

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 165 (Delegate Carr)
Ways and Means

Sales and Use Tax - Short-Term Vehicle Rentals - Rates

This bill sets the sales and use tax rates for all short-term vehicle rentals at 11% of the taxable price. Under current law, specified short-term passenger vehicle and truck rentals are taxed at a rate of 11.5% and 8%, respectively.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: Under one set of assumptions, Transportation Trust Fund (TTF) revenues decrease by \$48,800 in FY 2017 and by \$57,100 in FY 2021, and Chesapeake Bay 2010 Fund revenues decrease by \$64,600 in FY 2017 and \$75,600 in FY 2021. General fund expenditures for administrative costs in the Comptroller's Office increase by \$81,300 in FY 2017.

Local Effect: Under one set of assumptions, local highway user revenues (HUR) decrease by \$4,100 in FY 2017 and by \$4,700 in FY 2021. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: While the general sales and use tax is imposed on a bracket basis approximating 6%, an 11.5% tax 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, including trucks, tractors, and trailers, are taxed at 8.0%. Rental vehicles do not include dump trucks, tow trucks, or specified farm vehicles.

Background: The sales and use tax is the State’s second largest source of general fund revenue, accounting for approximately \$4.5 billion in fiscal 2016 and \$4.7 billion in fiscal 2017, according to the December 2015 revenue forecast. **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	5.75%; 10% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6%, 9% for alcoholic beverages
Pennsylvania	6%, plus 1% or 2% in certain local jurisdictions
Virginia*	5.3%, 2.5% for food; both rates include 1% for local jurisdictions
West Virginia	6%, plus 0.5% or 1% in certain municipalities

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region.

Revenues from the sales tax on short-term rental vehicles are not, however, distributed to the general fund. The Chesapeake Bay 2010 Trust Fund receives 55% of the tax revenues, and 45% is distributed to the Maryland Department of Transportation (MDOT). Of the portion MDOT receives, 80% goes to the Gasoline and Motor Vehicle Revenue Account where it is shared among MDOT, Baltimore City, counties, and municipalities as HUR. The remaining 20% goes to TTF. Total sales and use tax collections from rental vehicles are estimated at \$72.0 million in fiscal 2017, of which \$32.4 million will be distributed to MDOT and \$39.6 million will be distributed to the Chesapeake Bay 2010 Fund.

State Fiscal Effect: The bill alters the amount of special fund revenues distributed from the tax to TTF and the Chesapeake Bay 2010 Fund. The actual effect of the bill’s proposed tax rate changes cannot be precisely estimated, as the Comptroller’s Office only tracks the amount of sales tax that is remitted from all vehicle rentals and does not have a separate breakdown of revenues for passenger vehicle rentals and truck rentals. As such, it is

difficult to determine whether the rate changes proposed by the bill will result in an overall revenue decrease or revenue increase.

If it is assumed that the sales tax imposed on passenger vehicle rentals comprises 90% of total sales tax collections from all vehicle rentals and the sales tax from truck rentals comprises the other 10%, total special fund revenues will decrease by \$113,400 in fiscal 2017 and by \$132,700 in fiscal 2021. Based on these assumptions, TTF revenues decrease by \$48,800 in fiscal 2017 and by \$57,100 in fiscal 2021, with Chesapeake Bay 2010 Fund revenues decreasing by \$64,600 in fiscal 2017 and by \$75,600 in fiscal 2021.

To the extent that the distribution of rentals between passenger vehicles and trucks varies from the estimate, the effect on revenues will vary accordingly. For example, if the proportion of sales tax revenues from rental trucks is higher, the revenue loss could be mitigated and may even result in a revenue increase. If the proportion is lower than the estimate, the revenue loss will be greater.

The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2017 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Local Fiscal Effect: Based on the assumptions used above, local HUR decrease by \$4,100 in fiscal 2017 and by \$4,700 in fiscal 2021.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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