

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 34

(Chair, Budget and Taxation Committee)(By Request -
Departmental - Transportation)

Budget and Taxation

Environment and Transportation

Motor Vehicles - Leased Vehicles - Inspections, Insurance, and Excise Tax

This departmental bill establishes that any vehicle leased by the State or any political subdivision of the State is exempt from the excise tax. The bill also prohibits the Motor Vehicle Administration (MVA) from issuing, reinstating, or renewing a vehicle registration for a vehicle lessee who has an unpaid uninsured motorist penalty. Finally, the bill exempts a leased vehicle transferred to the lessee at the end of a lease term from a safety inspection requirement.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) and general fund revenues increase, likely minimally, beginning in FY 2018 as some individuals with outstanding penalties pay the fines in order to register or renew the registration of a leased vehicle. Revenues are not affected by the exemption from paying the excise tax because MVA already exempts such vehicles by modifying how they are titled. MVA can handle internal reprogramming changes with existing resources. TTF expenditures are not otherwise affected.

Local Effect: None.

Small Business Effect: The Maryland Department of Transportation (MDOT) has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment as discussed below.

Analysis

Current Law:

Excise Tax

Although there are numerous exemptions under State law, an excise tax is imposed (1) for each original and each subsequent certificate of title issued for a motor vehicle, a trailer, a semitrailer, a moped, a motor scooter, or an off-highway recreational vehicle for which sales and use tax is not collected at the time of purchase and (2) for each motor vehicle, trailer, or semitrailer that is in interstate operation and properly registered without a certificate of title, except in certain circumstances.

Required Security and Uninsured Motorist Penalties

Maryland law requires an owner of a motor vehicle that is required to be registered in the State to maintain insurance for the vehicle during the registration period. (In addition, Chapters 401 and 402 of 2016 establish that the driver of a motor vehicle has to carry evidence of required security while operating the vehicle.) The security required must provide at least the payment of claims:

- for bodily injury or death arising from an accident of up to \$30,000 for any one person and up to \$60,000 for any two or more persons;
- for property of others damaged or destroyed in an accident of up to \$15,000;
- unless waived or exempt by Chapters 425 and 426 of 2016, for personal injury protection of \$2,500 per person; and
- for uninsured motorist coverage.

MVA may not issue or transfer the registration of a motor vehicle unless the owner or prospective owner of the vehicle provides satisfactory evidence to MVA that the required security is in effect. If the required security lapses at any time, the registration of that vehicle is suspended automatically as of the date of the lapse, effective within 60 days after notification to MVA. The registration remains suspended until the vehicle owner submits evidence of replaced security on a designated MVA form, certified by the insurance provider, along with any uninsured motorist penalty fine assessed.

If the required security for a vehicle terminates or otherwise lapses, MVA may assess the owner of the vehicle with an initial penalty of \$150 for the first 30 days for each vehicle without the required security. If the fine is assessed and remains unpaid, the total penalty can increase significantly depending on how long it remains outstanding. Specifically, beginning on the thirty-first day, the fine increases by a rate of \$7 for each day, up to a

maximum of \$2,500 annually. The owner is also subject to a misdemeanor penalty of up to \$500 for failure to maintain the required security during the registration period, which may be prepaid with a fine of \$290. In addition, knowingly operating a vehicle without adequate security is a misdemeanor penalty of \$500, which may not be prepaid and results in the imposition of five points on the driver's record.

If MVA assesses a vehicle owner or co-owner with a penalty for lapse or termination of required security, until that penalty is paid, the administration may not (1) reinstate a registration suspended for lapse or termination of required security; (2) issue a new registration for any vehicle that is owned or co-owned by that person and is titled after the violation date (except for a specified temporary registration); or (3) renew a registration for a vehicle that is owned or co-owned by that person.

Required Inspection Certificate for Used Vehicles

Except in specified circumstances, a used vehicle that is transferred must undergo a safety inspection. In some cases, the transferor is responsible for ensuring the vehicle is inspected; in others, the transferee must obtain the safety inspection. In some cases, *either* the transferor or transferee may obtain the required inspection.

Background:

Excise Tax

MVA advises that, under current law, a vehicle that is *owned* by the State or a political subdivision is exempt from the excise tax, whereas a vehicle that is *leased* by the State or a political subdivision is not explicitly exempt from the excise tax. In order to prevent the excise tax from being levied, when the State or a political subdivision leases a vehicle, the vehicle is titled in the name of the State or the political subdivision, with the lessor listed as the lienholder. MVA estimates approximately 10,500 State and local government vehicles are leased in this manner. The administration advises that the bill permits those vehicles to be properly titled in the lessor's name while continuing to exempt the vehicles from the excise tax.

Lapse or Termination of Required Security

MVA is currently prohibited from issuing or renewing the registration of any vehicle that is owned or co-owned by an individual with an outstanding penalty for failure to maintain the required vehicle insurance. However, the prohibition does not apply to a person registering a leased vehicle. Thus, an individual can avoid paying an outstanding fine by leasing a vehicle rather than purchasing one. MVA advises the bill's changes ensure that all vehicle owners and lessees are accountable for penalties owed to the State. In addition,

the changes bolster the State's ability to enforce the compulsory insurance requirement and to recover penalties from violators.

Required Inspection Certificate for Used Vehicles

Currently, a lessee of a vehicle who purchases the vehicle at the end of the lease term must have the vehicle inspected for safety before retitling it in their name, even though the person has been the original lessee since the vehicle was first driven. MVA estimates that approximately 3,500 consumers annually purchase a leased vehicle at the end of the lease term. The administration advises that exempting these transfers from the safety inspection requirement benefits consumers without hindering roadway safety.

State Revenues: If the required security for a vehicle terminates or lapses, MVA may assess an initial \$150 penalty, which can increase significantly depending on the length of time during which the penalty is outstanding. A portion of the fines collected under the escalating penalty structure is retained in MVA (30%) for specified purposes; the rest (70%) is directed from MDOT under a specified allocation formula to the School Safety Enforcement Fund, the Vehicle Theft Prevention Fund, the Maryland Automobile Insurance Fund, and the general fund (which receives the remainder of that 70%).

As the bill enhances the State's ability to collect unpaid penalties, collections may increase beginning in fiscal 2018. Because the maximum revenues that other funds receive from the fines are capped and they already receive their full allocations, any increase in penalty revenues collected under the bill only results in an increase in revenues for TTF and the general fund. Although MVA is unable to estimate the magnitude of such an increase at this time, this analysis assumes any increase in penalty revenue collections is likely to be minimal. Furthermore, because the bill may deter individuals from evading penalty payments in the future, the effect on both TTF and general fund revenues may be sustained over time.

Small Business Effect: To the extent that safety inspections are conducted by small businesses, revenues may decline minimally as fewer vehicles are required to undergo the required inspection. MVA estimates the average safety inspection is \$85. Assuming 3,500 individuals per year continue to purchase a vehicle that they previously leased, the aggregate amount spent by consumers annually on these safety inspections is approximately \$297,500. Thus, small businesses throughout the State that perform safety inspections can expect a minimal decrease in the quantity of annual inspections. The change is unlikely to have any significant effect on small businesses in the State.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - January 16, 2017
mm/ljm Third Reader - February 14, 2017

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Motor Vehicles – Leased Vehicles – Inspections, Insurance and Excise Tax

BILL NUMBER: SB 34

PREPARED BY: Maryland Department of Transportation / Motor Vehicle Administration
(Dept./Agency)

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS