This bill alters the vehicle excise tax imposed on a leased vehicle by specifying the tax imposed is equal to 6% of the capitalized cost reduction and each monthly lease payment. The bill also repeals the existing titling tax exemption for a lessee who purchases the vehicle at the end of the lease. **The bill takes effect July 1, 2027.**

**Fiscal Summary**

**State Effect:** Transportation Trust Fund (TTF) revenues decrease by a significant amount beginning in FY 2028 due to a reduction in vehicle excise taxes imposed, as discussed below. TTF expenditures decrease beginning in FY 2028 due to a reduction in capital transportation grants to local governments.

**Local Effect:** Local highway user revenues decrease beginning in FY 2028. Local expenditures are not affected.

**Small Business Effect:** Minimal.

**Analysis**

**Bill Summary/Current Law:** Under current law, a vehicle excise tax of 6% is generally imposed on the total purchase price of a leased or purchased vehicle. The total purchase price of a vehicle leased for more than 180 days is the retail value of the vehicle as certified by the dealer, including any dealer processing charges, less an allowance for the trade in of a vehicle. A vehicle purchased by a lessee at the end of the lease agreement is exempt from the vehicle excise tax.
The bill alters the excise tax imposed on vehicles leased for more than 180 days by specifying the excise tax of 6% is imposed on the capitalized cost reduction and each monthly lease payment. Capitalized cost reduction is any monetary payment made by a lessee of a vehicle at the time of entering into the vehicle lease that lowers the monthly payments on the lease. Capitalized cost reduction does not include the value of any trade-in vehicle.

The bill also repeals the existing exemption for individuals who purchase a vehicle at the end of a lease with an initial term of more than 180 days.

**State Fiscal Effect:** The bill alters the excise tax imposed on leased vehicles beginning in fiscal 2028. As a result, TTF revenues will decrease beginning in fiscal 2028. A portion of vehicle excise tax revenues are used to provide capital transportation grants to local governments. Thus, any decrease in vehicle excise tax revenues results in a decrease in TTF expenditures to local governments.

The Maryland Department of Transportation (MDOT) estimates that in recent years an average of about 46,800 vehicles were leased and paid a total of $77.7 million in vehicle excise taxes. Under the bill, this excise tax revenue would be reduced by about two-thirds. MDOT estimates that the bill will reduce TTF revenues by $48.2 million in fiscal 2028 and revenue losses will increase by about 1% annually thereafter.

TTF revenues are used to fund the State capital program. MDOT advises that based on its estimated revenue decrease resulting from the bill, MDOT will be required to reduce its capital program by $474 million in fiscal 2028 through 2032 to maintain its debt service coverage ratio.

The Department of Legislative Services notes that the estimated fiscal impact of the bill will likely be less than estimated due to additional factors, including the repeal of the existing exemption for individuals who purchase a vehicle at the end of a lease. However, a precise impact cannot be estimated as the percentage of lessees who opt to purchase their vehicle at lease end has varied considerably in the last several years, reflecting price volatility in the used vehicle market.

**Local Revenues:** Local governments receive a portion of vehicle excise tax revenues as local highway user revenues through capital transportation grants. Under the bill, local highway user revenues will decrease beginning in fiscal 2028.
Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History: First Reader - January 30, 2022

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