

Department of Fiscal Services  
Maryland General Assembly

FISCAL NOTE

House Bill 1193 (Delegate Bonsack, *et al.*)  
Ways and Means

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Sales and Use Tax - Motor Vehicle Leases

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This bill provides that long-term motor vehicle leases are exempt from the sales and use tax only if the motor vehicle excise tax has been paid by the lessor or lessee.

The bill is effective July 1, 1997 and is applicable to all leases entered into on or after that date.

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Fiscal Summary

**State Effect:** Potential indeterminate increase in general fund revenues. Expenditures would not be affected.

**Local Effect:** None.

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

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Fiscal Analysis

**State Revenue:** Under current law, certain long-term leased vehicles are exempt from the excise tax and the sales and use tax on the monthly leasing payments. Two major types of vehicles for lease are exempt: vehicles owned by federal credit unions located in Maryland and vehicles used in Maryland that are owned by out-of-state leasing companies. Certain federally-chartered credit unions engage in leasing vehicles to their members. These vehicles and the leases are exempt from both taxes because federal entities are not required to pay any state taxes under federal law. The number of vehicles for lease owned by federal credit unions is unknown, but it is assumed to be minimal. However, the Attorney General has advised through an advice of counsel letter that although these types of vehicle leases

could be subject to the State's sales tax, the State could not require these federal entities to collect the tax.

Vehicles owned by out-of-state leasing companies are used in Maryland for limited periods of time. The Maryland sales and use tax could be imposed on the each billing period of the leased vehicle while in use in the State. However, the number of vehicles owned by out-of-state leasing companies used in Maryland is unknown. Further, it may be difficult to enforce the sales and use tax on out-of-state companies without a nexus in the State.

**Small Business Effect:** To the extent that federal credit unions and out-of-state leasing companies lease vehicles for use in Maryland, these businesses would be required to pay the sales and use tax of 5% on the monthly leasing payments. The increase in leasing costs for such businesses could result in a reduction in the number of leases these businesses sell. Conversely, Maryland companies offering such services would become more competitive with federal credit unions and out-of-state leasing companies.

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**Information Source(s):** Office of the Comptroller (Compliance Division), Department of Transportation (Motor Vehicle Administration), Attorney General, Department of Fiscal Services

**Fiscal Note History:** First Reader - February 28, 1997  
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Analysis by: Christina Kim  
Reviewed by: David F. Roose

Direct Inquiries to:  
John Rixey, Coordinating Analyst  
(410) 841-3710  
(301) 858-3710