

**Department of Legislative Services**  
 Maryland General Assembly  
 2004 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 848  
 Ways and Means

(Delegate Edwards)

Budget and Taxation

**Vessel Excise Tax - Exemption - Vessel Commissioning**

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 provides that a person is exempt from paying the vessel excise tax resulting from a transfer to a licensed dealer of a vessel for rental or leasing purposes. Fourth, 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. The bill’s provision exempting a person from paying the vessel excise tax resulting from a transfer to a licensed dealer of a vessel for rental or leasing purposes takes effect July 1, 2005.

**Fiscal Summary**

**State Effect:** Special fund revenues could decrease by an estimated \$130,600 annually beginning in FY 2006 due to the exemption from the vessel excise tax resulting from a transfer to a licensed dealer of a vessel for rental or leasing purposes. Expenditures would not be materially affected.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SF Revenue	\$0	(\$130,600)	(\$130,600)	(\$130,600)	(\$130,600)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$0	(\$130,600)	(\$130,600)	(\$130,600)	(\$130,600)

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

**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.

Prior to 2002, the transfer to a licensed dealer of a vessel for rental or leasing purposes was exempt from the vessel excise tax. Chapter 272 of 2002 repealed that exemption.

**State Revenues:** Vessel excise tax revenues could decrease by an estimated \$130,633 annually beginning in fiscal 2006 due to the bill’s exemption regarding the transfer to a licensed dealer of a vessel for rental or leasing purposes. This estimate is based on data provided by DNR regarding the number of new vessels registered by dealers for rental or leasing purposes in calendar 2003. According to DNR, in that year, dealers registered 407 new vessels to be used for rental or leasing purposes; the fair market value of those vessels totaled just over \$2.6 million. Out-year estimates assume that the total fair

market value of vessels transferred to dealers for rental or leasing purposes remains constant over time. Legislative Services advises that the impact could be higher or lower, as it is driven largely by the state of the economy.

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, have commissioning work done, or for recreation purposes, small businesses would benefit.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 536 (Senator Astle) – Budget and Taxation.

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

**Fiscal Note History:** First Reader - February 26, 2004  
ncs/mdr Revised - Enrolled Bill - May 5, 2004

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