SB 512

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Revised

Senate Bill 512 (Senator DeGrange, *et al.*)
Budget and Taxation

Vehicle Laws - Excise Tax - Determination of Fair Market Value and Collection of Tax

This bill alters the definition of "fair market value" in regard to vehicles that are sold by any person other than a licensed dealer. For vehicles that are seven years old or older, fair market value is defined as the greater of the total purchase price or $640 (increased from $500 under current law). The fair market value for vehicles that are less than seven years old is defined as the total purchase price if that price is less than $500 below the retail value of the vehicle as shown in a national publication of used car values adopted for use by the Motor Vehicle Administration (MVA). If the total purchase price is $500 or more below the retail value of the vehicle as shown in the national publication, the fair market value is the purchase price if it is verified to the satisfaction of the MVA by a notarized bill of sale. Otherwise, the fair market value will be the valuation as shown in the national publication of used car values.

The bill expands the types of vehicles on which dealers may retain a portion of the excise tax collected and limits the amount that licensed dealers may retain for collecting the excise tax to a maximum of $24 per vehicle. Further, the MVA must design and distribute a bill of sale form that must be notarized and signed by the buyer and seller of each vehicle sold.

Fiscal Summary

State Effect: Indeterminate net effect on Transportation Trust Fund (TTF) revenues. Increase in TTF expenditures of $20,000 annually.

Local Effect: Indeterminate effect on revenues.
Small Business Effect: Meaningful.

Fiscal Analysis

State Revenues: The excise tax is paid at the time of application for an original or subsequent title to a vehicle. Applicants pay 5% of the fair market value of the vehicle or $25 if the vehicle is seven years old or older and has a purchase price of less than $500. This bill codifies procedures to determine the "fair market value" of certain used vehicles sold by individuals other than dealers. The procedures reflect the manner in which MVA currently determines the fair market value of vehicles less than seven years old. Accordingly, the bill's changes are not expected to materially affect MVA's revenues.

The bill also increases the minimum excise tax that may be paid on all cars (older and newer than seven years) from $25 to $32. Information is not available on which to base an estimate of any increase. However, because this increase applies mainly to vehicles older than seven years, many of which are likely to be sold at less than the minimum fair market value ($640), revenue increases could be significant.

The bill also alters the amount of the excise tax that dealers may retain for collecting and remitting the tax to the MVA by allowing dealers to collect a portion of the excise tax on all vehicles sold and imposing a $24 per vehicle cap. Current law allows licensed dealers to retain 1.2% of the excise tax collected on behalf of the MVA for titling certain motor vehicles, excluding such vehicles as Class E trucks. It is estimated that titling tax on Class E trucks represents approximately 13-15% of all titling revenue. It is further estimated that licensed vehicle dealers process about 90% of all truck sales. However, the bill limits the amount that a dealer can collect to $24 per transaction.

Based on revenue and excise tax data from fiscal 1998, it is estimated that an additional 93,000 dealer transactions would be eligible for the 1.2% rebate. The average excise tax paid on such transactions was $628. Accordingly, the loss of revenue would be approximately $700,800 due to the expansion of the rebate to all classes of vehicles. Local governments receive 24% of titling tax revenues, so the State loss would be $532,600 annually. However, the total loss is mitigated somewhat by the $24 transaction cap placed on vehicles that are priced $40,000 and over. In fiscal 1998, 11,437 vehicles were sold with a purchase price of $40,000 and over. Assuming a constant rate of sales of such vehicles, it is estimated that revenues would increase by $76,500 annually, the State's share being $58,100.

The net effect of the bill's changes on revenue is unknown. In any event, future year gains and losses are subject to fluctuations in economic conditions, the valuation of privately sold used cars, and truck sales by licensed dealers.

State Expenditures: The bill requires the MVA to design and distribute a bill of sale form that must be notarized and signed by the buyer and seller of each vehicle sold. It is estimated to cost approximately $20,000 annually to produce such forms.

Local Revenues: As noted above, local governments receive 24% of titling tax revenues. Local revenues will be affected depending on the net effect of the bill.

Small Business Effect: To the extent that licensed dealers collect the excise tax on trucks, and other vehicles currently not eligible for the excise tax rebate, dealers could experience a significant increase in revenues. However, small business vehicle dealers that sell higher priced vehicles (over $40,000) must retain less money for the collection of the excise tax due to the limitation placed on them by the bill.

Information Source(s): Maryland Department of Transportation (Motor Vehicle Administration), Department of Legislative Services

Fiscal Note History: First Reader - March 1, 1999
mld/jr Revised - Updated Information - March 2, 1999
Revised - Senate Third Reader - March 29, 1999
Revised - Enrolled Bill - April 29, 1999

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