

**Department of Legislative Services**  
 Maryland General Assembly  
 1999 Session

**FISCAL NOTE**  
**Revised**

House Bill 497 (Delegates Dewberry and Rudolph)

Ways and Means

---

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

---

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

This bill applies to all vehicles transferred on or after October 1, 2000.

---

**Fiscal Summary**

**State Effect:** Transportation Trust Fund revenues could decline by \$2.5 million in FY 2001, resulting in a \$1.9 million decrease in State revenues. The estimate accounts for the October 1, 2000 effective date. Out-year losses reflect annualization and 4% growth. Expenditures would not be affected.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
SF Revenues	\$0.0	(\$1.9)	(\$2.7)	(\$2.8)	(\$2.9)
SF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	\$0.0	(\$1.9)	(\$2.7)	(\$2.8)	(\$2.9)

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

**Local Effect:** Revenues could decline by \$606,600 in FY 2001. Expenditures would not be affected.

**Small Business Effect:** Minimal.

---

## **Fiscal Analysis**

**State Revenues:** Transportation Trust Fund (TTF) revenues could decline by an estimated \$2.5 million in fiscal 2001 based on the following facts and assumptions:

- in 1998, 326,088 new vehicles were purchased in Maryland;
- approximately 8% of all new vehicles are leased each year in Maryland;
- the average price of a new vehicle in fiscal 1998 was \$21,411, increasing at 3% per year;
- the average residual value of a leased vehicle is 40%; and
- 29% of lessees purchase the leased vehicle at the end of the lease.

In fiscal 2001, about 26,348 vehicles will be coming off a lease, with an average residual value of \$8,821. The total value of the 7,641 vehicles that will be purchased by the lessee will be approximately \$67 million. An exemption from the 5% titling tax would result in annualized revenue loss of \$3.4 million. Local governments receive 24% of titling tax revenues, so the State loss would be \$2.6 million for the full fiscal year, or \$1.9 million with the October 1, 2000 effective date.

Based on the above assumptions, the annual revenue loss will grow by approximately 4% annually.

**Local Revenues:** As noted above, local governments receive 24% of titling tax revenues. In fiscal 2001, local government revenues could decrease by \$606,617.

**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.

---

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

**Fiscal Note History:** First Reader - March 5, 1999  
Inc/jr Revised - House Third Reader - March 25, 1999

---

Analysis by: Lina Walker

Direct Inquiries to:  
John Rixey, Coordinating Analyst  
(410) 946-5510  
(301) 970-5510