Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 85 (Delegate Cryor)
Environmental Matters

Vehicle Laws - Donations of Vehicles to Charities - Records

This bill requires a vehicle owner who transfers ownership of a vehicle to a tax-exempt religious, charitable, or volunteer organization to notify the Motor Vehicle Administration (MVA) within 30 days of the transfer. The MVA must maintain a record of the transfer.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) expenditures would increase by $146,900 in FY 2005. Out-years reflect annualization and inflation. Potential increase in expenditures for programming changes to the MVA's computer system and web site. Potential increase in general fund revenues to the extent that lower deductions for vehicle donations are taken.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	-	-	-	-	-
SF Expenditure	146,900	133,900	141,400	149,300	157,900
Net Effect	($146,900)	($133,900)	($141,400)	($149,300)	($157,900)

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

Local Effect: Potential increase in local government revenues.

Small Business Effect: None.

Analysis

Current Law: A vehicle owner who transfers interest in a vehicle (other than by creating a security interest) must execute an assignment and warranty of title at the time the vehicle is delivered, with a statement of each security interest, lien, or other encumbrance on the vehicle. The transferee must promptly complete an application for a new title and send it to the MVA, which may assess an additional service fee if it does not receive the certificate and application within 30 days. There is no such reporting requirement for donations.

Donations of vehicles to organizations that are exempt from federal tax under Section 501(c)(3) of the Internal Revenue Code are tax deductible (up to the fair market value) on itemized federal and State income tax returns. The charitable organization is responsible for providing the owner with a receipt for tax purposes for the donation of the vehicle. The charity, the owner, or both may determine the price or value of the vehicle.

Background: Almost 30 charities in Maryland are licensed by the MVA to accept vehicle donations, including the American Cancer Society, the Humane Society of Baltimore County, and the Maryland School for the Blind. Approximately 4,300 charities operate vehicle donation programs nationwide and tax deductions for vehicles were claimed on about 733,000 returns in the U.S. in 2001.

Requests for vehicle donations have increased in recent years. The Better Business Bureau Alliance for Wise Giving attributes this growth to competition for donations among a growing number of organizations, as well as the emergence of third-party brokers, which are for-profit firms that may sign up a number of different charity clients located in different parts of the country. The U.S. General Accounting Office (GAO) reported that vehicle donation programs benefited charities but recommended better oversight to improve compliance and increase audits to detect potential overstatement by taxpayers.

The GAO indicated that donations in several states had been solicited by fraudulent or ineligible organizations. It also identified factors contributing to overstatements and charities' low returns. Donated vehicles are often sold at auctions for wholesale prices rather than the price that a donor may expect, and vehicle processing and fundraising costs can lower the amount received by the charity.

A small number of vehicle donors have reported problems, such as receipt of unpaid parking tickets, due to incomplete transfers that can be attributed, in some cases, to the owner's failure to remove the registration plates.

State Expenditures: TTF expenditures will increase by $146,894 in fiscal 2005, which accounts for the bill's October 1, 2004 effective date. This estimate reflects the cost of hiring two permanent and three contractual employees to assist customers with the notification requirements of the bill or assist with recordkeeping. One of the contractual employees will be hired for fiscal 2005 only. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- approximately 100,000 vehicles are donated annually;
- the majority of transactions will be walk-in during the first year and each walk-in transaction takes approximately six minutes; and
- informational brochures or other materials will be needed to educate customers about the availability of other means to notify the MVA (mail-in or online).

Salaries and Fringe Benefits	$121,544
Operating Expenses	25,350
Total FY 2005 State Expenditures	**$146,894**

The Department of Legislative Services (DLS) advises (and the MVA concurs) that it is unclear at this time how many of the transactions will occur at the MVA's 23 branch offices versus kiosks or mail. Fewer contractuals may be needed in the out-years if mail-in or online notifications become the norm. It observes that the total number of transactions in 2003 increased by 141,400 from 2002; the number of transactions estimated for this bill is approximately 70% of that increase.

DLS also notes that the MVA conducted 8.8 million walk-in transactions in 2003 and an additional 5.5 million transactions through alternative means. However, with the exception of registration renewals, of which 60% are mail-in, the MVA advises that the public is more likely to conduct a transaction in person, particularly for new procedures.

According to the MVA, computer and web site programming changes will cost $135,000. DLS advises that if other legislation is passed requiring computer or web site changes, economies of scale could be realized. This would reduce the costs associated with this bill and other legislation affecting the MVA system.

State Revenues: General fund revenues could increase to the extent that the notification requirement deters donors from overstating the value of their vehicle donation on their State income tax return.

If all notifications to the MVA deterred overstatement, revenues would increase by approximately $760,000 annually. This estimate is based on two assumptions: (1) Maryland's share of the estimated amount of vehicle deductions in the U.S. ($2.5 billion) is 2%; and (2) 80% of charities which contract with a fundraiser receive 60% or less for every dollar value of the donated vehicle (based on a study). Maryland's share of the overstated deductions is $16 million; under these assumptions, at the tax rate of 4.75%, general fund revenues would increase by $760,000 annually.

DLS concurs that the notification could improve compliance but advises that the level of overstatement could be less than the Comptroller's assumptions; therefore, the amount of revenue gain cannot be estimated at this time. Furthermore, the return that Maryland-based charities receive on donated vehicles has not been verified.

Local Revenue: Local government revenues would increase to the extent that State income tax revenue increases as a result of the bill's impact on deterrence.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland Department of Transportation, General Accounting Office, Better Business Bureau Alliance for Wise Giving, Department of Legislative Services

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