

Department of Legislative Services
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FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 14

(Delegate Kipke)

Ways and Means

Budget and Taxation

Natural Resources - Vessel Excise Tax Cap - Amount and Repeal of Termination

This bill makes permanent the \$15,000 per vessel cap on the amount of the vessel excise tax but requires the cap to increase by \$100 on July 1 of each year beginning on July 1, 2016. Under current law, the cap terminates June 30, 2016.

The bill takes effect June 1, 2016.

Fiscal Summary

State Effect: The impact on special fund revenues in FY 2017 and future years cannot be reliably estimated due to uncertainty of the effect of the cap on the number and fair market value of vessels subject to the tax. *For illustrative purposes only*, based on FY 2015 vessel excise tax collections, the maximum loss of revenue that could have resulted from the cap in FY 2015 was approximately \$3.0 million. However, assuming the cap increased the number and fair market value of vessels paying the tax, as was estimated in a recent fiscal analysis of CY 2014 collections, the revenue loss may have been significantly less. State expenditures are not directly affected but likely decrease correspondingly.

Local Effect: Local government grant revenues from the Waterway Improvement Fund (WIF) for boating infrastructure projects are likely affected by any change in vessel excise tax revenues. Local expenditures are not directly affected.

Small Business Effect: Meaningful.

Analysis

Current Law: Chapter 180 of 2013, among other things, established the \$15,000 per vessel cap on the amount of the vessel excise tax. The provision establishing the \$15,000 per vessel cap terminates June 30, 2016.

Subject to certain exceptions, 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 used or to be used principally in the State.

Background:

Vessel Excise Tax Cap

Chapter 180 of 2013, in addition to establishing the vessel excise tax \$15,000 cap, also (1) required the Department of Natural Resources (DNR) to report – in 2014, 2015, and 2016 – on the effect of the \$15,000 per vessel cap on the number and type of vessels registered in the State and the health of the boating industry and (2) established a Task Force to Study Enhancing Boating and the Boating Industry in Maryland which was to consider, among other things, the impact of modifying the State vessel excise tax rate and boat registration fees.

Based on the vessel excise tax rate of 5% of fair market value, the \$15,000 vessel excise tax cap affects vessels with a fair market value of more than \$300,000. The August 2015 report submitted by DNR in response to the Chapter 180 reporting requirement ([*Fiscal Analysis of the Cap on the Vessel Excise Tax*](#), developed by the University of Maryland Environmental Finance Center (EFC)) found that:

- the \$15,000 vessel excise tax limit was likely the cause of increased registration of certain higher value boats, but the increased registration did not make up for the loss of vessel excise tax revenue caused by the \$15,000 per vessel limit, resulting in a net loss in revenue of \$588,000 over the course of 2013 and 2014; and
- the increase in new registrations may have generated more than \$1 million in direct spending in the Maryland economy over the same time period.

DNR characterized these findings as preliminary, noting that the data set and time span studied in the report is small and prevents a conclusive assessment of the effect of the vessel excise tax cap. The Task Force to Study Enhancing Boating and the Boating Industry in Maryland recommended, in its September 2015 final report, keeping the vessel excise tax cap of \$15,000 and conducting an economic analysis at the end of fiscal 2018 using five full

years of data (see [Enhancing Boating in Maryland: Task Force Final Report](#), September 2015).

Waterway Improvement Fund

Vessel excise tax revenues are deposited in, and are the major source of funding for, WIF, which finances 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.

WIF contributes funding to various operations within DNR, including Boating Services, Engineering and Construction, Natural Resources Police, Licensing and Registration Service, Maryland Parks Service, and the Office of the Secretary. In addition, a significant amount of funding appropriated from WIF each year goes toward grants to local governments for projects that expand and improve recreational boating throughout the State. The Governor's proposed fiscal 2017 budget includes \$10.5 million for capital projects, the majority of which consists of those local government grants.

State Fiscal Effect: The impact of making the vessel excise tax cap of \$15,000 per vessel permanent, with an increase of \$100 each year beginning July 1, 2016, cannot be reliably estimated because of uncertainty regarding the extent to which the cap affects the number and fair market value of vessels of more than \$300,000 that are subject to the vessel excise tax.

If it is assumed that the excise tax cap has no effect on the number or fair market value of vessels subject to the tax, then the revenues lost because of the cap can be in the millions of dollars. On the other hand, if enough growth in the number and fair market value of vessels subject to the tax occurs and is assumed to be a direct result of the cap itself, the impact could instead be revenue neutral or even an increase in vessel excise tax revenues.

The EFC report cited above estimated that the vessel excise tax cap likely increased both the number and average net purchase price of higher value vessels registered in the State over the course of calendar 2013 and 2014 (which included the first year and one-half that the cap was in effect, following its July 1, 2013 effective date). Accounting for the estimated effect of the cap on the number and average net purchase price of vessels of more than \$300,000 (especially the offsetting increase in revenue of \$15,000 per vessel resulting from vessels that are purchased and/or newly located in the State specifically because of

the cap), the loss of revenue in calendar 2014 was only approximately \$274,000 (this includes a pro rata amount of the \$55,000 loss of revenue over two years for vessels valued between \$300,000 and \$350,000 mentioned in footnotes to the EFC report). That is significantly less than the approximately \$1.9 million loss in vessel excise tax revenues if the cap is assumed to have had no effect on the number and purchase price of vessels registered in the State, thus only reducing revenue from vessels that would have paid the full tax amount in the absence of the cap.

Using more recent vessel excise tax collections information provided by DNR, for fiscal 2015, if it is assumed the cap had no effect on the number or fair market value of vessels subject to the tax, the revenue loss in fiscal 2015 was approximately \$3.0 million. If, however, the cap increased the number or fair market value of vessels subject to the tax, as was estimated in the EFC report for calendar 2014, the revenue loss may have been significantly less.

Although the bill does not *directly* affect State expenditures, any decrease in special fund revenues likely results in a corresponding decrease in special fund expenditures from WIF.

Local Revenues: Local government revenues from WIF-funded grants provided by DNR for projects to expand and improve recreational boating throughout the State are directly affected by any changes in vessel excise tax revenue. Thus, any decrease in vessel excise tax revenues for DNR likely results in a decrease in local grants from WIF.

Small Business Effect: Small businesses are expected to be affected both by (1) any change in the amount of grants provided to local governments from WIF that results from the bill, since small businesses work on boating infrastructure projects funded by the grants, and (2) any increase in boating and boat sales in the State that is generated by making the vessel excise tax cap permanent. A decrease in vessel excise tax revenue, for example, decreases available boating infrastructure project work; however, if the cap increases the number and taxable value of vessels subject to the tax, despite an overall decrease in tax revenue, small businesses providing services to high-end boaters or involved in sales of high-end boats may benefit.

Additional Information

Prior Introductions: None.

Cross File: SB 58 (Senator Astle) - Budget and Taxation.

Information Source(s): Department of Natural Resources, Comptroller's Office,
University of Maryland Environmental Finance Center, Maryland Association of Counties,
Department of Legislative Services

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