

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 531 (Eastern Shore Delegation. *et al.*)
Ways and Means

Boat Excise Tax

This 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 dealer must take the title). The trade-in value may not exceed the value for the trade-in vessel as shown in a national publication of used vessel values.

The bill provides that the Department of Business and Economic Development (DBED), in cooperation with the Marine Trades Association of Maryland and other interested trade associations and tourism boards, may develop and implement a marketing and tourism plan to promote boating in Maryland.

The bill also requires the Department of Natural Resources (DNR) to decrease the amount of Waterway Improvement Fund revenues it spends on marine operations in the Natural Resources Police by \$750,000 per year until the amount spent for these purposes does not exceed the \$1,000,000 limit allowed by law. The Governor is required to include \$750,000 in general funds in the annual budget for DNR to use to replace that amount of Waterway Improvement Fund revenues.

The bill is effective July 1, 1998. Section 1 of this bill relating to the vessel trade-in exemption sunsets June 30, 2001.

Fiscal Summary

State Effect: Special fund revenues could decline by an estimated \$1.1 million in FY 1999, continuing through FY 2001, with a commensurate decrease in expenditures. The FY 1999 budget includes a \$750,000 general fund expenditure increase and a \$750,000 special fund expenditure decrease. Special fund expenditure decrease and general fund expenditure increase of \$750,000 each year from FY 2000 through FY 2005. Indeterminate decrease in federal funds for the Waterway Improvement Fund.

(in dollars)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
--------------	---------	---------	---------	---------	---------

SF Revenues	(\$1,100,000)	(\$1,133,000)	(\$1,167,000)	\$0	\$0
FF Revenues	(--)	(--)	(--)	(--)	(--)
GF Expend.	\$750,000	\$1,500,000	\$2,225,000	\$3,000,000	\$3,750,000
SF Expend.	(\$750,000)	(\$1,500,000)	(\$2,225,000)	(\$3,000,000)	(\$3,750,000)
Net Effect	(\$1,100,000)	(\$1,133,000)	(\$1,167,000)	\$0	\$0

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

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

Small Business Effect: Potential meaningful impact on small businesses.

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: Special fund revenue could decline by an estimated \$1.1 million in fiscal 1999 based on the following facts and assumptions:

- °the total value of boat sales in fiscal 1999 will be \$330 million;
- °sales through boat dealers account for about 60% of total sales;
- °trade-ins are involved in 35% of boat sales through licensed dealers; and
- °the average value of trade-ins is 30% of the purchase price.

Revenue from the excise tax is estimated to be \$16.5 million in fiscal 1999. Allowing an exemption for the value of trade-ins would result in a revenue loss of \$1.1 million. Additional minimal revenue losses would occur because penalties and interest on late submissions are charged as a percentage of the tax due. This revenue loss would increase slightly until fiscal 2001 when the bill sunsets.

If State expenditures on services for boaters declines, federal funding for boating safety education and enforcement would decline. The degree to which revenue losses to the Waterway Improvement Fund will result in reductions for expenditures which qualify for federal grants is not known.

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, it is difficult to make conclusions regarding sales increases, if any, resulting from the trade-in exemption.

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 expenditures on boating enforcement and waterway improvement would decrease commensurate with revenues.

Currently, DNR spends approximately \$4.8 million above the statutory level for marine operations on salaries for the DNR police. Current law allows DNR to spend \$1,000,000 annually on marine operations for the DNR police. The bill requires DNR to reduce these expenditures by \$750,000 annually until it reaches the \$1,000,000 limit. The bill also requires the Governor to provide \$750,000 in the annual budget for DNR to use to replace this amount of Water Improvement Fund revenues. As a result, general fund expenditures would increase by \$750,000 for the next six years until DNR reduces Waterway Improvement Fund expenditures to the \$1,000,000 limit.

The Governor has provided \$750,000 in general funds for this purpose in the proposed fiscal 1999 budget, replacing \$750,000 of special funds. The special fund allowance for DNR police from the Waterway Improvement Fund was reduced by a further \$62,000.

DBED advises that if a marketing and tourism plan promoting boating in the State is undertaken, it would incur \$20,000 in expenditures for contractual services for the development of such a plan. However, because this plan is to be developed in cooperation with the Marine Trades Association of Maryland and other groups, it is assumed that any additional costs associated with the program could be absorbed with DBED's existing budgeted resources. However, at this time it is not known whether a plan of this type will be developed.

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 and the excise tax reduction increases sales, small businesses in the marine industry would benefit.

Information Source(s): Department of Natural Resources, Department of Business and Economic Development, Marine Trades Association, Department of Legislative Services

Fiscal Note History: First Reader - February 11, 1998
Inc Revised - House Third Reader - March 23, 1998
Revised - Enrolled Bill - May 6, 1998

Analysis by: Mike Sanelli
Reviewed by: David F. Roose

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