase price of a vehicle is about \$30,000.

The Department of Legislative Services advises that this estimate is based on several conservative assumptions, the combination of which likely results in a significant underestimation of the actual decrease in TTF revenues. For example, if the percentage of tax-exempt vehicle titling transactions is 25% (slightly more than the market share of leases among new car transactions for the broader public) and the entities specified in the bill comprise 50% of the total tax-exempt transactions, then TTF revenues retained by the State decrease by about \$38.1 million under the bill.

TTF expenditures increase by \$40,951 in fiscal 2014, which accounts for the October 1, 2013 effective date, and by more than \$49,312 annually beginning in fiscal 2015 for MVA to hire one additional customer agent to review the necessary exemption paperwork and for contractual assistance from an outside vendor to provide

computer programming. The estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salaries and Fringe Benefits	\$34,970
Vendor Programming	1,800
Operating Expenses	4,181
<b>Total FY 2014 State Expenditures</b>	<b>\$40,951</b>

Finally, the Maryland Department of Transportation advises that the significant decrease in TTF revenue under the bill necessarily constrains future issuance of transportation bonds due to coverage ratios, which may result in a delay or elimination of projects.

**Local Fiscal Effect:** Local government revenues decrease due to the reduced collection of vehicle excise taxes distributed as local highway user funds. Under the information and assumptions discussed above, highway user funds may decrease statewide by between about \$278,500 and \$2.6 million annually.

Local government expenditures may decrease minimally for any jurisdiction that leases vehicles for its fleet. For example, if the average purchase price of a vehicle is \$30,000, then local government tax expenditures decrease by about \$1,800 per vehicle leased.

---

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 721 (Delegate Cardin) – Ways and Means.

**Information Source(s):** Department of Budget and Management, Department of Health and Mental Hygiene, Maryland Department of Transportation, R.L. Polk & Co., Department of Legislative Services

**Fiscal Note History:** First Reader - February 18, 2013  
mlm/ljm

---

Analysis by: Evan M. Isaacson

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510