

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

House Bill 711 (Delegate Menes, *et al.*)
 Ways and Means

Income Tax - Subtraction Modification for Vehicle Tracking Devices

This bill creates a subtraction modification under the State income tax for individuals who purchase a vehicle tracking device capable of locating and recovering the vehicle if it is stolen. The amount of the subtraction modification is equal to the cost of the tracking device or the increased purchase cost of a new car as a result of being equipped with a tracking device, not to exceed \$200.

The bill takes effect July 1, 2005 and applies to tax year 2005 and beyond.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$630,500 in FY 2006 due to subtraction modifications being claimed against the personal income tax. Future year revenues reflect the estimated number of individuals eligible for the subtraction modification. No effect on expenditures.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	(\$630,500)	(\$655,900)	(\$995,500)	(\$1,011,100)	(\$1,053,600)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$630,500)	(\$655,900)	(\$995,500)	(\$1,011,100)	(\$1,053,600)

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

Local Effect: Local revenues could decrease by approximately \$411,500 in FY 2006 and by \$687,600 in FY 2010. Local expenditures would not be affected.

Small Business Effect: None.

Analysis

Current Law: No similar State subtraction modification exists.

Background: The most common devices capable of tracking vehicles are OnStar installed on GM vehicles and LoJack. The LoJack System includes a small radio frequency transceiver hidden in up to 20 places in a vehicle. Each LoJack System has a unique code that is tied into the Vehicle Identification Number (VIN). When a theft is reported to the police, a routine entry into the State police crime computer results in a match of the LoJack System's unique code against the State VIN database. This automatically activates the LoJack System in the car, which emits an inaudible signal. Law enforcement authorities who are equipped with LoJack vehicle tracking units in their police cruisers and aviation units can detect a LoJack signal. Police use the LoJack vehicle tracking units to track and recover the LoJack equipped vehicle. LoJack typically costs \$700 and recovers over 90% of all stolen vehicles. LoJack recently expanded its product line to include motorcycles.

GM recently announced that beginning in 2007 all GM vehicles would come standard with the OnStar system installed. GM expects to sell 3 million vehicles equipped with the OnStar system in 2006.

State Revenues: Subtraction modifications could be claimed beginning in tax year 2005. As a result, general fund revenues would decrease by approximately \$630,500 in fiscal 2006. General fund revenues would decrease by approximately \$655,900 in fiscal 2007, \$995,500 in fiscal 2008, \$1 million in fiscal 2009, and \$1.1 million in fiscal 2010.

This estimate is based on the following facts and assumptions:

- According to the LoJack Corporation, approximately 26,000 LoJack units were sold in Maryland in 2004. All of these sales were to individuals. The company expects sales to increase by 20% in the next year. Future sales are increased by 10% annually.
- According to the Motor Vehicle Administration, approximately 410,000 new vehicles are sold in Maryland each year. The number of new vehicles purchased is increased by 1% annually.
- GM currently has approximately 25% of the national new car sales market and is expected to decrease in future years.
- 50% of GM vehicles are estimated to be equipped with OnStar in 2005 and 2006 and 100% in 2007 and beyond.
- 35% of GM vehicle purchases are not made by individuals and would not qualify for the subtraction modification.

- There is minimal revenue loss from purchases of other vehicle tracking devices.
- Taxpayers will claim the entire amount of the subtraction modification.

GM vehicles come standard with OnStar; there is no price increase in the vehicle due to OnStar being available. It is assumed that the intent of the bill is to provide tax benefits for the purchase of vehicle tracking devices and that customers who purchase GM vehicles will be given an assessment of the cost of having OnStar installed and would qualify for the subtraction modification. It is also assumed, however, that ongoing subscription services paid for devices such as OnStar do not qualify for the subtraction modification. To the extent subscription services paid qualify for the subtraction modification, general fund revenue decreases will be greater than estimated.

Local Revenues: Local revenues would decrease by approximately 3.1% of the State subtraction taken in each year. In fiscal 2006, the decrease would total approximately \$411,460. Future year revenues would decrease by approximately \$428,000 in fiscal 2007, \$649,700 in fiscal 2008, \$659,900 in fiscal 2009, and \$687,600 in fiscal 2010.

Additional Information

Prior Introductions: None.

Cross File: SB 734 (Senator Giannetti) – Budget and Taxation.

Information Source(s): Comptroller's Office, Department of Legislative Services

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