Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 71 (Delegate Kelly, *et al.*)
Ways and Means

Motor Vehicle Excise Tax - Exemptions - Manufacturers' Rebates

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This bill alters the definition of "total purchase price" of a vehicle for determining the vehicle excise tax to exclude a rebate provided by the manufacturer, whether it is paid to the purchaser or the dealer. The exclusion applies to the purchase of a motor home or travel trailer only after June 30, 2004, when the value of a trade-in can no longer be deducted from the total purchase price of a motor home or travel trailer for determining the applicable excise tax. This bill may not be interpreted to affect the termination of that trade-in deduction. The bill is effective July 1, 2003.

Fiscal Summary

State Effect: Significant decline in Transportation Trust Fund (TTF) revenues. Under one scenario, revenues would decrease by as much as $8.6 million annually. Expenditures would not be affected.

Local Effect: Local government revenues could decrease by as much as $2.7 million annually.

Small Business Effect: Minimal. Potential increase in revenues for licensed vehicle dealerships, to the extent that the bill encourages sales.

Analysis

Current Law: The excise tax, also known as the titling tax, must be paid at the time of application for an original or subsequent vehicle title. Applicants pay 5% of the fair market value of the vehicle, which is the total purchase price of a new or used vehicle as certified by the dealer. The total purchase price means the price of a vehicle agreed on by the buyer and the seller, with no allowance for trade-in or other nonmonetary consideration. The law requires that the State's portion of titling tax (76%) be used to pay the debt service on the Maryland Department of Transportation's (MDOT) consolidated transportation bonds. No part of the tax or other funds applicable to debt service on the bonds may be repealed, or applied to any other purpose until the bonds and interest on the bonds are fully paid or a complete provision for paying the bonds has been made.

Chapter 301/362 of 2001 reduced the total purchase price of motor homes and travel trailers used to determine the motor vehicle excise tax by the value of a trade-in, subject to certain limits. The credit became effective July 1, 2001 and will expire on June 30, 2004.

Background: In the 2000 session, legislation was introduced (HB 654) to alter the definition of fair market value (for determining the applicable vehicle excise tax) as the total purchase price of any new or used vehicle, minus the amount of the manufacturer's rebate provided to the buyer. The House passed the bill, but the Senate Budget and Taxation Committee took no action. Another bill (SB 569) would have entitled a person to a rebate of a portion of the excise tax if it was paid on a 1994 or newer model year vehicle and the taxpayer could prove that he/she had transferred a 1980 or older model year vehicle to an auto dismantler, recycler, or scrap processor. The Budget and Taxation Committee gave the bill an unfavorable report.

A few states, including Louisiana, Arizona, and Missouri, exclude the value of a manufacturer's rebate from the purchase price of a vehicle. Missouri allows a rebate offered by the manufacturer or the dealer to be excluded from the price of a vehicle (excluding motor homes), trailer, boat, or outboard motor. If the value of a trade-in combined with a rebate exceeds the purchase price, then no sales tax is owed. Louisiana allows any type of cash discount offered by the vendor or manufacturer to be deducted from the sale price.

State Revenues: MDOT advises that 402,164 new vehicles were sold in calendar 2002 and that the average industry rebate (offered only for new vehicles) is $1,873. The average revenue loss per vehicle under the bill would thus be $93.65. However, no data are available on the percentage of consumers who choose to receive a rebate rather than a low interest rate finance plan that may also be offered by the manufacturer. If 30% of all new vehicle buyers are offered the average rebate and accept it, the total revenue loss would be $11.3 million. The State's share of the titling tax revenues could decline by $8.6 million annually, beginning in fiscal 2004.

The Department of Legislative Services observes that the value of rebates offered by manufacturers and the number of consumers who accept a rebate will vary significantly.

For example, Ford Motor Company is currently offering a rebate of up to $4,000, almost twice the industry average, while some manufacturers do not offer any rebate. Accordingly, the revenue loss cannot be accurately forecasted at this time; however, the loss is expected to be significant.

MDOT also advises that the revenue loss could affect its ability to issue bonds or the rating of the bonds. The bill would reduce the aggregate debt level available to the department, which typically meets a 2.5 bond coverage ratio. It should be noted however, that MDOT is required by statute to maintain only a 2.0 bond coverage ratio.

Local Revenues: Local governments' share of titling tax revenue is 24% of total revenues. Under the scenario described above, local revenues would decrease by $2.7 million annually.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Transportation, Department of Legislative Services

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Analysis by: Ann Marie Maloney

Direct Inquiries to:
(410) 946-5510
(301) 970-5510