

**February 11, 2026**

**Testimony of Rob Smith**

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**Before the Maryland Senate Budget and Tax Committee**

**In Support of Senate Bill SB374**

Good afternoon, Chair Guzzone, and members of the committee. Thank you for the opportunity to speak today.

If you've ever rented a car at BWI Airport, you may have noticed something curious: most of those vehicles have out-of-state license plates. That's not an accident—it's the direct result of interstate commerce and proportional registration regulations.

Under these rules, multi-state rental car companies register vehicles based on where their revenue is earned, not where the cars are actually used. So, if a company earns just 2% of its national revenue in Maryland, only 2% of its fleet must be registered here—even if many more vehicles operate daily on Maryland roads.

Because these regulations do not require a minimum vehicle cost or service life, large national operators reduce taxes by registering their lowest-cost vehicles in excise-tax states and keeping them in service longer. Those same vehicles can still be used anywhere in North America and remain fully compliant.

Maryland-based rental car companies operate under a very different system. Without access to proportional registration, every vehicle must be titled and registered in Maryland, and the excise tax must be paid in cash, up front. Financing companies do not cover these costs. This significantly increases acquisition expenses and places local businesses at a structural disadvantage because 100% of the Maryland owned vehicle must pay excise tax and compete with a national fleet of vehicles that do not incur that cost.

The impact is measurable. A Toyota Camry registered in Virginia costs roughly **\$1,050 less** than the same vehicle registered in Maryland with excise tax. To recover that difference, a Maryland operator would need to charge approximately **\$5 more per rental day**—and still face having a 1,050 higher resale cost than a competitor in Virginia.

This disparity explains why roughly **90% of vehicles at BWI carry out-of-state tags**, and why nearly every state decades ago moved away from excise taxes on rental cars in favor of higher, transaction-based sales taxes. That model captures more state tax revenue overall, regardless of where a vehicle is plated, while also keeping in-state businesses competitive.

Today, Maryland is one of the only states to reapply an excise tax to rental cars—and the cost is local jobs. At my company alone, we employ more than **110 Maryland residents** in stable, well-paying careers.

Rental car operators should be treated similarly to automobile dealers. Dealers do not pay excise tax on inventory; customers pay it when they purchase a vehicle. Rental companies also acquire vehicles for inventory—but they “sell” that inventory many times each month, with customers paying sales tax on every transaction. Over the life of a vehicle, that sales tax generates **more than eleven times** the revenue of a single excise tax.

Today, Maryland rental car businesses already pay an **11.5% sales tax** on rental revenues—one of the highest rates in the nation. By comparison:

Virginia is at 10%,

Washington, D.C. at 10.25%,

Pennsylvania at 8% plus a \$2 per day fee,

West Virginia at 6% plus \$1 per day,

and Delaware at just 1.99%.

For these reasons, moving to a **sales-tax-only model** would restore fairness, strengthen Maryland businesses, and protect Maryland jobs.

Thank you.