

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE

Senate Bill 290 (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. The proposal phases in the reduction as follows: (1) 20% of the allowance in fiscal 2001; (2) 40% of the allowance in fiscal 2002; (3) 60% of the allowance in fiscal 2003; (4) 80% of the allowance in fiscal 2004; and (5) 100% of the allowance in fiscal 2005 and thereafter. The bill is effective July 1, 2001.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues could decrease by \$7.8 million in FY 2002. No effect in FY 2001. Future years reflect the phasing in of the trade-in allowance. No effect on expenditures.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
SF Revenues	\$0	(\$7.8)	(\$15.7)	(\$23.5)	(\$31.4)
SF Expenditures	0	0	0	0	0
Net Effect	\$0	(\$7.8)	(\$15.7)	(\$23.5)	(\$31.4)

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

Local Effect: Revenues could decrease by \$2.5 million in FY 2002 and by \$12.4 million annually beginning in FY 2006. No effect on expenditures.

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. For a used vehicle that is sold by a person other than a licensed dealer and is seven years old or older, the fair market value is the greater of total purchase price or \$640. For any other vehicle that is sold by a person other than a licensed dealer the fair market value is: (1) the total purchase price, if the total purchase price is less than \$500 below the retail value of the vehicle as shown in a national publication of used car values; or (2) if the total purchase price is \$500 or more below the retail value of the vehicle as shown in a national publication of used car values, the total purchase price if verified by a notarized bill of sale; or (3) if the documentation does not satisfy the Motor Vehicle Administration (MVA), the valuation in the national publication. Further, total purchase price is the price of a vehicle agreed on by the buyer and the seller with no allowance for a trade-in or other monetary consideration.

Background: The following chart summarizes the vehicle excise tax rates imposed by neighboring states. Like Maryland, all the surrounding states impose the tax upon the sale or resale of each vehicle, although the tax is sometimes referred to as a sales tax or a documentation fee. As shown in the chart, most of the surrounding states allow the value of a trade-in to be deducted from the fair market value of the newly purchased vehicle.

Titling Tax in Maryland and Surrounding States

State	Tax Rate	Trade-In Allowance
Maryland	5.00%	No
Delaware	2.75%	Yes
District of Columbia	6.00%	No
New Jersey	6.00%	Yes
North Carolina	3.00%	Yes
Pennsylvania	6.00%	Yes
Virginia	3.00%	No
West Virginia	5.00%	Yes

State Revenues: Based on MVA records, there are an estimated 336,000 new car transactions and 540,000 used car transactions annually in Maryland. It is further estimated that: (1) 184,000, or 55%, new car purchases include trade-ins annually and the average trade-in value is \$5,000; and (2) 189,000, or 35%, used car purchases include trade-ins annually and the average trade-in value is \$640.

Based on these estimates, titling tax revenues would decrease by \$52.5 million on an annualized basis. The bill phases in the trade-in allowance over five years beginning in fiscal 2002. Thus, titling tax revenue would decrease by an estimated \$10.3 in fiscal 2002. This estimate reflects the decrease in the amount that the dealers may retain for collecting the tax (1.2% of tax). Titling tax revenue is split 76% to the TTF and 24% to the counties and Baltimore City. Accordingly, TTF revenue would decrease by \$7.8 million.

Local Revenues: Local governments' share of titling tax revenue is 24% of total revenue. The bill will result in a local revenue decrease of \$2.5 million in fiscal 2002. Future year losses are as follows: \$4.9 million in fiscal 2003; \$7.4 million in fiscal 2004; \$9.9 in fiscal 2005; and \$12.4 million in each year thereafter.

Additional Comments: The Maryland Department of Transportation (MDOT) collateralizes debt with TTF revenue. The bill would reduce the aggregate debt level available to the department. MDOT advises that it would have to reduce bond sales for the fiscal 2000 through 2005 forecast period to meet its 2.5 bond coverage ratio. It should be noted however, that the department is required statutorily to maintain only a 2.0 bond coverage ratio.

Additional Information

Prior Introductions: This bill was introduced in the 1996 session as HB 479 and received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

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

Fiscal Note History: First Reader - February 28, 2000
nncs

Analysis by: Jody J. Minnich

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