

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1261 (Delegate McClenahan, *et al.*)
Ways and Means

Referred to Budget and Taxation

Boat Excise Tax

This amended bill excludes from the definition of “fair market value” the value of any vessel that is traded in as part of a sale by a licensed dealer. The Marine Industry Economic Development Task Force must continue its deliberations and study the feasibility of reducing the excise tax from 5% to 4%. The Department of Natural Resources (DNR) must fund a study to be conducted by the University of Maryland Sea Grant College on the economic impact of an excise tax reduction and the impact of the trade-in exemption. The task force must report to the General Assembly by December 1, 1997.

The bill is effective July 1, 1997 and sunsets June 30, 2000.

Fiscal Summary

State Effect: Indeterminate decrease in special fund revenues with a commensurate decrease in expenditures.

Local Effect: Potential indeterminate decrease in revenues; expenditures would not be affected.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

Background: The Marine Economic Development Task Force was formed as a result of legislation enacted during the 1996 session. This legislation is the result of the recommendations of the task force.

State Effect: The Department of Natural Resources (DNR) reports that \$14.5 million was collected through the boat excise tax in fiscal 1996; the total value of boat sales was therefore

approximately \$289.6 million. It is assumed that 30% to 40% of all boat sales through licensed dealers involve trade-ins, with the value of the trade-ins representing 25% to 30% of the purchase price. Boat dealer sales totaled approximately \$185.3 million; total excise tax revenues from these sales was \$9.3 million. Revenue losses of \$694,900 to \$1.1 million could occur due to the exclusion of the trade-in value. Additional minimal revenue losses would occur because penalties and interest on late submissions are charged as a percentage of the tax due. DNR advises that the revenue loss could be up to \$1.85 million if the trade-in represented 50% of the purchase price.

These revenue losses would be offset to the extent that boat sales increase under this legislation. If any additional sales occur, revenues would accrue through titling and registration fees in addition to the 5% sales tax. The amount of increased sales cannot be determined at this time. A 1996 survey conducted by the Marine Trades Association indicated that the 22 responding dealers projected a \$11 million sales increase from the trade-in exemption portion of the bill. There are approximately 200 licensed dealers throughout the State; the survey included seven of the top ten. However, no conclusions regarding exact sales increases can be drawn from this data given the limited nature of the survey.

Of the revenues collected through the excise tax, \$225,000 is allocated to the general fund, \$350,000 is allocated to the enforcement of the State Boat Act, and the remainder goes to the Waterway Improvement Fund. Any decrease in revenues will affect funding to the two special fund activities (not the general fund); it is expected that special fund activities on boating enforcement and waterway improvement would decrease commensurate with revenues.

The fiscal 1998 budget allowance includes \$10,000 in anticipation of funding an updated study through the Maryland Sea Grant College on the excise tax issue. These funds should be sufficient to meet the needs of the legislation.

Local Effect: Local jurisdictions receive grant funding for projects such as channel dredging, bulkhead repair, and marine pumpout repair through the Waterway Improvement Fund. To the extent that fund revenues decrease, local grants would presumably also decrease.

Small Business Effect: Under this bill, the amount of excise tax paid on boat sales would decrease. There are approximately 200 dealers throughout the State, the majority of which would be considered small businesses. Marine-related businesses account for approximately 18,500 jobs. To the extent that the trade-in exemption increases sales, small businesses in the marine industry would benefit.

Information Source(s): Department of Natural Resources, Marine Trades Association,
Department of Fiscal Services

Fiscal Note History: First Reader - March 4, 1997

nrd

Revised - House Third Reader - March 27, 1997

Analysis by: Kim E. Wells-McDonnell

Reviewed by: John Rixey

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710