

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 636 (Senator Manno)
Budget and Taxation

Motor Vehicle Excise Tax - Leased Vehicles - Application of Trade-In Value

This bill expands the trade-in allowance against the motor vehicle excise tax to include a leased trade-in vehicle in a new vehicle lease transaction.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues decrease significantly – potentially by more than \$25 million annually – due to the expanded application of the current vehicle excise tax trade-in allowance for vehicle leases. Expenditures are not directly affected.

Local Effect: Local government revenues decrease, potentially by more than \$2 million annually statewide, due to the reduced collection of vehicle excise taxes distributed as local highway user funds. Expenditures are not directly affected.

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 the Motor Vehicle Administration (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. Subject to several exceptions, excise taxes imposed on a vehicle owner are paid to MVA before the issuance of a certificate of title for that vehicle. The excise tax is based on the fair market value of the vehicle which, except for a used trailer, a motor scooter, a moped, or an off-highway recreational vehicle that is sold by any person other than a licensed dealer, is equal to the total purchase price of the vehicle, or \$640, whichever is greater.

Chapter 6 of the 2007 special session (HB 5) increased the vehicle excise tax rate from 5% to 6% of the vehicle's purchase price or fair market value and allowed for a reduction in the amount subject to the tax by 100% of the value of a trade-in vehicle. This trade-in allowance did not apply to a person who trades a vehicle as part of a new leasing agreement. However, Chapters 633 and 634 of 2008 (SB 924/HB 1570) expanded the trade-in allowance such that a nonleased vehicle as part of a vehicle lease agreement is eligible for an allowance against the motor vehicle excise tax.

State Revenues: TTF revenues decrease significantly as a result of the expansion of the vehicle excise tax trade-in allowance for transactions involving a trade-in of a leased vehicle as part of a new lease. A reliable estimate of this decrease cannot be made due to significant uncertainty regarding the number of transactions involving a trade-in of a leased vehicle as part of a new lease. Further, the bill codifies current practice in a limited number of situations where the leased vehicle trade-in is owned by the same leasing company that is entering the new lease with the lessee; however, the prevalence of this type of transaction is unknown. However, *for illustrative purposes only*, TTF revenues retained by the State decrease by about \$28.8 million annually under the following information and assumptions:

- there were 275,000 taxable lease transactions in fiscal 2012;
- 30% of leases involve a trade-in of another leased vehicle;
- one-third of leases involve a trade-in of another leased vehicle from the same leasing company; and
- the average trade-in allowance is \$9,331.

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 Revenues: 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 about \$2.0 million annually.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of Transportation, R.L. Polk & Co.,
Department of Legislative Services

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

Analysis by: Evan M. Isaacson

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