

Department of Legislative Services  
Maryland General Assembly  
2002 Session

FISCAL NOTE  
Revised

House Bill 1190

(Delegate W. Baker, *et al.*)

Ways and Means and Environmental  
Matters

Education, Health, and Environmental Affairs  
and Budget and Taxation

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Natural Resources - State Boat Act

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This bill makes several changes to the State Boat Act relating to the vessel excise tax, licensed boat dealers and manufacturers, registration of fire boats, and information required when applying for a title to an abandoned vessel.

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Fiscal Summary

**State Effect:** The bill is not anticipated to have a significant impact on State operations or finances.

**Local Effect:** The bill is not anticipated to have a significant impact on local operations or finances.

**Small Business Effect:** Potential meaningful.

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Analysis

**Bill Summary:**

*Vessel Excise Tax*

The bill exempts from the vessel excise tax the holding of a vessel that is titled or numbered in another state or is federally documented if: (1) the vessel is held for resale or listed for resale by a licensed dealer; and (2) the vessel owner signs an affidavit that there will be no use of the vessel on the waters of the State other than for a "sea trial."

The bill also exempts persons from paying the excise tax on vessels that are used on the waters of the State for 90 days or less in a calendar year.

The bill specifies, for purposes of determining if a vessel is exempt from the vessel excise tax under current law, that a vessel is deemed to be held for maintenance or repair if: (1) the maintenance or repair work is provided in exchange for compensation; (2) the maintenance or repair work is performed pursuant to a schedule pre-established with one or more marine contractors; and (3) the total cost of the maintenance or repair work is at least two times the reasonable current market cost of docking or storing the vessel. Time spent conducting “sea trials” shall be included when calculating the period of time a vessel is held for maintenance or repair. Sea trial means a period of on-the-water operations, not to exceed one day, that is conducted for the purpose of testing the effectiveness of specific repairs or maintenance procedures or for a vessel held for resale by a licensed dealer.

The bill also repeals the current exemption from the vessel excise tax resulting from the transfer to a licensed dealer of a vessel for rental or lease.

#### *Licensed Boat Dealers and Manufacturers*

The bill modifies provisions relating to temporary certificates of boat number issued to licensed boat dealers by: (1) repealing the set fee of \$1 and establishing a maximum fee of \$1 that would be set by DNR (to be consistent with DNR’s current practice of not charging a fee); (2) extending the period of time, from 3 days to 30 days, that a dealer has to mail a copy of the temporary certificate to DNR after it issues a temporary certificate of boat number; and (3) lengthening the period of time, from 60 days to 90 days, from the date the temporary certificate was issued until it expires.

This bill modifies the definition of “dealer” under the State Boat Act to include a holder of a lien created under specified provisions of law who sells the vessel pursuant to that law, including an auctioneer and a company commonly known as a lien and recovery company. The bill also authorizes DNR to use bonds posted under the State Boat Act to recover any penalty and interest charged to a licensed boat dealer or manufacturer based on a failure to pay the fees or taxes received by the applicant.

#### *Exemption from Vessel Registration Fees for Fire Boats*

The bill exempts fire boats that belong to a fire department or rescue squad from all vessel registration fees.

### *Abandoned Vessels*

The bill also modifies provisions relating to acquiring title to an abandoned vessel by providing that a person applying to DNR for the title must provide an affidavit of a clear and accurate photograph of the vessel and a tracing or certification of the hull identification number.

**Current Law:** The State Boat Act, enacted in 1960, governs boating in the State. The Natural Resources Police enforce that law and its regulations.

### *Vessel Excise Tax*

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. "Used principally in the State" means that this State is the state of principal use (the state on whose waters a vessel is used or to be used most during a calendar year), except that in calculating where the vessel is used or used most, a vessel is not considered to be in use for any period of time that it is held in maintenance or repair for 30 consecutive days or more. A person is not required to pay the tax resulting from several specified actions, including a transfer to a licensed dealer of a vessel for resale, rental, or lease purposes. Except for \$225,000 of the amount collected in vessel excise taxes, which is credited to the general fund, revenues from excise taxes, penalties, and interest are paid into the Waterway Improvement Fund.

### *Licensed Boat Dealers and Manufacturers*

A manufacturer or dealer may not conduct business in the State unless licensed pursuant to DNR regulations. The annual license fee is \$25. Prior to the issuance of a boat dealer's or manufacturer's license, each applicant must file with DNR acceptable evidence of a bond or other security deemed sufficient and adequate by DNR for the payment of fees and taxes the applicant receives based upon the applicant's volume of sales and the class of boat dealer's or manufacturer's license which the applicant has requested. The bond must be for the use and benefit of DNR and any member of the public who suffers or sustains any loss by reason of any violation of the State Boat Act by the licensees, the licensee's agent, or the licensee's employee.

DNR may design temporary certificates of boat number and furnish them to any licensed boat dealer who: (1) applies for at least 25 of the certificates on a specified form; and (2)

submits a fee of \$1 for each certificate with the application. (Legislative Services advises that DNR does not currently assess this fee.) Within three days after a dealer issues a temporary certificate of boat number, the dealer must mail a copy of the temporary certificate to DNR. A temporary certificate expires when the first of either of the following occurs: (1) a certificate of boat number for the vessel is issued by DNR; or (2) 60 days expire from the date the temporary certificate was issued by the dealer.

“Dealer” means any person who: (1) engages in whole or in part in the business of buying, selling, or exchanging new and unused vessels or used vessels, or both, either outright or on conditional sale, bailment, lease, chattel mortgage, or otherwise; and (2) has an established place of business for sale, trade, and display of vessels. Dealer includes a yacht broker.

### *Registration for Emergency Rescue Boats and Fire Boats*

Emergency rescue boats that belong to fire departments or rescue squads in Maryland are exempt from all registration fees but must apply for a registration renewal every three years. Although not specifically exempt from such fees, DNR advises that fire boats are not generally assessed registration fees because they are purchased by local governments or fire companies as emergency rescue boats.

### *Abandoned Vessels*

A landowner, a landowner’s lessee, or a landowner’s agent may acquire title to any abandoned vessel on the landowner’s land or the water immediately adjacent to the landowner’s land. The person wishing to acquire title must take several specified actions, such as notifying the owner and lienholder and publishing notice in a newspaper. After complying with specified requirements, the person must apply to DNR for title to the vessel. The person must provide the following affidavits: (1) a statement that the vessel is an abandoned vessel, as defined under current law; (2) proof that a letter was mailed to the vessel owner or lienholder at least 30 days prior to application, or an explanation of unsuccessful steps taken to identify the owner or lienholder; and (3) proof a notice was printed in a newspaper.

**State Revenues:** Although a reliable estimate of the bill’s impact on special fund revenues cannot be made at this time, the bill is not anticipated to have a significant impact.

### *Vessel Excise Tax*

The revenues generated from the vessel excise tax depend largely on boat sales, which vary from year to year. Excise tax collections have increased from a low of about \$10.9 million in fiscal 1993 to about \$23.6 million in fiscal 2001.

DNR advises that by providing an exemption from the vessel excise tax for vessels that are used on the waters of the State for 90 days or less in a calendar year, the bill will not result in a decrease in revenues from the vessel excise tax because that 90 days would still be counted towards the calculation for principal use if the vessel stays beyond 90 days and becomes subject to the tax.

DNR advises that providing an exemption from the vessel excise tax for specified vessels held for resale by boat dealers will not affect special fund revenues because such boats are not currently assessed the excise tax. DNR also advises that the bill's provision relating to whether a vessel is deemed to be held for maintenance or repair is clarifying only and has no fiscal impact.

By repealing the exemption from the vessel excise tax for the transfer to a licensed dealer of a vessel for rental or lease, special fund revenues would increase. DNR does not know the number of vessels (or the fair market value of those vessels) that are currently exempt from the vessel excise tax that, under this bill, would be required to pay the tax. Accordingly, a precise estimate of the impact of this provision cannot be reliably estimated at this time. However, according to DNR, any increase in special fund revenues from this provision is not anticipated to be significant.

### *Licensed Boat Dealers and Manufacturers*

Special fund revenues could increase as a result of the bill's provision that modifies the definition of a boat dealer to include specified lienholders. Under the bill, those entities would be required to be licensed by DNR and, therefore, would be subject to the \$25 annual license fee. Although the number of additional boat dealer licenses that would be issued under the bill is unknown, it is not anticipated to be significant.

Legislative Services advises that the bill's provision that specifically authorizes DNR to use bonds posted under the State Boat Act to recover specified penalties and interest could make it easier for DNR to recover such penalties and interest.

### *Exemption from Vessel Registration Fees for Fire Boats*

Because most fire boats are purchased by local governments or fire companies as emergency rescue boats, they are not generally assessed registration fees; accordingly, this provision has no fiscal impact.

**Small Business Effect:** According to a recent survey by the University of Maryland (Maryland Sea Grant Extension Program), in 2000, recreational boaters spent approximately \$970 million that directly impacted Maryland recreational boating and related businesses. When the indirect and induced effects of that spending were factored in, the study reports that the impact on the Maryland economy in 2000 was about \$1.6 billion. To the extent that this bill attracts additional boaters to Maryland, for recreation, boat repair, or other reasons, small businesses would benefit.

**Additional Comments:** The proposed Budget Reconciliation Act of 2002 (SB 323/HB 424) would transfer \$8 million from the Waterway Improvement Fund to the general fund in fiscal 2002. DNR plans to cancel \$4 million worth of waterway improvement projects if the transfer is made.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Natural Resources, Marine Trades Association of Maryland, University of Maryland (Maryland Sea Grant Extension Program), Department of Legislative Services

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Analysis by: Lesley Frymier

Direct Inquiries to:  
John Rixey, Coordinating Analyst  
(410) 946-5510  
(301) 970-5510