

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 696
Ways and Means

(Eastern Shore Delegation, *et al.*)

Budget and Taxation

Boat Excise Tax - Fair Market Value - Repeal of Sunset

This bill provides for the continuation of a deduction of the value of a trade-in vessel from the boat excise tax by repealing the termination date for the definition of "fair market value."

The bill takes effect June 1, 2001.

Fiscal Summary

State Effect: Any change in special fund revenues and expenditures and federal fund revenues that can be attributed to the current trade-in provision would continue.

Local Effect: Any change in local revenues that can be attributed to the current trade-in provision would continue.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Except under specified conditions, 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 purchased outside the State to be used principally in the State.

The current definition of “fair market value,” which, pursuant to Chapter 485 of 1998 sunsets on June 30, 2001, is the total purchase price, as certified by the dealer on a form acceptable to DNR, less the value of any vessel that is traded in as part of the consideration for the sale. The trade-in value may not exceed the value for the trade-in vessel as shown in a national publication of used vessel values. After June 30, 2001, the definition of “fair market value” will be the total purchase price as certified by the dealer.

Background: Recommendations by the Marine Economic Development Task Force were addressed through Chapter 485 of 1998, which, as amended by Chapter 276 of 2000, modified the definition of “fair market value” to exclude from the calculation of the boat excise tax the value of any vessel that is traded in as part of a sale by a licensed dealer. Under current law the definition sunsets on June 30, 2001. According to DNR, the trade-in provision was enacted to create a positive stimulus to boat sales in Maryland.

There are approximately 500 licensed boat dealers throughout the State. Sales involving trade-ins through licensed dealers total approximately 1,000 vessels annually. DNR collected \$17.1 million in boat excise taxes in 1998, \$20.8 million in 1999, and \$22.9 million in 2000.

State Fiscal Effect: Revenues from excise taxes, penalties, and interest are paid into the Waterway Improvement Fund. According to DNR, excise tax revenues have increased since the enactment of the trade-in provision as a result of an increase in boat sales. However, given the robust economy, the increase in special fund revenues cannot be definitively attributed to the enactment of the trade-in provision. Because of an increase in revenues, special fund expenditures for waterway improvement projects have increased from approximately \$3 million in fiscal 1998 to approximately \$4.5 million in fiscal 2000.

The current trade-in provision also has the potential to affect federal fund revenues. Federal funds for boating safety education and enforcement are dependent on a number of things including the number of boats that are registered in the State compared to those registered nationally, as well as the level of State expenditures for boating safety compared to national expenditures. Although the number of certain types of boats that are registered in the State has increased since the enactment of the trade-in provision, federal fund revenues have remained at approximately \$1.9 million annually.

According to DNR, the University of Maryland Sea Grant College will be conducting a study of the effect of the current trade-in provision on boat sales in Maryland. Until this study is complete, the effect of extending the current trade-in provision cannot be accurately estimated.

Local Revenues: Local jurisdictions receive grant funding for projects such as channel dredging, bulkhead repair, and marine pumpout repair through the Waterway Improvement Fund. To the extent that fund revenues are affected, local grants are also affected. Since the enactment of the trade-in provision, grants to local jurisdictions have increased from approximately \$2.7 million in fiscal 1998 to approximately \$3.7 million in fiscal 2000. However, because the increase in fund revenues, and therefore, grants to local jurisdictions, cannot be directly linked to the trade-in provision, the effect of extending the current trade-in provision cannot be determined at this time.

Small Business Effect: There are approximately 500 licensed boat dealers throughout the State, the majority of which are small businesses. According to DNR, boat sales have increased from approximately \$416 million in fiscal 1998 to approximately \$458 million in fiscal 2000. Although the increase in sales cannot be definitively linked to the trade-in provision, any impact that can be attributed to the current trade-in provision would continue as a result of this bill.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Natural Resources, Department of Legislative Services

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