# Department of Legislative Services

Maryland General Assembly
2000 Session

## FISCAL NOTE
## Revised

House Bill 220 (Delegate Dewberry, *et al.*)
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. The bill stipulates that the exemption is not applicable until any Consolidated Transportation Bonds that were issued by the Maryland Department of Transportation (MDOT) before July 1, 2000 no longer remain outstanding and unpaid, unless there are funds appropriated each year to ensure payment of the principal and interest of such bonds.

This bill is effective July 1, 2001 and applies to all vehicles transferred on or after July 1, 2001.

## Fiscal Summary

**State Effect:** Transportation Trust Fund revenues could decline by $2.8 million in FY 2002. Out-year losses reflect annualization and 4% growth. No effect in FY 2001. Expenditures would not be affected.

| (in dollars) | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 |
|---|---|---|---|---|---|
| SF Revenues | $0 | ($2.8) | ($2.9) | ($3.0) | ($3.2) |
| SF Expenditures | 0 | 0.0 | 0.0 | 0.0 | 0 |
| Net Effect | $0 | ($2.8) | ($2.9) | ($3.0) | ($3.2) |

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

**Local Effect:** Revenues could decline by $890,000 in FY 2002. Expenditures would not be affected.

**Small Business Effect:** Minimal.

## Analysis

**Current Law:** The excise tax, or titling tax as it is often referred to, 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. Fair market value is defined as the total purchase price of any new or used vehicle sold by a licensed dealer.

**Background:** The bill would avoid imposing the excise tax "twice" on consumers; first when the titling tax is built into the lease payment, and second when the consumer exercises the option to purchase the same car and pays the titling tax to register the title under the consumer's name.

Titling tax revenues are currently pledged to the payment of debt service for consolidated transportation bonds.

**State Revenues:** Transportation Trust Fund (TTF) revenues could decline by an estimated $2.0 million in fiscal 2001 based on the following facts and assumptions:

- in 1999, 341,935 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 1999 was $22,088, increasing at 3% per year;
- the average residual value of a leased vehicle is 40%;
- 30% of lessees purchase the leased vehicle at the end of the lease; and
- there will be sufficient funds appropriated to pay for debt service in each year.

In fiscal 2002, about 27,628 vehicles will be coming off a lease, with an average residual value of $9,100. The total value of the 8,289 vehicles that will be purchased by the lessee will be approximately $75.4 million. An exemption from the 5% titling tax would result in annualized revenue loss of $3.7 million. Local governments receive 24% of titling tax revenues, so the State loss would be $2.8 million for the full fiscal year.

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 2002, local government revenues could decrease by $890,000.

## Additional Information

**Prior Introductions:** This bill was introduced in the 1999 session as HB 497. It passed the House but was not reported out of the Senate Budget and Taxation Committee.

**Cross File:** SB 230 (Senator Kasemeyer, *et al.*) - Budget and Taxation.

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

**Fiscal Note History:** First Reader - February 28, 2000
mld/jr Revised - Enrolled Bill - May 5, 2000

Analysis by: Jody J. Minnich

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