

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 229 (Delegate Bohanan, *et al.*)
 Ways and Means

Sales and Use Tax - Taxable Price - Remanufactured Automotive Parts

This bill alters the definition of taxable price under the State sales and use tax to exclude the value of a used component or part (core value) received from a purchaser of a remanufactured automotive part.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: General fund revenues could decrease by \$7.6 million annually beginning in FY 2008. No effect on expenditures.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$7.6)	(\$7.6)	(\$7.6)	(\$7.6)	(\$7.6)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$7.6)	(\$7.6)	(\$7.6)	(\$7.6)	(\$7.6)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Under the State sales and use tax, taxable price does not apply to the value of a used component or part (core value) received from a purchaser of the

following remanufactured truck parts: (1) an air brake system; (2) an engine; (3) a rear axle carrier; or (4) a transmission.

State Fiscal Effect: State general fund revenues could decrease by \$7.6 million annually beginning in fiscal 2008 as illustrated in **Exhibit 1**. This estimate is based on the following facts and assumptions:

- there are \$35 to \$40 billion in sales of remanufactured auto parts in the United States, of which 2% are in Maryland;
- 25% of vehicle sales are for commercial trucks and 75% are for noncommercial vehicles;
- 75% of truck part sales in Maryland are currently exempt as a result of use in interstate commerce (TG 11-208), therefore an additional 25% would be exempt under the bill;
- 90% of truck part sales qualify for current exclusions, therefore an additional 10% would be exempt under the bill; and
- the core value of the part equals 25% of the price.

Exhibit 1
General Fund Revenue Decrease Resulting from Expanded Exemption for Remanufactured Automotive Parts

	<u>Commercial Trucks</u>	<u>Noncommercial Vehicles</u>	<u>Total</u>
Estimated MD Sales	\$200 million	\$600 million	\$800 million
Parts Currently Not Exempt	25%	N/A	
New Parts	10%	N/A	
Core Value Amount	<u>25%</u>	<u>25%</u>	
General Fund Decrease	\$62,500	\$7,500,000	\$7,562,500

Future year revenue decreases are expected to remain constant as the market for remanufactured auto parts has been slowing in recent years.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Automotive Parts Rebuilders Association, Department of Legislative Services

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Analysis by: Michael Sanelli

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