

**Department of Legislative Services**  
Maryland General Assembly  
2022 Session

**FISCAL AND POLICY NOTE**  
**Third Reader - Revised**

Senate Bill 109

(Senator Elfreth, *et al.*)

Budget and Taxation

Ways and Means

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**Vehicle Excise Tax - Exemption - Active Duty Military**

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This bill exempts from the vehicle excise tax a vehicle that was formerly titled and registered in another state by a member of the U.S. Uniformed Services who is on active duty or returning to the State from active duty. **The bill takes effect July 1, 2022.**

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**Fiscal Summary**

**State Effect:** Transportation Trust Fund (TTF) revenues decrease beginning in FY 2023 due to a reduction in titling tax revenues paid by eligible individuals. Based on limited data, revenues will likely decrease by at least \$500,000 annually. TTF expenditures may decrease by \$45,000 in FY 2023 and by \$32,000 in FY 2027 due to a reduction in local transportation grants.

(in dollars)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
SF Revenue	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)
SF Expenditure	(\$45,000)	(\$45,000)	(\$32,000)	(\$32,000)	(\$32,000)
Net Effect	(\$455,000)	(\$455,000)	(\$468,000)	(\$468,000)	(\$468,000)

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

**Local Effect:** Local highway user revenues may decrease by \$45,000 in FY 2023 and by \$32,000 in FY 2027 due to a reduction in titling tax revenues. Local expenditures are not affected.

**Small Business Effect:** None.

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## Analysis

### Current Law:

#### *Vehicle Excise Tax*

The motor vehicle excise tax is collected on both new and used vehicles sold in the State. The tax is more commonly referred to as a “titling tax,” and it is collected for each certificate of title that is issued for motor vehicles at the time of purchase. The tax must be paid in full before the issuance of the vehicle’s certificate of title. A tax of 6% is generally imposed on the fair market value of the vehicle, less an allowance for a vehicle that is traded in.

Vehicle owners who titled and registered a vehicle in another state can claim a credit against the vehicle excise tax for the difference between the tax paid in the other state and the tax due if the present owner (1) has not been a Maryland resident for more than 60 days or (2) is a member of the U.S. military on active duty and has not been a Maryland resident for more than one year, or is a Maryland resident who is a member of the U.S. military and within the last year is returning to the State from, or on, active duty.

#### *Military Residency and State Taxation – Federal Law*

The Servicemembers Civil Relief Act is a federal law that provides military members certain benefits and protections as they enter and serve active duty. A servicemember generally does not lose or acquire residency for the purposes of taxation with respect to the person, personal property, or income of the servicemember by reason of being absent or present in a tax jurisdiction solely in compliance with military orders. In addition, the Act extends similar tax treatment to the spouse of a servicemember.

Vehicle registration rules and fees applicable to active members of the U.S. Uniformed Services vary from state to state. Active members who are on temporary duty in Maryland, a neighboring state, or the District of Columbia are not required to register their vehicles in Maryland. Maryland active members who purchase a vehicle in another state while on active duty can register and title the vehicle in Maryland. In addition, an individual on active duty in another state who purchases and registers a vehicle in another state may also be eligible for the tax credit (for titling taxes paid in another state) upon their return to Maryland, as long as the individual registers the vehicle within one year.

**State Revenues:** The bill exempts from the vehicle excise tax a vehicle that was formerly titled and registered in another state by a member of the U.S. Uniformed Services who is on active duty or returning to the State from active duty. As a result, TTF revenues will decrease beginning in fiscal 2023.

The Maryland Department of Transportation (MDOT) does not have data on the number of active military members who title and register a vehicle in another state and claim under current law the tax credit against the vehicle excise tax. In a revised fiscal estimate of the bill, MDOT states that although the fiscal estimate cannot be accurately predicted, it will likely be significant.

Based on the amount of average excise taxes paid on new vehicles and paid by new residents, MDOT estimates that TTF revenues will decrease by \$1.4 million annually if 5% of the active duty military personnel stationed in Maryland qualify for and claim the exemption in each year.

Based on the revised information provided by MDOT and the cost of similar exemptions available in other states, the Department of Legislative Services estimates that TTF revenues will likely decrease by at least \$500,000 annually beginning in fiscal 2023.

**State Expenditures:** Local governments receive a portion of vehicle excise tax revenues as local highway user revenues through capital transportation grants. Under the assumptions above, TTF expenditures may decrease by \$45,000 in fiscal 2023 and by \$32,000 in fiscal 2027 due to a reduction in local transportation grants.

TTF revenues also fund the State capital program; thus, a decrease in TTF revenues decreases expenditures for the State capital program.

**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 may decrease by \$45,000 in fiscal 2023, \$45,000 in fiscal 2024, and \$32,000 annually beginning in fiscal 2025.

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## Additional Information

**Prior Introductions:** None.

**Designated Cross File:** HB 497 (Delegate Buckel) - Ways and Means.

**Information Source(s):** Connecticut Office of Fiscal Analysis; Maryland Department of Transportation; Minnesota Department of Revenue; Oklahoma Tax Commission; Department of Legislative Services

**Fiscal Note History:** First Reader - January 18, 2022  
fnu2/hlb Third Reader - March 30, 2022  
Revised - Amendment(s) - March 30, 2022  
Revised - Updated Information - March 30, 2022

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