Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

Senate Bill 321 (Senator Jacobs, *et al.*)
Budget and Taxation

Motor Vehicle Excise Tax - Definitions

This bill reduces the total purchase price of a motor vehicle used to determine the vehicle excise tax by the value of a trade-in and repeals the termination date of the trade-in allowance for motor homes and travel trailers.

The bill is effective July 1, 2002.

Fiscal Summary

State Effect: Net Transportation Trust Fund (TTF) revenues would decline by as much as $47.1 million in FY 2003 due to the trade-in allowance for motor vehicles. The increased revenue loss starting in FY 2005 reflect the continued trade-in allowance for motor homes and travel trailers. TTF expenditures would increase by $35,000 in FY 2003 only for administrative costs.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
SF Revenue	($47,136,500)	($47,136,500)	($47,412,700)	($47,412,700)	($47,412,700)
SF Expenditure	35,000	0	0	0	0
Net Effect	($47,171,500)	($47,136,500)	($47,412,700)	($47,412,700)	($47,412,700)

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

Local Effect: Local government revenues would decline by approximately $14.9 million annually. Expenditures would not be affected.

Small Business Effect: Potential meaningful. Any small business that purchases vehicles for its operations (e.g., florists, repair services, towing operators) would benefit from the reduced excise tax. Also, vehicle dealers would benefit to the extent that the bill encourages in-State sales of motor vehicles. However, dealers would lose approximately $753,300 through a reduction in the excise tax collection fee collected on each purchase.

Analysis

Bill Summary: This bill reduces the total purchase price of a motor vehicle used to determine the motor vehicle excise tax by the value of a trade-in, subject to limits on fair market value. It also repeals the June 30, 2004, sunset date on the trade-in credit that is currently allowed to reduce the total purchase price of a motor home or travel trailer. The bill repeals the requirement that the value of a trade-in for used motor homes and travel trailers may not exceed the value shown in a national publication of values adopted for use by the Motor Vehicle Administration (MVA).

The bill stipulates that the tax credit for trade-in vehicles is not applicable until any Consolidated Transportation Bonds that were issued by the Maryland Department of Transportation (MDOT) before July 1, 2002, no longer remain outstanding and unpaid, unless there are funds appropriated each year to ensure payment of the principal and interest of such bonds.

The bill is effective July 1, 2002.

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 the 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; (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 MVA, the valuation in the national publication. Further, the 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, except for motor homes and travel trailers. The trade-in allowance for motor homes and trailers will expire June 30, 2004.

Titling tax revenues are irrevocably pledged to the payment of debt service on consolidated transportation bonds. No part of the tax or other funds payable to debt service on the bonds may be repealed, diminished, or applied to any other purpose until the bonds and interest are fully paid or complete provision for payment has been made.

Background: Several nearby states, including Pennsylvania, Delaware, and South Carolina, allow trade-in values to be applied to the total purchase price. Pennsylvania, which charges a 6% sales tax, allows the value "of any tangible personal property" to be deducted from the purchase price. Similarly, Delaware, which charges a 2.75% vehicle document fee rather than a sales tax, permits a trade-in allowance if the name on the title of the trade-in vehicle is the same as that of the purchased vehicle. South Carolina allows up to $300 of the value of a trade-in to be deducted from the purchase price.

Chapter 362 of 2001 (HB 106) allows the total purchase price of motor homes and travel trailers to be lowered by the value of a trade-in, subject to certain limits. The value of the trade-in cannot exceed the value shown in a national publication of used motor home and travel trailer values adopted for use by the MVA. A separate bill (HB 1123) would have allowed the total purchase price used to determine the motor vehicle excise tax for all vehicles to be reduced by an allowance for a trade-in. It was given an unfavorable report by the Ways and Means Committee.

State Revenues: The State's share of motor vehicle excise tax revenues would decline by an estimated $47,136,492 in fiscal 2003 and 2004. In fiscal 2005 and thereafter, revenues would decline by as much as $47,412,692. This estimate is based on the following facts and assumptions provided by the MVA and the National Automobile Dealers' Association:

- approximately 57% of new vehicle purchases and 35% of used vehicle purchases involve a trade-in;
- of 360,000 new cars purchased annually, 205,000 would involve a trade-in; of 570,000 used cars purchased annually, 200,000 would involve a trade-in;
- the average trade-in value for a new car purchase is $5,500;
- the average trade-in value for a used car purchase is $640;
- the titling tax loss for each new car purchase involving a trade-in will be $275, totaling $56.4 million annually; and
- the titling tax loss for each used car purchase involving a trade-in will be $32 and total $6.4 million annually.

The total TTF revenue loss would be $62,021,700 million annually. The vehicle dealers, who are allowed to retain 1.2% as an excise tax processing fee, will lose $753,300 annually. The State's share of the total loss would be approximately $47,136,492. Beginning in fiscal 2005, if the sunset on motor homes and travel trailers is repealed, the total TTF revenue loss could increase by an additional $367,800. The State's share of the loss would be approximately $276,200.

State Expenditures: MDOT advises that for fiscal 2003 only, it would require $30,000 to modify the computer programs and $35,000 to revise vehicle registration forms.

The Department of Legislative Services (DLS) advises that if other legislation is passed requiring computer reprogramming changes, economies of scale could be realized. This would reduce the programming costs associated with this bill and other legislation affecting the MVA system. DLS further advises that the increased computer expenditure is simply an estimate and the MVA may be able to handle the changes with either less money than it estimates or with existing resources.

Local Revenues: A portion of the titling tax is distributed to local governments through the Gasoline and Motor Vehicle Revenue Account of the TTF (76% to the TTF and 24% to local jurisdictions). Accordingly, this bill would result in a total loss to the jurisdictions of about $14.9 million annually. The loss in fiscal 2005 and thereafter would increase by an additional estimated $87,200 due to the sunset repeal.

Small Business Effect: The reduced excise tax that would be available for vehicle purchases under the bill would benefit any small business that buys motor vehicles if the transaction includes a traded-in vehicle. The number of businesses that purchase and trade in vehicles cannot be estimated, but DLS advises that it would likely be significant.

Additional Comments: MDOT advises that motor vehicle excise 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. DLS observes that some exemptions to the titling tax for vehicles have been enacted.

MDOT also advises that bond sales for the current forecast period may have to be reduced in order to maintain a 2.5 bond coverage ratio. DLS advises that even if this bill were to cause bond coverage to drop below 2.5 in the out-years, that ratio is simply an administrative policy. The bond revenue coverage test, established in the department's bond resolutions, mandates only that net revenues and pledged taxes must equal twice the maximum future debt service.

Additional Information

Prior Introductions: See Background section.

Cross File: None.

Information Source(s): Department of Transportation (Motor Vehicle Administration), National Automobile Dealers' Association, Department of Legislative Services

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