

Department of Legislative Services  
Maryland General Assembly  
2009 Session

FISCAL AND POLICY NOTE

House Bill 270  
Ways and Means

(Delegate Haddaway, *et al.*)

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State Boat Act - Excise Tax - Computation of Trade-In Value

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This bill alters the calculation of the trade-in value of a vessel for purposes of the State excise tax.

The bill takes effect June 1, 2009.

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Fiscal Summary

**State Effect:** Special fund revenues may decrease minimally beginning in FY 2009 due to a reduction in vessel excise tax revenues. Expenditures are not affected.

**Local Effect:** None.

**Small Business Effect:** Minimal.

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Analysis

**Bill Summary:** The bill alters the calculation of the trade-in value of a vessel for purposes of the State excise tax. The value of a trade-in vessel is equal to: (1) the actual amount of the trade-in allowance, if verified by a notarized closing statement signed and dated by all parties of the sale; or (2) 80% of the amount established by a survey performed by a marine surveyor from the National Association of Marine Surveyors or the Society of Accredited Marine Surveyors. If a survey or notarized closing statement does not accompany the application, the trade-in value may not exceed the value for the trade-in vessel as shown in a national publication of used vessel values adopted by the Department of Natural Resources (DNR). The notarized closing statement must describe the trade-in vessel, state the certificate of boat number of the trade-in vessel, state the

trade-in allowance given for the vessel, and state any trade-in allowance for a trailer separately from the trade-in allowance for the trade-in vessel.

**Current Law:** Except under specified conditions, an excise tax is levied at the rate of 5% of the fair market value of a vessel on the issuance of every original certificate of title required for a vessel; (2) the issuance of every subsequent certificate of title for the sale, resale, or transfer of the vessel; (3) the sale within the State of every other vessel; and (4) the possession within the State of a vessel purchased outside the State to be used principally in the State. Current law provides for an exemption from the vessel excise tax for the possession within the State of a vessel if the current owner, before July 1, 1986 was licensed by DNR to catch, for commercial purposes, finfish, eels, crabs, conch, terrapin, soft-shell clams, hard-shell clams, oysters, or any other fish; and used the vessel for any of those commercial fishing purposes.

For the sale of a vessel by a licensed dealer, the fair market value is equal to the total purchase price certified by the dealer less the value of any vessel that is traded in as part of the sale. The trade-in value cannot exceed the value of the vessel as determined in a national publication of used vessels adopted by DNR. The total purchase price includes the price of the vessel, including simultaneously purchased motors, spars, sails, and accessories exclusive of trailer, agreed on by buyer and seller with no deduction for trade-in or other nonmonetary consideration.

The fair market value for vessels sold by all other individuals is equal to the greater of (1) the total purchase price; (2) \$100; or (3) either the total purchase price verified by a certified bill of sale approved by DNR or the valuation of the vessel shown in a national publication of used vessel values adopted by DNR if a certified bill of sale does not accompany the application.

A credit is available against any vessel excise tax paid, for sales tax paid to the State, another state, or the District of Columbia on materials and equipment incorporated into the vessel if the person is licensed by DNR to catch, for commercial purposes, finfish, eels, crabs, conch, terrapin, soft-shell clams, hard-shell clams, oysters, or any other fish; and uses the vessel for any of those commercial fishing purposes.

**Background:** Vessel excise tax revenues are deposited into the Waterway Improvement Fund (WIF) and used to improve Maryland's waterways through dredging, the placement of navigational aids, the construction of boating access facilities, boater safety education, and law enforcement.

From calendar 2000 to 2008 the total vessel excise tax revenues in each year averaged \$28.0 million. During this time DNR issued an average of 10,000 dealer sales titles each

year with a total annual trade-in value averaging \$55.1 million. This trade-in allowance reduced revenues by about \$2.8 million annually.

**State Fiscal Effect:** The bill alters the calculation of the value of any vessel traded in as part of the sale by a licensed dealer of a vessel subject to the vessel excise tax. The bill would allow, under specified conditions, the trade-in value of the vessel to exceed the value shown in a national publication used by DNR. As a result, special fund revenues for WIF could decrease minimally beginning in fiscal 2009.

DNR advises that some dealers determine that national publications undervalue some vessels that are traded in by not properly accounting for added amenities and in order to make the sale, dealers reduce the total purchase price of the new vessel. DNR further advises that the bill would likely minimally impact revenues as increases in trade-in values would be offset by an increase in the sale price of the vessel being purchased.

**Exhibit 1** lists the annual potential revenue losses associated with the bill if trade-in values increase by 1%, 5%, and 10% as a result of the bill. This assumes that there is no offsetting increases in vessel purchase prices as a result of the bill. Vessel excise tax revenue losses in the near term are likely to be less than the historic average as a result of continued weakness in the economy.

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**Exhibit 1**  
**Potential WIF Revenue Decreases under HB 270**  
**Based on the Increase in Trade-in Values**

<u>1% Increase</u>	<u>5% Increase</u>	<u>10% Increase</u>
\$30,300	\$151,400	\$302,700

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 809 (Senator Colburn) - Budget and Taxation.

**Information Source(s):** Department of Natural Resources, Department of Legislative Services

**Fiscal Note History:** First Reader - February 10, 2009  
mcp/hlb

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Analysis by: Robert J. Rehrmann

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