

Department of Legislative Services  
Maryland General Assembly  
2004 Session

FISCAL AND POLICY NOTE  
Revised

Senate Bill 536

(Senator Astle)

Budget and Taxation

Ways and Means

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Vessel Excise Tax - Exemption - Vessel Commissioning

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This bill makes several changes to provisions governing the assessment of the vessel excise tax by the Department of Natural Resources (DNR). First, the bill authorizes DNR to adopt regulations to determine the state of principal use for the purpose of assessing the vessel excise tax. Second, the bill modifies the definitions of “used principally in this State” and “sea trial” to include “commissioning” activities; such activities would no longer be counted toward the calculation of principal use used in determining vessel excise tax assessments. Third, the bill modifies an existing exemption regarding the possession of a vessel acquired prior to coming into the State that is not used principally on the waters of the State. Specifically, it expands this exemption to include vessels purchased in the State.

The bill takes effect July 1, 2004.

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Fiscal Summary

**State Effect:** The bill would not materially affect State operations or finances.

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

**Small Business Effect:** Potential meaningful.

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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.

“Used principally in the State” means that this State is the state of principal use (the state on whose waters a vessel is used or to be used most during a calendar year), except that in calculating where the vessel is used or used most, a vessel is not considered to be in use for any period of time that it is held in maintenance or repair for 30 consecutive days or more. Time spent conducting sea trials is included when calculating the period of time a vessel is held for maintenance or repair.

A person is not required to pay the tax resulting from several specified actions, including: (1) a transfer to a licensed dealer of a vessel for resale purposes; and (2) the possession of a vessel that was purchased or acquired prior to coming into the State by a nonresident, under specified conditions. Except for \$225,000 which is credited to the general fund, revenues from excise taxes are generally paid into the Waterway Improvement Fund.

**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:** The bill’s provision excluding commissioning activities from the 90-day time period not counted toward principal use is not anticipated to result in a decrease in excise tax revenues. According to DNR, the provision simply delays the start of the 90-day period and is intended to encourage vessel owners to have commissioning work done in Maryland instead of in other states. The bill’s change regarding the possession of a vessel purchased or acquired prior to coming into the State that is not used principally on the waters of the State also would not affect excise tax revenues because vessels purchased in the State not intended for principal use are not subject to the tax; this change is intended to encourage more people to buy boats in Maryland.

**Small Business Effect:** According to a survey by the University System 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 this bill attracts additional boaters to Maryland to purchase boats or have commissioning work done, small businesses would benefit.

## **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 848 (Delegate Edwards) – Ways and Means.

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

**Fiscal Note History:** First Reader - February 27, 2004  
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