

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 198 (Delegates Frank and Dewberry)

Ways and Means

**Motor Vehicle Titling Tax - Exercise of Option to Purchase Under Vehicle
Leasing Agreement**

This bill exempts vehicles transferred to a lessee who purchases the vehicle at the end of the lease term from the motor vehicle titling tax.

This bill is effective July 1, 1998, and applies to all vehicles transferred on or after that date.

Fiscal Summary

State Effect: Transportation Trust Fund revenues could decline by \$4.2 million in FY 1999, resulting in a \$3.2 million decrease in State revenues. This loss is estimated to increase at 8% per year. Expenditures would not be affected.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
SF Revenues	(\$3.2)	(\$3.5)	(\$3.7)	(\$4.0)	(\$4.4)
SF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	(\$3.2)	(\$3.5)	(\$3.7)	(\$4.0)	(\$4.4)

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

Local Effect: Revenues could decline by \$1.0 million in FY 1999. Expenditures would not be affected.

Small Business Effect: Minimal.

Fiscal Analysis

State Revenues: Transportation Trust Fund (TTF) revenues could decline by an estimated \$4.2 million in fiscal 1999 based on the following facts and assumptions:

- in 1996, 30,400 vehicles were leased in Maryland;
- the number of vehicles leased increases by 3% per year;
- the average price of a new leased vehicle in fiscal 1997 was \$20,500, increasing at 5% per year;
- the average residual value of a leased vehicle is 40%; and
- one-third of lessees purchase the leased vehicle at the end of the lease.

In fiscal 1999, about 30,850 vehicles will be coming off a lease, with an average residual value of \$8,200. The total value of the 10,280 vehicles which will be purchased by the lessee will be approximately \$84.3 million. An exemption from the 5% titling tax would result in a revenue loss of \$4.2 million. Local governments receive 24% of titling tax revenues, so the State loss would be \$3.2 million.

Based on the above assumptions, the revenue loss will grow by approximately 8% annually.

Local Revenues: As noted above, local governments receive 24% of titling tax revenues. In fiscal 1999, local government revenues could decrease by \$1.0 million.

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.

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

Fiscal Note History: First Reader - February 11, 1998

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