

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

House Bill 981 (Delegate Bozman. *et al.*)

Ways and Means

Referred to Budget and Taxation

Sales and Use Tax - Fuel or Repair Part for Commercial Vessels

This bill exempts from the sales and use tax fuel or a repair part for a commercial vessel.

The bill takes effect July 1, 2000 and applies to tax cases pending on or filed after July 1, 2000.

Fiscal Summary

State Effect: General fund revenues could decline depending on the amount of sales of diesel fuel and repair parts to commercial, nonfishing vessels. For illustrative purposes, revenues would decline by \$70 for each 1,000 gallons of diesel fuel sold and by as much as \$225,000 per year for repair parts, based on national data and not adjusted for noncompliance. Dismissing existing assessments would decrease general fund revenues by approximately \$7,700. Expenditures would not be affected.

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law: Fuel and repair parts for commercial fishing vessels are exempt from the State's 5% sales and use tax; fuel and parts for other commercial vessels are not exempt.

Background: Fuel that is subject to the motor vehicle fuel tax is exempt from the sales and use tax, and vice versa. Vessels that use gasoline would therefore not be affected by the

bill's exemption for fuel because they are not currently subject to the sales and use tax. Vessels that use diesel fuel are currently exempt from the motor fuel tax, and would be exempt from the sales tax under the bill.

State Revenues: The amount of lost revenue as a result of these exemptions for commercial vessels cannot be reliably estimated at this time because the Comptroller's Office does not specifically track sales to such purchasers. Moreover, the Comptroller's Office advises that compliance with collection of this tax is relatively low.

The State would lose seven cents per gallon, or \$70 for each 1,000 gallons, from the exemption for diesel fuel, based on the average price of \$1.54 per gallon as of March 9, 2000.

For illustrative purposes only, according to the U.S. Statistical Abstract, an estimated \$292 million in boat repairs and conversions was spent in 1993, the latest year available. If it is assumed 5% of this was spent in Maryland, and one quarter of this amount was spent on repair parts, then \$4.5 million would have been spent on repair parts for commercial vessels in 2000, based on a 3% growth rate. A sales tax exemption would therefore reduce general fund revenues by an estimated \$225,000 per year. This estimate, however, does not reflect noncompliance, which is estimated to be substantial.

The Comptroller's Office advises that the retroactive provision would affect existing assessments of approximately \$7,700.

Small Business Effect: For commercial vessels, the bill could reduce costs for fuel and repair parts by 5%. Fuel and repair parts are a major business expense for commercial vessels.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office (Bureau of Revenue Estimates), Department of Legislative Services

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