SB 879

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 879 (Senator DeGrange, *et al.*)
Budget and Taxation

Motor Vehicle Excise Tax - Trade Difference Allowance

This bill reduces the total purchase price of a motor vehicle used to determine the vehicle excise tax by a percentage of the value of a trade-in (phased in to 100% by fiscal 2009).

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues would decrease by $18.1 million in FY 2007; the State's share would decrease by $13.7 million. Future year estimates reflect forecasted excise tax revenues and the phase-in of the tax credit. Potential increase in TTF expenditures in FY 2007 only for computer reprogramming costs.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	($18,050,800)	($37,129,000)	($63,438,400)	($64,761,700)	($66,162,800)
SF Expenditure	-	0	0	0	0
Net Effect	($18,050,800)	($37,129,000)	($63,438,400)	($64,761,700)	($66,162,800)

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 $4.3 million in FY 2007, by $8.9 million in FY 2008 and by $15.2 million in FY 2009. Expenditures would not be affected.

Small Business Effect: Potential meaningful. Any small business that purchases passenger or multipurpose vehicles for its operations (*e.g.,* florists, delivery vans, etc.) 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: The bill reduces the total purchase price of a new passenger car or multipurpose passenger vehicle used to determine the motor vehicle excise tax by a percentage of the value of a trade-in (trade-in allowance).

For new passenger or new multipurpose vehicles purchased between July 1, 2006, and June 30, 2007, the trade-in allowance is 30% of the value of the trade-in vehicle. For new passenger or new multipurpose vehicles purchased between July 1, 2007, and June 30, 2008, the trade-in allowance is 60% of the value of the trade-in vehicle. Beginning July 1, 2008, the trade-in allowance is 100% of the value of the trade-in vehicle.

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 $18.1 million in fiscal 2007, by $37.1 million in fiscal 2008, and by $63.4 million in fiscal 2009. The State's share of vehicle excise tax revenues would decrease by $13.7 million in fiscal 2007, by $28.2 million in fiscal 2008, and by $48.2 million in fiscal 2009. This estimate is based on the following facts and assumptions provided by the Motor Vehicle Administration (MVA):

- approximately 50% of new vehicle purchases involve a trade-in;
- of 420,000 new cars purchased annually, 210,000 would involve a trade-in;
- the average trade-in value for a new car purchase is $5,800; and
- the titling tax loss for each new car purchase involving a trade-in will be $87 in fiscal 2007, $174 in fiscal 2008, and $290 beginning in fiscal 2009.

Exhibit 1 summarizes the impact of the lost motor vehicle excise tax revenue from fiscal 2007 through 2011.

Exhibit 1
Motor Vehicle Excise Tax Impact

Distribution	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
State (TTF)	$13,718,578	$28,218,032	$48,213,199	$49,218,873	$50,283,704
Local	4,332,182	8,910,957	15,225,221	15,542,802	15,879,064
Vehicle Dealers	219,240	450,959	770,507	786,579	803,596
Total	**$18,270,000**	**$37,579,948**	**$64,208,926**	**$65,548,254**	**$66,966,365**

State Expenditures: The MVA estimates that it would cost $40,000 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 $67,500. 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 Fiscal Effect: 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 $4.3 million in fiscal 2007 and by $15.9 million in fiscal 2011.

Additional Comments: 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: Similar bills were introduced at the 2001, 2002, and 2005 sessions. HB 387 of 2005 and HB 1123 of 2001 received an unfavorable report from the House Ways and Means Committee. SB 321 of 2002 received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: None.

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

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