

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1001
Ways and Means

(Delegate Edwards)

Budget and Taxation

Natural Resources - State Boat Act - Excise Tax

This bill enables a nonresident who purchases a vessel from a licensed dealer within the State to remain in the State for 90 consecutive days before being required to pay the vessel excise tax. If the vessel is used on the waters of the State for more than 90 days in a calendar year, the period of 90 days shall be counted in the determination of principal use under current law.

The bill also expands an existing exemption from the vessel excise tax to provide that a person is not required to pay the tax resulting from the transfer of a vessel to a business for charter, resale, rental, or lease purposes.

Fiscal Summary

State Effect: The impact on vessel excise tax revenues cannot be reliably estimated but is not anticipated to be significant.

Local Effect: The bill would not significantly affect local operations or finances.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Except under specified conditions, an excise tax is levied at the rate of 5% of the fair market value of a vessel on: (1) the issuance of every original certificate of title required for a vessel; (2) the issuance of every subsequent certificate of title for the sale, resale, or transfer of the vessel; (3) the sale within the State of every other vessel;

and (4) the possession within the State of a vessel purchased outside the State to be used principally in the State. Among other things, a person is not required to pay the tax resulting from a transfer to a licensed dealer of a vessel for resale purposes. Except for \$225,000 of the amount collected in vessel excise taxes, which is credited to the general fund, revenues from excise taxes are generally paid into the Waterway Improvement Fund.

State Revenues: The revenues generated from the vessel excise tax depend largely on boat sales, which vary from year to year. Excise tax collections have increased from a low of about \$10.9 million in fiscal 1993 to about \$25.9 million in fiscal 2002. A reliable estimate of the bill's impact on vessel excise tax revenues cannot be made at this time but is not anticipated to be significant.

By enabling a nonresident who purchases a boat from a Maryland licensed dealer to possess the vessel within the State for 90 consecutive days without being subject to the tax, vessel excise tax revenues could increase or decrease. Currently, a nonresident purchaser has two options: (1) stay in Maryland and pay the tax; or (2) leave the State immediately and avoid the tax. This bill creates a third option – to stay for 90 consecutive days without being subject to the tax. Excise tax revenues would increase if the bill results in additional nonresidents purchasing boats in Maryland and/or choosing to stay in Maryland after the purchase to the extent that some of those purchasers stay beyond 90 days. Excise tax revenues would decrease to the extent that nonresident purchasers, in the absence of the bill, were subject to the vessel excise tax only because of a temporary stay in the State (up to 90 days).

Excise tax revenues would decrease by expanding the existing exemption relating to the transfer to a licensed dealer of a vessel for resale purposes to provide that the transfer to a business of a vessel for charter, resale, rental, or lease is exempt. Any such decrease cannot be reliably estimated at this time but is not anticipated to be significant. According to DNR, there are 23 licensed boat dealers that rent or lease about 445 boats and an estimated 18 other businesses that rent or lease about 404 boats. However, the number of businesses that charter boats is unknown.

Small Business Effect: According to a survey by the University of Maryland (Maryland Sea Grant Extension Program), in 2000 recreational boaters spent approximately \$970 million that directly impacted Maryland recreational boating and related businesses. When the indirect and induced effects of that spending were factored in, the study reports that the impact on the Maryland economy in 2000 was about \$1.6 billion. To the extent that this bill attracts additional nonresident boat purchasers to Maryland and/or entices nonresident boat purchasers to stay in the State for a longer period of time, small businesses would benefit. Small businesses would also benefit from the bill's expanded

exemption from the vessel excise tax regarding the transfer of a vessel to a business for charter, resale, rental, or lease purposes.

Additional Comments: The Budget Reconciliation and Financing Act of 2003 (HB 935) redirects \$8 million in unexpended fiscal 2003 special funds from the Waterway Improvement Fund to the general fund. In addition, \$11 million in fiscal 2004 special fund revenues is transferred to the general fund.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Natural Resources, Department of Legislative Services

Fiscal Note History: First Reader - March 10, 2003
mld/jr Revised - House Third Reader - March 25, 2003
Revised - Updated Budget Information - April 23, 2003

Analysis by: Lesley Frymier

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