

Department of Legislative Services  
Maryland General Assembly  
2007 Session

FISCAL AND POLICY NOTE

House Bill 1275 (Delegate Love)  
Ways and Means

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Anne Arundel County - Tax on Short-Term Automobile Rentals

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This bill authorizes Anne Arundel County to impose a sales and use tax on specified short-term automobile rentals.

The bill takes effect July 1, 2007.

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Fiscal Summary

**State Effect:** None.

**Local Effect:** Anne Arundel County revenues could increase beginning in FY 2008, depending on the sales tax rate imposed and the amount of rental vehicles in the county. *For illustrative purposes*, county revenues could increase by \$2.3 million if the county imposes a 1% tax rate to \$11.5 million if the county imposes a 5% tax rate. No effect on county expenditures.

**Small Business Effect:** Minimal.

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Analysis

**Bill Summary:** The sales and use tax authorized by the bill applies to the rental of an automobile for a period of 180 days or less, provided the vendor does not provide a driver as part of the rental and the automobile is not used to transport individuals or property for hire. The tax does not apply to the rental of a replacement vehicle for a vehicle that is being serviced or repaired under specified circumstances.

**Current Law:** Anne Arundel County is authorized to impose and collect a sales and use tax on: (1) fuels and utilities used by commercial and industrial businesses; (2) residential, commercial, and industrial telephone service; and (3) space rentals.

In general, local governments are prohibited from imposing any retail sales or use tax except (1) a sales tax or use tax that was in effect on January 1, 1971; (2) a tax on the sale or use of fuels, utilities, space rentals or any specified controlled dangerous substance; or (3) a tax imposed by a code county on the sale or use of specified food and beverages.

**Background:** The State imposes a special 11.5% tax on the rental of any passenger car or multipurpose vehicle that is rented for a period of 180 days or less, for which the vendor does not furnish a driver and which is not used for transporting passengers or property for hire. Certain rental trucks are taxed at 8%. Revenues received from the sales tax on short-term rental vehicles are distributed to the general fund (55%) and to the Transportation Trust Fund (45%), with 80% of that money going to the Gasoline and Motor Vehicle Revenue Account, which is shared with local governments.

**Local Fiscal Effect:** The Comptroller's Office indicates that the State sales tax on short-term vehicle rentals generated \$58.9 million in fiscal 2006 and will generate \$66.4 million in fiscal 2008. Based on data from the U.S. Census Bureau, 1997 Economic Census, 43% of gross receipts from vehicle rentals in the State occurred in Anne Arundel County. Assuming the county continues to account for approximately 40% of vehicle rental sales, Anne Arundel County revenues could increase as shown in **Exhibit 1**.

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**Exhibit 1**  
**Potential Increase in Anne Arundel County Revenues**

<u>Sales Tax Rate</u>	<u>Potential Revenue Yield</u>
1%	\$2.3 million
2%	\$4.6 million
3%	\$6.9 million
4%	\$9.2 million
5%	\$11.5 million

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It should be noted that data from the 2002 Economic Census was not reported due to federal disclosure requirements. As such, the actual percentage of vehicle rentals

occurring in Anne Arundel County could vary from year to year and any revenue generated from a county sale tax would vary accordingly.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 908 (Senator Astle) – Budget and Taxation.

**Information Source(s):** Comptroller's Office, Anne Arundel County, U.S. Census Bureau, Department of Legislative Services

**Fiscal Note History:** First Reader - March 19, 2007  
mll/hlb

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