SB 510

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 510 (Senators Pipkin and Brinkley)
Budget and Taxation

Motor Vehicle Excise Tax - Vehicle Manufacturer's Rebates - Exemptions

This bill allows for a reduction in the fair market value upon which the State motor vehicle excise tax is imposed. The fair market value is reduced by a manufacturer's rebate used by a consumer as a down payment or reduction in the retail value of the vehicle.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues decrease by $11.5 million in FY 2010, of which the State's share is $9.2 million. TTF expenditures increase in FY 2010 due to computer programming modifications.

($ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	$11.5	$9.9	$8.9	$9.7	$10.5
SF Expenditure	-	$0	$0	$0	$0
Net Effect	$11.5	$9.9	$8.9	$9.7	$10.5

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

Local Effect: Local highway user revenues distributed from TTF decrease by $2.3 million in FY 2010 and by $2.1 million in FY 2014. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: The State motor vehicle excise tax is applied to the purchase price or fair market value of all new and used motor vehicles at the time of sale. The tax is equal to 6% of the vehicle's purchase price or fair market value minus the value of any trade-in. Two-thirds of tax revenues are distributed to the Gasoline and Motor Vehicle Revenue Account and shared with local governments.

Background: New vehicle sales in the United States decreased by about 18% in 2008. New vehicle sales for U.S. models have been weak over the last several years due to high gasoline prices and what many analysts believe are product design issues of many models. This situation is compounded by the recession, record-low consumer confidence, collapse of the housing market, and tightening of retail credit.

In December 2008, the federal government provided for up to $17.4 billion in funds for a bailout of the domestic automobile industry to prevent bankruptcy of the firms and related job losses at the companies and supplier companies – both Daimler Chrysler and General Motors have received funds. In exchange for the low-interest loans the companies are to prove they are viable by March 31, even though they are not expected to be profitable by that date. Part of the restructuring will likely entail an effort to reduce the number of dealerships, employee compensation, and legacy costs.

In addition to the federal loans, the federal stimulus package recently passed by the U.S. Congress allows all taxpayers, whether or not the taxpayer itemizes, to deduct State and local sales and excise taxes paid on the purchase of all new cars, light truck, recreational vehicles, and motorcycles through 2009. This deduction, available for the purchase of any new vehicle regardless of origin of manufacture, is subject to a phase out for taxpayers with adjusted gross income in excess of $125,000 ($250,000 in the case of a joint return). This proposal is estimated to cost the federal government $1.7 billion. This provision will flow through to the calculation of State income tax if the State does not decouple from the provision.

In an effort to boost flagging sales and clear out past year models, auto manufacturers are currently offering several incentives, including low-interest financing, lease programs, and cash rebates. According to data from Edmunds.com, manufacturers are currently offering rebates on 408 of 519 automobile models being sold in the Baltimore area. The average manufacturer incentive for all cars sold in the U.S. in January 2009 was $2,419. CNW Marketing Research estimates that total manufacturer incentives have more than doubled (in nominal dollars) in the last 10 years.

State Revenues: The bill reduces the fair market value upon which the State motor vehicle excise tax is imposed by the amount of manufacturer's rebate used as a down payment or reduction in the vehicle's price. As a result, TTF revenues decrease by

$11.5 million in fiscal 2010 and by $10.5 million in fiscal 2014 as illustrated in **Exhibit 1**. This estimate is based on forecasted new vehicle sales and estimated average manufacturer's rebate per new vehicle sold. It is assumed that customers apply all manufacturer's rebates towards the down payment of a vehicle.

State Expenditures: MVA advises that computer programming modifications will be needed to meet the bill's requirements. The changes may result in a one-time special fund expenditure of $175,000 in fiscal 2010. Legislative Services advises that if other legislation is passed requiring computer reprogramming changes, economies of scale may be realized. This will reduce the costs associated with this bill and other legislation affecting vehicle titling.

Local Revenues: Local highway user revenues distributed from TTF will decrease by $2.3 million in fiscal 2010 as illustrated by **Exhibit 2**.

Exhibit 1
Estimated State and Local Revenue Decrease
($ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Total	**$11.5**	**$9.9**	**$8.9**	**$9.7**	**$10.5**
State	9.2	7.9	7.1	7.8	8.4
Local	2.3	2.0	1.8	1.9	2.1

Additional Information

Prior Introductions: None.

Cross File: HB 1165 (Delegate Myers, *et al.*) - Ways and Means.

Information Source(s): Comptroller's Office, Maryland Department of Transportation, CNW Marketing Research, Edmunds.com, Department of Legislative Services

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Exhibit 2
Impact on Local Highway Users Revenues – Fiscal 2010

County	Allowance	Proposed	Difference
Allegany	$6,394,986	$6,367,066	-$27,920
Anne Arundel	27,917,208	27,795,320	-121,888
Baltimore City	193,582,000	192,542,251	-1,039,749
Baltimore	37,553,431	37,389,472	-163,959
Calvert	6,205,441	6,178,348	-27,093
Caroline	4,441,617	4,422,224	-19,393
Carroll	12,540,510	12,485,757	-54,753
Cecil	6,949,589	6,919,247	-30,342
Charles	9,000,403	8,961,106	-39,297
Dorchester	4,910,933	4,889,492	-21,441
Frederick	16,542,125	16,469,901	-72,224
Garrett	5,560,772	5,536,493	-24,279
Harford	14,563,752	14,500,166	-63,586
Howard	13,826,941	13,766,572	-60,369
Kent	2,495,934	2,485,037	-10,897
Montgomery	39,223,587	39,052,336	-171,251
Prince George's	34,171,219	34,022,027	-$49,192
Queen Anne's	5,139,638	5,117,198	-22,440
St. Mary's	6,908,957	6,878,792	-30,165
Somerset	2,966,950	2,953,996	-12,954
Talbot	4,090,384	4,072,526	-17,858
Washington	10,640,199	10,593,744	-46,455
Wicomico	8,293,415	8,257,206	-36,209
Worcester	6,094,108	6,067,502	-26,606
Total	**$480,014,099**	**$477,723,779**	**-$2,290,320**