

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 704 (Delegate Impallaria, *et al.*)
 Ways and Means

Motor Vehicle Excise Tax - Suspension - New Vehicles

This emergency bill exempts from the State motor vehicle excise tax any new vehicle purchased during the 90-day period following enactment of the bill. In order to qualify, the purchased vehicle must have a certificate of origin indicating the vehicle was constructed or assembled in the United States.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues will decrease by \$72.7 million in FY 2009, of which the State’s share is \$58.1 million, due to suspension of the motor vehicle excise tax. Special fund expenditures will increase by \$20,000 due to implementation costs at the Motor Vehicle Administration (MVA).

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	(\$72.65)	\$0	\$0	\$0	\$0
SF Expenditure	\$.02	\$0	\$0	\$0	\$0
Net Effect	(\$72.67)	\$.00	\$.00	\$.00	\$.00

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

Local Effect: Local highway user revenues distributed from TTF decrease by \$14.5 million in FY 2009. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: The 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.

According to AutoData, about three-fourths of all new automobiles and four-fifths of all new trucks sold in the United States within the last six months were domestically produced or assembled vehicles. This includes vehicles produced in the United States by both domestic and foreign automobile companies. In 2008, General Motors produced 1.2 million vehicles in the United States, followed by Toyota (753,000), Ford (672,000), Honda (653,000), and Daimler Chrysler (396,000).

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.

State Revenues: The bill exempts from the State motor vehicle excise tax any new vehicle purchased during a 90-day period with a certificate of origin indicating the vehicle was constructed or assembled in the United States. As a result, TTF revenues decrease by \$72.7 million in fiscal 2009. This estimate is based on forecasted titling tax revenues, fiscal 2009 revenues to date, estimated percentage of revenues that are from domestically produced new vehicles, impact of the trade-in allowance, and average titling

tax revenue attainment from April to June. To the extent that sales are higher, revenue losses will be greater.

An estimated 49,000 individuals may benefit from the suspension of the excise tax suspension. On average, an individual will save about \$1,570 for a vehicle purchase without a trade-in, and \$1,045 for a vehicle purchase with a trade-in. For individuals financing a vehicle, car payments may decrease by about \$20 to \$30 a month.

State Expenditures: Special fund expenditures at MVA will increase by \$20,000 in fiscal 2009 due to programming changes and notification costs.

Local Fiscal Effect: Local highway user revenues distributed from TTF will decrease by \$14.5 million in fiscal 2009 as shown in **Exhibit 1**.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): AutoData, Comptroller's Office, Maryland Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - February 17, 2009
mam/hlb

Analysis by: Robert J. Rehrmann

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

Exhibit 1
Local Highway Users Revenues – Fiscal 2009

County	Road Mileage Jan 1, 2007	Vehicle Registration Dec 1, 2007	Funding Under HB 704	Funding Current Law	Difference	Percent Difference
Allegany	725.7	63,191	\$6,251,782	\$6,430,403	-\$178,621	-2.8%
Anne Arundel	1,796.7	519,068	26,887,839	27,656,056	-768,217	-2.8%
Baltimore City	0.0	0	186,189,800	192,790,000	-6,600,200	-3.4%
Baltimore	2,638.7	669,144	36,556,423	37,600,884	-1,044,461	-2.8%
Calvert	466.1	88,227	5,514,239	5,671,787	-157,548	-2.8%
Caroline	539.3	36,615	4,320,185	4,443,618	-123,433	-2.8%
Carroll	1,140.6	175,542	12,224,320	12,573,583	-349,263	-2.8%
Cecil	659.6	91,580	6,756,855	6,949,906	-193,051	-2.8%
Charles	752.6	135,093	8,672,396	8,920,177	-247,781	-2.8%
Dorchester	642.4	32,268	4,789,304	4,926,140	-136,836	-2.8%
Frederick	1,549.7	220,726	16,049,366	16,507,916	-458,550	-2.8%
Garrett	745.5	32,763	5,410,597	5,565,184	-154,587	-2.8%
Harford	1,164.9	232,380	14,155,682	14,560,127	-404,445	-2.8%
Howard	977.1	247,173	13,517,797	13,904,017	-386,220	-2.8%
Kent	302.1	20,757	2,427,780	2,497,145	-69,365	-2.8%
Montgomery	2,623.1	722,382	38,140,041	39,229,748	-1,089,707	-2.8%
Prince George's	2,286.1	630,214	33,260,271	34,210,557	-950,286	-2.8%
Queen Anne's	562.8	53,421	4,987,506	5,130,006	-142,500	-2.8%
St. Mary's	608.1	97,943	6,654,144	6,844,261	-190,117	-2.8%
Somerset	378.4	20,798	2,877,631	2,959,848	-82,217	-2.8%
Talbot	447.1	41,987	3,947,707	4,060,498	-112,791	-2.8%
Washington	1,030.4	135,971	10,331,936	10,627,131	-295,195	-2.8%
Wicomico	884.6	85,601	7,890,324	8,115,760	-225,436	-2.8%
Worcester	699.5	57,711	5,925,255	6,094,547	-169,292	-2.8%
Total	23,621.0	4,410,555	\$463,739,180	\$478,269,300	-\$14,530,119	-3.0%