Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 424 (Delegate Bronrott, *et al.*)
Environmental Matters

Motor Vehicles - Class M (Multipurpose) Vehicles - Annual Registration Surcharge

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This bill requires the owner of a Class M multipurpose vehicle with a manufacturer's shipping weight of 6,000 pounds or more to pay a surcharge of $750 per year. This is in addition to the registration fee for Class M vehicles.

Fiscal Summary

State Effect: Potentially significant Transportation Trust Fund (TTF) revenue increase due to surcharge revenue. Potential increase in TTF expenditures in FY 2006 only due to computer reprogramming costs.

Local Effect: Potentially significant increase in local revenues, as surcharge revenues would be shared with local jurisdictions through the Gasoline and Motor Vehicle Revenue Account (GMVRA) monies distributed to local governments as highway user revenues.

Small Business Effect: Meaningful.

Analysis

Current Law: The current registration fee for a Class M multipurpose vehicle is $50.50 for a vehicle with a manufacturer's shipping weight of 3,700 pounds or less, and $76.50 for a vehicle with a shipping weight of more than 3,700 pounds. Class M vehicles include sport utility vehicles (SUVs).

Background: Vehicles affected by the bill are considered "heavy light duty trucks" for emissions and safety standards. They produce more emissions than automobiles. Also, heavier vehicles are harder on the road itself.

While most vehicles that heavy are commercial trucks, there are numerous SUVs and other vehicles that weigh 6,000 pounds or more, including the Hummer H2 SUV, the BMW X5 SUV, the Ford Econoline van, and the Chevrolet Suburban SUV. SUVs have become popular with some businesses as they are not considered "luxury vehicles" that are subject to special limits on depreciation for federal income tax purposes.

Small businesses may "expense" in the current year qualified business assets that would otherwise be depreciated over a number of years under Section 179 of the Internal Revenue Code. Generally, the total amount deducted under Section 179 for 2004 may not exceed $102,000. Additional limits apply, however. The maximum Section 179 deduction for SUVs placed in service after October 22, 2004 is $25,000. To qualify, the SUV must be rated at more than 6,000 but less than 14,000 pounds gross vehicle weight and more than 50% of its use must be business-related.

Although Maryland tax liability is based on federal taxable income, this expensing no longer flows through to State calculations. The Budget Reconciliation and Financing Act (BRFA) of 2002 included a general one-year decoupling provision so that when the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 increased expensing for small businesses under Section 179, prior Section 179 rules were in effect for tax year 2003. The BRFA of 2004 permanently decoupled Maryland taxable income from the enhanced federal expensing provisions. Further, in determining Maryland income tax liability, SUVs that are used for business purposes and placed into service after May 31, 2004 are now subject to the same limitations on annual depreciation expenses as are applicable to other lighter passenger vehicles under federal law.

State Revenues: The Motor Vehicle Administration (MVA) cannot determine how many Class M vehicles weigh 6,000 pounds or more. However, of the 1,016,787 Class M vehicles registered in Maryland, 739,890 exceed 3,700 pounds.

For illustrative purposes only, if 10% of the 739,890 Class M vehicles weighing over 3,700 pounds also weighed 6,000 pounds or more, then State revenues would increase by $41,618,813 in fiscal 2006, and by $55,491,750 annually thereafter. This estimate accounts for the October 1, 2005 effective date of the bill, and assumes that the number of vehicles weighing 6,000 pounds or more remains constant, and reflects the surcharge being collected biennially.

The TTF would retain 70% of revenues, with 30% going to local jurisdictions under the GMVRA. Therefore, revenues retained by the TTF would increase by $29,133,169 in fiscal 2006 and by $38,844,225 annually thereafter.

State Expenditures: The MVA advises that computer reprogramming costs associated with this bill could total $90,000. Legislative Services advises that if other legislation is passed requiring computer reprogramming, economies of scale could be realized, reducing the cost for the MVA system.

Local Effect: Local highway user revenues could increase significantly. Under the illustrative scenario described above, local highway user revenues would increase by $12,485,644 in fiscal 2006 and by $16,647,525 annually thereafter.

Small Business Effect: Small businesses that have purchased a Class M vehicle that weighs 6,000 pounds or more would be subject to a $1,500 surcharge at initial registration and each biennial renewal. This could be a significant increase in expenditures.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - February 14, 2005
ncs/ljm

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