

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 248 (Senator Hafer. *et al.*)

Budget and Taxation

Motor Vehicle Excise Tax - Purchase Price - Trade-In Allowance

This bill provides that the total purchase price used to determine the motor vehicle excise tax be reduced by an allowance for a trade-in.

This bill is effective July 1, 1998.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues would decline by approximately \$35.5 million annually. Expenditures would not be affected.

Local Effect: Local revenues would decline by approximately \$11.2 million annually. Expenditures would not be affected.

Small Business Effect: Minimal.

Fiscal Analysis

State Revenues: Motor vehicle excise tax revenues would decline by an estimated \$46.7 million annually, based on the following facts and assumptions:

- approximately 60% of new vehicle purchases and 40% of used vehicle purchases involve a trade-in;
- about 300,000 new cars and 500,000 used cars are purchased annually;
- the average trade-in value for a new car purchase is \$4,700; and
- the average trade-in value for a used car purchase is \$500.

Thus, for each of the 180,000 new vehicle purchases annually that involve a trade-in, excise tax revenues of \$235 would be lost, for a revenue loss of \$42.3 million. For each of the

200,000 used vehicles purchased annually that involve a trade-in, excise tax revenues of \$25 million would be lost, for a revenue loss of \$5 million. The net revenue loss would be \$46.7 million, accounting for the 1.2% processing fee for dealers. Based on the distribution of excise tax revenues, State revenues would decline by about \$35.5 million (the remainder would be a loss to local governments).

State Expenditures: The Department of Transportation advises that special fund expenditures of \$35,000 would be incurred to change forms and replace inventories. The Department of Legislative Services advises that this cost can be absorbed within existing budgeted resources.

Local Revenues: A portion of the titling tax is distributed to local governments through the Gasoline and Motor Vehicle Revenue Account of the TTF. Accordingly, local revenues would decline by approximately \$11.2 million.

Additional Comments: The Department of Transportation advises that motor vehicle excise 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 of Transportation has introduced legislation this year to create such an exemption.

The Department of Transportation also advises that bond sales for the current forecast period will have to be reduced by approximately \$120 million in order to maintain a 2.5 bond coverage ratio. The Department of Legislative Services advises that even if this bill were to cause bond coverage to drop below 2.5 in the out-years, that ratio is simply an administrative policy. The bond revenue coverage test, established in the department's bond resolutions, mandates only that net revenues and pledged taxes must equal twice the maximum future debt service.

Information Source(s): Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - March 18, 1998

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