

Department of Legislative Services  
Maryland General Assembly

**FISCAL NOTE****Revised**

House Bill 724 (Delegate Hixson)

Ways and Means

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**Short-Term Rental Vehicles - Taxation**

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This bill exempts rental vehicles from the motor vehicle excise tax, and distributes 45% of sales tax revenues from the rental of motor vehicles to the Transportation Trust Fund (TTF). The Department of Budget and Management, in consultation with the Office of the Comptroller and the Department of Transportation, is to report by December 1, 1999 on whether the goal of revenue neutrality was achieved by changes enacted in 1993, and whether this bill provides an appropriate distribution of revenue.

This bill is effective July 1, 1999. Sales tax credits for rental vehicles registered before July 1, 1999, may continue to be claimed.

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**Fiscal Summary**

**State Effect:** No net effect on revenues; revenue distribution would be affected as discussed below beginning in FY 2000. Expenditures would not be affected.

**Local Effect:** Revenues would be affected as discussed below. Expenditures would not be affected.

**Small Business Effect:** Meaningful.

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**Fiscal Analysis**

**Background:** Under current law, the sales tax for short-term vehicle rentals is 11.5%, except for rental trucks, the rate for which is 8%. Credits may be claimed against the sales tax for the full amount of the motor vehicle excise tax paid on registered vehicles. This tax structure is scheduled to sunset June 30, 1999. At that time, the rate for rental cars will decline to 8%, and no credits will be allowed.

**State Revenues:** Net revenues would not be affected as the sales tax rate is unchanged. Data are not reliable enough to allow an estimate for this bill in fiscal 2000, when it is effective. Sales tax revenues from vehicle rentals will total an estimated \$32 million in fiscal 1999 under current law, and excise taxes will total an estimated \$17 million. Net general fund revenues would therefore total \$15 million. If this bill were in effect for fiscal 1999, the distribution of 45% of sales tax revenues to the TTF would result in \$14.4 million for the TTF, and \$17.6 million for the general fund. Thus, general fund revenues would have been \$2.6 million higher and TTF revenues would have been \$2.6 million lower.

If vehicle sales grow substantially faster than sales tax revenues, general fund revenues would increase over time while TTF revenues would decline, as compared to the distribution under current law. If, on the other hand, vehicle sales grow substantially slower than sales tax revenues, the opposite would occur. Changes in these revenues cannot be estimated at this time, as reliable data do not exist.

**Local Revenues:** Changes in TTF revenues as a result of fixing TTF revenues as a percentage of sales tax revenues would flow through to local revenues, since 24% of these revenues are distributed to local governments. The magnitude and direction of any such impact cannot be estimated as reliable data do not exist, although if this bill were effective in fiscal 1999, local revenues would have declined by up to \$624,000.

**Small Business Effect:** Up-front costs of 5% of the value of each new vehicle purchased by rental companies would be eliminated through the repeal of the excise tax.

**Additional Comments:** The Department of Transportation advises that titling tax revenues are irrevocably pledged to the payment of debt service for consolidated transportation bonds, and that this bill could raise legal questions because it may impair the department's contractual obligation to its bondholders. The Department of Legislative Services observes that two exemptions to the titling tax for certain vehicles have been enacted since 1993. Moreover, the department has introduced legislation this year to create such an exemption.

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**Information Source(s):** Office of the Comptroller (Bureau of Revenue Estimates),  
Department of Transportation, Department of Legislative Services

**Fiscal Note History:** First Reader - March 2, 1998  
nncs Revised - House Third Reader - March 31, 1998  
Revised - Enrolled Bill - May 12, 1998

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Analysis by: David F. Roose  
Reviewed by: John Rixey

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