

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 492

(Senator Astle)

Budget and Taxation

Vessel Excise Tax – Exemption – Charter Service

This bill provides that, under specified conditions, a person is exempt from paying the vessel excise tax resulting from the active use of a certified vessel for “charter service,” which is defined as the rental or lease of a vessel to the general public or to a dealer. The bill also modifies the term “dealer” to include a charter business that uses vehicles for charter services.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: Special fund revenues would decrease by 5% of the fair market value of every vessel that would become exempt from paying the vessel excise tax as a result of the bill. Special fund expenditure increase of up to \$21,200 in FY 2005 only.

Local Effect: None. The bill would not directly affect local governments.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: To be exempt, the vessel owner and charter business that offers the vessel for charter service must: (1) maintain a specified federal license (a CFR Subchapter T or Subchapter K license); (2) maintain a public liability insurance policy; (3) offer charter service to the general public, or have a written agreement with a business that offers charter service, and have a fleet of at least four vessels; (4) provide notification

of the vessel entering charter service and notification of termination of a charter service agreement, or notification of a vessel taken out of charter service; (5) display on the vessel a charter service designation sticker provided by the Department of Natural Resources (DNR); and (6) comply with applicable federal regulations.

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. Except for \$225,000, which is credited to the general fund, revenues from excise taxes are generally paid into the Waterway Improvement Fund within DNR.

Background: 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 \$29.8 million in fiscal 2003.

State Revenues: Special fund revenues would decrease by 5% of the fair market value of every vessel that would become exempt from paying the vessel excise tax as a result of the bill. Because the number and fair market value of vessels that would become exempt is unknown, a reliable estimate of any decrease in revenues cannot be made at this time. According to the Marine Trades Association of Maryland (MTAM), approximately 180 vessels in the State, ranging from water taxis to large vessels such as the Harbor Queen, hold CFR Subchapter K or T licenses, which are issued by the U.S. Coast Guard. Many of the owners of these vessels, however, do not meet the bill's other requirements for exemption (such as having a fleet of at least four vessels). Current vessels have already paid the tax; a loss in revenues would only result from *new* vessels that, in the absence of the bill, would have been subject to the tax.

On the other hand, vessels purchased to be put into charter in Maryland *as a result of this bill* could eventually become subject to the vessel excise tax when taken out of charter service.

State Expenditures: DNR advises that special fund expenditures would increase by an estimated \$21,200 in fiscal 2005 only (\$20,000 for enhancements to its Customer Oriented Information Network (COIN) System and \$1,200 to develop the charter service designation sticker required by the bill). Legislative Services advises that it is possible that enhancements to the COIN System could be less. Out-year expenditures would not be materially affected.

Small Business Effect: Vessel owners and/or charter businesses would benefit from any future purchase of vessels that qualify for the bill's exemption. In addition, to the extent the bill attracts additional boaters to Maryland, small businesses would benefit. 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.

Additional Information

Prior Introductions: None.

Cross File: HB 847 (Delegate Edwards) – Ways and Means.

Information Source(s): Department of Natural Resources, Marine Trades Association of Maryland, Department of Legislative Services

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