HB 292

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 292 (Delegate Sossi, *et al.*)
Ways and Means

Motor Vehicle Excise Tax - Adjustment for Trade-In

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.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues would decrease by $67.2 million in FY 2008; the State's share would decrease by $51.1 million. Future year estimates reflect forecasted excise tax revenues. Potential increase in TTF expenditures in FY 2008 only for computer reprogramming costs.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	($67,200,400)	($69,619,600)	($72,961,400)	($74,128,800)	($76,797,400)
SF Expenditure	-	0	0	0	0
Net Effect	($67,200,400)	($69,619,600)	($72,961,400)	($74,128,800)	($76,797,400)

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

Local Effect: Local government revenues would decrease by $16.1 million in FY 2008 and by $18.4 million in FY 2012. 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 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, 2007 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: The motor vehicle excise tax, also known as the titling tax, must be paid at the time of application for an original or subsequent vehicle title. Applicants pay 5% of the fair market value of the vehicle, which is the total purchase price of a new or used vehicle as certified by the dealer.

The total purchase price means the price of a vehicle agreed on by the buyer and the seller, with no allowance for trade-in or other nonmonetary consideration. 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 $67.2 million annually beginning in fiscal 2008. The State's share of vehicle excise tax revenues would decrease by $51.1 million in fiscal 2008.

This estimate reflects MDOT's forecast of titling tax revenues from fiscal 2008 to 2012, and is based on the following facts and assumptions provided by the Motor Vehicle Administration (MVA):

- approximately 50% of new vehicle purchases and 20% of used car purchases involve a trade-in;
- of 399,300 new cars purchased annually, 199,600 would involve a trade-in;
- of 697,000 used cars purchased annually, 139,400 would involve a trade-in;
- the average trade-in value for a new car purchase is $6,300;
- the average trade-in value for a used car purchase is $736;
- 100% of the value of the trade-in will be allowed for an allowance; and
- the titling tax loss for each new car purchase involving a trade-in will be $315, and the titling tax loss for each used car purchase involving a trade-in will be $37.

Exhibit 1 summarizes the impact on motor vehicle excise tax revenue from fiscal 2008 through 2012.

Exhibit 1
Reduction in Motor Vehicle Excise Tax Revenues

Distribution	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
State (TTF)	$51,072,315	$52,910,919	$55,450,643	$56,337,853	$58,366,016
Local	16,128,100	16,708,711	17,510,729	17,790,901	18,431,373
Vehicle Dealers	816,199	845,583	886,171	900,349	932,762
Total	**$68,016,614**	**$70,465,212**	**$73,847,543**	**$75,029,103**	**$77,730,151**

State Expenditures: The MVA estimates that it would cost $36,278 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 $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 $16.1 million in fiscal 2008, $16.7 million in fiscal 2009, $17.5 million in fiscal 2010, $17.8 million in fiscal 2011, and $18.4 million in fiscal 2012.

Additional Information

Prior Introductions: An identical bill, HB 1123, was introduced during the 2001 session, but received an unfavorable report from the House Ways and Means Committee. Similar bills, HB 387 of 2005 and SB 321 of 2002, received unfavorable reports from the House Ways and Means Committee and the Senate Budget and Taxation Committee, respectively. Another bill allowing a trade-in allowance, SB 879 of 2006, was referred to the Senate Budget and Taxation Committee, but no action was taken on the bill.

Cross File: None.

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

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