HB 387

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 387 (Delegate Conroy, *et al.*)
Ways and Means

Motor Vehicle Excise Tax - Definitions

This bill reduces the total purchase price of a motor vehicle used to determine the vehicle excise tax by the value of a trade-in.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues would decrease by approximately $67.3 million in FY 2006; the State's share would decrease by $51.2 million. Future year estimates reflect the department's forecast for excise tax revenues.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revenue	($67,338,600)	($69,583,200)	($71,289,200)	($72,276,800)	($72,995,100)
SF Expenditure	-	0	0	0	0
Net Effect	($67,338,600)	($69,583,200)	($71,289,200)	($72,276,800)	($72,995,100)

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

Local Effect: Local government's share of State vehicle excise tax revenues (24%) would decrease by approximately $16.2 million in FY 2006 and by $17.5 million in FY 2010. These revenues would have been distributed to local governments in the form of highway user revenues. Expenditures would not be affected.

Small Business Effect: Potential meaningful. Any small business that purchases vehicles for its operations (*e.g.,* florists, repair services, towing operators) would benefit from the reduced excise tax. Also, vehicle dealers would benefit to the extent that the bill encourages in-State sales of motor vehicles.

Analysis

Bill Summary: This bill reduces the total purchase price of a motor vehicle used to determine the motor vehicle excise tax by the value of a trade-in, subject to limits on fair market value. The bill also repeals the specific provision allowing a trade-in allowance for motor homes and travel trailers. Motor homes and travel trailers would be covered under the new allowance for trade-in value.

The bill stipulates that the tax credit for trade-in vehicles is not applicable until any Consolidated Transportation Bonds that were issued by the Maryland Department of Transportation (MDOT) before July 1, 2005, no longer remain outstanding and unpaid, unless there are funds appropriated each year to ensure payment of the principal and interest of such bonds.

Current Law: All persons titling a vehicle in the State or registering a vehicle without a certificate of title must pay a 5% motor vehicle excise tax. For vehicles over seven years old, the amount of the tax is calculated using the greater of either the total purchase price or $640.

Total purchase price is defined as the price of a vehicle agreed upon by the buyer and seller with no provision for a trade-in allowance. In the case of motor homes and travel trailers, the total purchase price is the price of a motor home and travel trailer, less the value of any motor home or travel trailer traded in as part of the consideration of the sale. This trade-in allowance is not to exceed the value shown in a national magazine of used motor home and travel trailer values.

Twenty percent of titling tax revenue is distributed directly to MDOT and 80% is deposited into the Gasoline and Motor Vehicle Revenue Account, of which 30% is distributed to local governments as highway user revenues. The result is an effective distribution of 76% to MDOT and 24% to local jurisdictions. The law requires that the State's share of funds be used to pay the debt service on MDOT's consolidated transportation bonds. Licensed vehicle dealers may retain the lesser of $24 per vehicle or 1.2% of the gross excise tax collected as compensation for collecting and remitting the tax.

Background: Several nearby states, including Pennsylvania, Delaware, and South Carolina, allow trade-in values to be applied to the total purchase price. Pennsylvania, which charges a 6% sales tax, allows the value "of any tangible personal property" to be deducted from the purchase price. Similarly, Delaware, which charges a 2.75% vehicle document fee rather than a sales tax, permits a trade-in allowance if the name on the title of the trade-in vehicle is the same as that of the purchased vehicle. South Carolina allows up to $300 of the value of a trade-in to be deducted from the purchase price.

State Revenues: TTF revenues would decrease by approximately $67.3 million in fiscal 2006 and by $73.0 million in fiscal 2010. The State's share of vehicle excise tax revenues would decrease by $51.2 million in fiscal 2006 and by $55.5 million in fiscal 2010. This estimate is based on the following facts and assumptions provided by the Motor Vehicle Administration (MVA) and the National Automobile Dealers' Association:

- approximately 55% of new vehicle purchases and 30% of used vehicle purchases involve a trade-in;
- of 410,000 new cars purchased annually, 225,000 would involve a trade-in; of 640,000 used cars purchased annually, 192,000 would involve a trade-in;
- the average trade-in value for a new car purchase is $5,500;
- the average trade-in value for a used car purchase is $640;
- the titling tax loss for each new car purchase involving a trade-in will be $275, totaling $62.0 million annually; and
- the titling tax loss for each used car purchase involving a trade-in will be $32 and total $6.1 million annually.

The total TTF revenue loss would be $68.2 million in fiscal 2006 and $73.9 million by fiscal 2010. The vehicle dealers, who are allowed to retain 1.2% as an excise tax processing fee, will lose $0.8 million annually. The State's share of the total loss after distributing revenues to local governments would be approximately $51.2 million in fiscal 2006 and by $55.5 million in fiscal 2010.

State Expenditures: The MVA estimates that it would cost $35,000 to revise vehicle registration forms. Legislative Services advises that the MVA must revise its forms annually to include various law changes; reprinting is simply a part of doing business and could be handled with the MVA's existing resources.

The MVA advises that computer reprogramming costs would be approximately $45,000. Legislative Services advises that if other legislation is passed requiring computer reprogramming changes, economies of scale could be realized. This would reduce the programming costs associated with this bill and other legislation affecting the MVA system. Legislative Services further advises that the increased computer expenditure is simply an estimate and the MVA may be able to handle the changes with either less money than it estimates or with existing resources.

Local Revenues: A portion of the vehicle excise tax is distributed to local governments in the form of local highway user revenues (76% to the TTF and 24% to local jurisdictions). Based on the assumptions above, local government revenues would decrease by approximately $16.2 million in fiscal 2006 and by $17.5 million in fiscal 2010.

Additional Comments: MDOT advises that motor vehicle excise tax revenues are irrevocably pledged to the payment of debt service for consolidated transportation bonds, and that this bill could raise legal questions because it may impair the department's contractual obligation to its bondholders. Legislative Services observes that some exemptions to the titling tax for vehicles have been enacted.

MDOT also advises that bond sales for the current forecast period may have to be reduced in order to maintain a 2.5 bond coverage ratio. Legislative Services advises that even if this bill were to cause bond coverage to drop below 2.5 in the out-years, that ratio is simply an administrative policy. The bond revenue coverage test, established in the department's bond resolutions, mandates only that net revenues and pledged taxes must equal twice the maximum future debt service.

Additional Information

Prior Introductions: An identical bill, SB 321, was introduced in the 2002 session but received an unfavorable report from the Senate Budget and Taxation Committee. A similar bill, HB 1123, was introduced in the 2001 session but received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

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

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Analysis by: Nora C. McArdle

Direct Inquiries to:
(410) 946-5510
(301) 970-5510