

Department of Legislative Services  
 Maryland General Assembly  
 2004 Session

FISCAL AND POLICY NOTE

House Bill 1422 (Delegate Hixson)  
 Ways and Means

Vehicle Excise Tax - Rate

This bill increases the State vehicle tax rate, from 5% to 6%, of the fair market value of the vehicle.

The bill takes effect July 1, 2004 and applies to all certificates of title issued on or after July 1, as well as to all motor vehicles, trailers, or semitrailers subject to the excise tax that are in interstate operation and registered without a title on or after July 1.

Fiscal Summary

**State Effect:** Transportation Trust Fund (TTF) revenues will increase by \$145.6 million in FY 2005. The State's portion will be \$110.7 million. Out-years reflect projected growth in vehicle sales. TTF expenditures will increase by \$15,000 in FY 2005 only.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SF Revenue	\$145.6	\$148.4	\$150.2	\$150.8	\$151.0
SF Expenditure	0	0	0	0	0
Net Effect	\$145.6	\$148.4	\$150.2	\$150.8	\$151.0

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

**Local Effect:** Local government revenues will increase by \$34.9 million in FY 2005. Out-year revenues will increase according to vehicle sales and titling growth.

**Small Business Effect:** Meaningful. Vehicle dealers that are small businesses will receive additional funds through the excise tax collection fee. Small businesses that purchase vehicles, such as delivery services and transportation providers, will pay a higher titling tax.

## 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.

Twenty percent of titling tax revenue is distributed directly to the Maryland Department of Transportation (MDOT) and 80% is deposited into the Gasoline and Motor Vehicle Revenue Account, of which 30% is distributed to local governments as highway user revenues. The result is an effective distribution of 76% to MDOT and 24% to local jurisdictions. The law requires that the remaining funds be used to pay the debt service on MDOT's consolidated transportation bonds. Licensed vehicle dealers may retain the lesser of \$24 per vehicle or 1.2 % of the gross excise tax collected as compensation for collecting and remitting the tax.

The law provides several exemptions from the titling requirement, including certain mobile homes and trailers, State-owned vehicles, vehicles owned by non-Maryland residents or specified nonprofit organizations, and public transportation vehicles. Additionally, owners of qualified electric and hybrid vehicles are eligible for an excise tax credit until July 1, 2004.

**Background:** Vehicle excise tax rates vary considerably among states. A few states, including Alaska, Oregon, and Montana, do not assess a titling tax. Slightly more than a dozen states charge a tax higher than Maryland, including Michigan, Texas, Pennsylvania, and Rhode Island. California, New York, and Ohio are among the nine states that subject vehicle sales to a local sales or ad valorem tax, in addition to or in lieu of the state tax, which makes comparisons to those states difficult. A few states assess the tax on a sliding scale based on the vehicle's weight or value, including the District of Columbia, where vehicles weighing up to 3,500 pounds are subject to a 6% tax and those weighing more than 3,500 pounds (*e.g.*, sport utility vehicles) are taxed at 7%. Virginia charges a 3% tax, and collects an annual personal property tax based on the value of the vehicle (being phased out).

**State Fiscal Effect:** Total TTF titling tax revenues will increase by \$145.6 million in fiscal 2005 as a result of the 1% rate increase. This estimate incorporates a deduction of \$1.8 million that will be retained by vehicle dealers as a collection fee. The State will retain 76% of the total, approximately \$110,656,000. Shown below is the State and local distribution of the increased revenue in fiscal 2005 through 2009.

(\$ in millions)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<b>State (TTF)</b>	\$110.7	\$112.8	\$114.2	\$114.6	\$114.8
<b>Local</b>	34.9	35.6	36.1	36.2	36.2

The fiscal 2005 titling tax revenue under current law is estimated to be \$719 million, excluding the local governments' and dealers' share. The State's portion of all TTF revenues in fiscal 2005 under the bill would be \$829.6 million. MDOT advises that the additional revenue would increase the amount of consolidated transportation bonds that the department can issue to finance capital projects if the \$1.5 billion statutory debt cap was raised.

TTF expenditures will increase by \$15,000 in fiscal 2005 only for administrative and computer costs to update the Motor Vehicle Administration's system.

**Local Revenues:** Local governments will receive \$34.9 million in fiscal 2005 through its 24% share of the titling tax revenue. Out-year revenue increases will reflect growth in vehicle titling and sales as shown above.

**Small Business Effect:** Small businesses that purchase vehicles and vehicle fleets (*e.g.*, delivery and transportation services, contractors) will pay higher titling taxes under the bill. Some of these businesses are predominantly small or self-employed. According to the U.S. Census, there were almost 4,300 self-employed taxi and limousine establishments operating in Maryland in 2001. (This can include one firm with multiple locations.) Vehicle dealers that are small businesses will receive additional funds (\$1.8 million total) from their portion of the titling tax revenue.

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### Additional Information

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 19, 2004  
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Analysis by: Ann Marie Maloney

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