

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL NOTE

House Bill 548 (Delegate George, *et al.*)
 Ways and Means

Natural Resources - Vessel Excise Tax - Maximum Tax

This bill establishes a maximum vessel excise tax amount of \$10,000 per vessel.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: Department of Natural Resources (DNR) special fund revenues decrease by \$3.0 million in FY 2014 due to capping the vessel excise tax amount. Future year revenues reflect inflation. Expenditures are not directly affected.

(in dollars)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
SF Revenue	(\$3,001,900)	(\$3,064,600)	(\$3,128,400)	(\$3,196,300)	(\$3,263,400)
Expenditure	0	0	0	0	0
Net Effect	(\$3,001,900)	(\$3,064,600)	(\$3,128,400)	(\$3,196,300)	(\$3,263,400)

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

Local Effect: To the extent the bill results in less revenue for local grants from the Waterway Improvement Fund (WIF), local revenues decrease.

Small Business Effect: Meaningful.

Analysis

Current Law: The State Boat Act, enacted in 1960, governs boating in the State. Any revenue DNR collects under the State Boat Act must be deposited in the State Treasury and used exclusively for the administration, functions, and objectives of the State Boat Act. These funds are credited to DNR’s WIF.

Except under specified conditions, an excise tax is levied at the rate of 5% of the fair market value of a vessel on (1) 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. The fair market value is determined by means of a national publication of used vessel values (specifically, the *Used Boat Price Guide*), and there is a minimum value of \$100 that applies to all sales.

Background: Since 1965, WIF has been essential in financing projects and activities that promote, develop, and maintain Maryland's waterways for the benefit of the boating public. Among other things, WIF is used to (1) mark channels and harbors and establish aid to navigation; (2) clear debris, aquatic vegetation, and obstructions from State waters; (3) dredge channels and harbors and construct jetties and breakwaters; (4) construct and maintain marine facilities beneficial to the boating public; (5) provide matching grants to local governments for the construction of specified marine facilities, vessels, and equipment; (6) construct structural and nonstructural shore erosion projects; and (7) provide boating information and education.

The vessel excise tax serves as the major source of funding for WIF and, consequently, public boating projects. Due to a significant decrease in boat sales in recent years, WIF revenues have declined by 50% since fiscal 2006. WIF vessel excise tax revenues totaled approximately \$14.0 million in fiscal 2012 and are estimated to remain level in fiscal 2013 and 2014. Based on program funding requests, DNR estimates the annual need for boating-related projects and services in Maryland is approximately \$21.0 million. Additional State funds may be required for dredging to offset recent decreases in federal funding for shallow water dredging projects in the State.

By limiting vessel excise tax to a maximum of \$10,000, the bill effectively reduces the 5% vessel excise tax for individuals purchasing vessels in excess of \$200,000. For example, an individual buying a \$10,000 boat would pay a 5% vessel excise tax, whereas an individual buying a \$1.0 million boat would pay an effective tax rate of 1%. A DNR analysis of actual vessel excise tax revenue collected over 10 years (2002 through 2011) found that a \$10,000 maximum tax would have resulted in revenue losses of between \$3.3 million to \$8.4 million, with an average revenue loss of \$6.4 million over the 10 years.

Some boating advocates suggest that capping the vessel excise tax will increase boat sales and prompt boaters to relocate vessels to Maryland, effectively increasing funding for public boating-related projects.

State Revenues: Special fund revenues into WIF decrease by an estimated \$3.0 million in fiscal 2014 as a result of establishing a maximum excise tax of \$10,000 per vessel. This estimate is based on the vessel excise tax revenue collected in 2011 that would not have been collected if a \$10,000 per vessel cap existed and then adjusted for inflation. DNR advises that in 2011, 353 boats had a purchase price of at least \$200,000, resulting in excise tax collections from those vessels exceeding \$10,000 per vessel. In that year, the excise tax from those boats totaled \$6.3 million; under this bill, DNR would have collected \$3.5 million (a revenue decrease of \$2.8 million, which equates to about \$3.0 million in fiscal 2014). Future year revenue estimates are further adjusted for inflation. However, the Department of Legislative Services advises that because boat sales vary from year to year and the bill may prompt more boat sales in the State, the impact on special fund revenues could vary significantly from the estimated amount.

DNR reports that of the 23,529 boats State titled or federally documented in Maryland in fiscal 2011, 22,620 boats had a taxable price under \$99,999 and 556 boats had a taxable price of between \$100,000 and \$199,999.

Local Revenues: Local jurisdictions receive grant revenues from WIF for local waterway improvement projects. To the extent vessel excise tax revenues decrease, grants to locals likely decrease. Any such decrease cannot be reliably estimated at this time.

Small Business Effect: Boat manufacturers and dealers benefit to the extent that the bill prompts the sale of additional high-end boats in the State. By capping the excise tax amount, the bill may also attract additional owners of high-end boats from other states to Maryland. In addition, an unknown number of small businesses are used by DNR and local governments to plan, design, and build waterway improvement projects. To the extent that the bill decreases funding for such projects, those small businesses may be affected.

Additional Information

Prior Introductions: HB 1043 of 2002 received an unfavorable report from the House Ways and Means Committee.

Cross File: SB 90 (Senator Astle) - Budget and Taxation.

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

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mc/lgc

Analysis by: Amanda Mock

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