

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 486

(Senator Brinkley, *et al.*)

Budget and Taxation

Environmental Matters

Short-Term Rental of Motorcycles - Sales and Use Tax and Motor Vehicle Law

This bill includes motorcycle rentals in the definition of “short-term vehicle rental” for purposes of the State sales and use tax so that they are subject to the 11.5% sales tax rate applicable to short-term vehicle rentals. The bill also includes motorcycles in the definition of “rental vehicle” for purposes of the motor vehicle law, which will exempt motorcycle rentals from the motor vehicle excise tax, and specifies that rental motorcycles are subject to a \$35 annual vehicle registration fee.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: The bill affects both general fund and special fund revenues beginning in FY 2014. General fund revenues decrease because motorcycle rentals are no longer subject to the 6% sales tax rate, and special fund revenues increase because motorcycles are subject to the special 11.5% sales tax rate. Special fund revenues also decrease because rental motorcycles are no longer subject to vehicle excise taxes. Expenditures are not affected.

Local Effect: None.

Small Business Effect: Potential meaningful. Motorcycle dealers who purchase motorcycles to rent to customers will no longer be subject to motor vehicle excise taxes.

Analysis

Current Law: A tax rate of 11.5% is imposed on the rental of any passenger car or multipurpose vehicle that is rented for a period of 180 days or less, for which the lessor does not furnish a driver and which is not to be used for transporting passengers or property for hire. Certain rental trucks are taxed at 8%.

Revenues from the sales tax on short-term rental vehicles are distributed to the Transportation Trust Fund (TTF) (45%); for fiscal 2012 through 2015, the remaining 55% of revenues are distributed to the general fund and the Chesapeake Bay 2010 Trust Fund, per Chapter 397 of 2011, HB 72 (Budget Reconciliation and Financing Act).

Background: The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%. The sales and use tax is the State's second largest source of general fund revenue, accounting for \$4.1 billion in fiscal 2013 and \$4.3 billion in fiscal 2014, according to the December 2012 revenue forecast. The sales tax on rental vehicles is expected to generate \$54.4 million in total revenues in fiscal 2014. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

Exhibit 1 Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	6%
Maryland	6%
	9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia	5%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; 1% for food

State Fiscal Effect: The bill affects both general fund and special fund revenues beginning in fiscal 2014. General fund revenues decrease because motorcycle rentals are no longer subject to the 6% sales tax rate, and special fund revenues increase because motorcycle rentals are now subject to the special 11.5% sales tax rate imposed on rental vehicles. Special fund revenues also decrease because rental motorcycles are no longer subject to vehicle excise taxes.

The bill imposes the State's 11.5% sales tax rate on short-term vehicle rentals for the rental of motorcycles, rather than the 6% sales tax rate imposed under current law. As a result, general fund revenues decrease and Transportation Trust Fund and Chesapeake Bay 2010 Trust Fund revenues increase beginning in fiscal 2014. The amount of the revenue change depends on the number of motorcycles that are rented in Maryland each year and the taxable price of each rental.

Chapter 397 directs specified amounts (\$6.5 million in fiscal 2014 and \$3.0 million in fiscal 2015) of short-term vehicle rental revenues that would otherwise be split between the TTF and the Chesapeake Bay 2010 Trust Fund to the general fund; as such, the bill does not affect general fund revenues with regards to these distributions.

As a point of reference, for each \$100,000 in taxable motorcycle rentals, general fund revenues will decrease by \$6,000 and special fund revenues will increase by \$11,500.

In addition, by including motorcycles in the definition of rental vehicle for purposes of the motor vehicle law, motorcycles used as rentals are no longer subject to the motor vehicle excise tax because rental vehicles are exempt from that tax. The motor vehicle excise tax rate is 6% applied to the fair market value or purchase price of a vehicle, less an allowance for a trade-in vehicle, with a minimum of \$32. Vehicle excise tax revenues are deposited in the TTF. TTF revenues will decrease to the extent that rental motorcycles that would have previously been subject to the vehicle excise tax will no longer be subject to the tax.

As a point of reference, for every five motorcycles purchased as part of a rental fleet, with a taxable price of \$10,000 each, TTF revenues will decrease by \$3,000.

Additional Information

Prior Introductions: This bill was introduced as SB 1012 in the 2012 session. The Senate Budget and Taxation Committee took no action on the bill.

Cross File: HB 523 (Delegate Myers, *et al.*) - Environmental Matters.

Information Source(s): Comptroller's Office, Maryland Department of Transportation, Department of Legislative Services

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