

**Department of Legislative Services**  
 Maryland General Assembly  
 2007 Special Session

**FISCAL AND POLICY NOTE**

House Bill 51 (Delegate Hucker)  
 Ways and Means

**Sales and Use Tax - Short-Term Vehicle Rentals - Tax Rate**

This bill increases the sales tax rate imposed on short-term (180 days or less) vehicle rentals from 11.5% to 15.0% for specified passenger cars and from 8% to 10% for specified trucks.

The bill takes effect January 1, 2008.

**Fiscal Summary**

**State Effect:** General fund revenues could increase by \$5.0 million and Transportation Trust Fund (TTF) revenues could increase by \$4.1 million in FY 2008, which reflects the bill's January 1, 2008 effective date. Future year increases reflect annualization and 5% annual growth, per the current sales tax forecast.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	\$5.0	\$10.4	\$10.8	\$11.2	\$11.7
SF Revenue	4.1	8.5	8.8	9.2	9.6
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$9.1	\$18.8	\$19.6	\$20.4	\$21.2

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

**Local Effect:** Local highway user revenues could increase by almost \$1.0 million in FY 2008 and by \$2.3 million by FY 2012.

**Small Business Effect:** Potential meaningful.

## Analysis

**Current Law:** The sales tax rate on short-term vehicle rentals is 11.5% for specified passenger cars and 8.0% for specified trucks. All State sales and use tax revenues are deposited in the general fund. The only exceptions are (1) an amount necessary to pay refunds, withheld by the Comptroller; (2) an amount necessary for the Comptroller to administer the sales and use tax; and (3) 45% of the sales and use tax collected on short-term vehicle rentals, which is dedicated to the TTF. The latter is projected to distribute \$28.8 million of the sales and use tax revenue to the TTF in fiscal 2008.

**State Fiscal Effect:** General fund revenues would increase by an estimated \$5.0 million and TTF revenues could increase by \$4.1 million in fiscal 2008, reflecting one-half year's collections resulting from the bill's January 1, 2008 effective date. The estimate is based on the following:

- sales taxes on specified vehicle rentals are expected to generate approximately \$28.8 million in revenue for the TTF in fiscal 2008;
- 62% of sales taxes imposed on vehicle rentals is derived from the rental of passenger cars, while the remaining 38% is derived from the rental of specified trucks; and
- future year revenues will increase by approximately 5% annually, per the current sales and use tax forecast.

**Exhibit 1** shows the general fund and special fund distribution for fiscal 2008 through 2012 resulting from the increased vehicle rental tax rates.

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### Exhibit 1 New Vehicle Rental Tax Revenues (\$ in Millions)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
GF Revenue	\$5.0	\$10.4	\$10.8	\$11.2	\$11.7
TTF Revenue	4.1	8.5	8.8	9.2	9.6
<b>Total</b>	<b>\$9.1</b>	<b>\$18.8</b>	<b>\$19.6</b>	<b>\$20.4</b>	<b>\$21.2</b>

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By law, certain TTF revenues are allocated between the Maryland Department of Transportation (MDOT) and local governments by way of the Gasoline and Motor Vehicle Revenue Account (GMVRA). The GMVRA consists of portions of the motor

fuel, vehicle titling, short-term vehicle rental, and corporate income taxes, as well as vehicle registration fees. The funds in the GMVRA are distributed 70% to the TTF for use by MDOT and 30% to assist in the development and maintenance of local transportation projects. In the case of sales tax revenues on short-term vehicle rentals, 20% is credited only to the TTF and the other 80% is deposited into the GMVRA. Thus, the cumulative effect is that 76% of the funds would be retained by MDOT at the State level and 24% would go to local governments as highway user revenues.

**Local Revenues:** Local highway user revenues are estimated to increase by almost \$1.0 million in fiscal 2008 and by \$2.3 million in fiscal 2012.

**Small Business Effect:** To the extent that the additional sales tax rate encourages consumers to alter their behavior related to the renting of vehicles, some Maryland small businesses could experience a meaningful negative impact. The 1997 Economic Census indicates that 169 establishments were involved in the rental of passenger cars, trucks, trailers, and other vehicles. Small businesses may also experience minimal additional costs to reprogram their cash registers.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - November 2, 2007  
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