

**Department of Legislative Services**  
Maryland General Assembly  
2021 Session

**FISCAL AND POLICY NOTE**  
**First Reader - Revised**

Senate Bill 688

(Senator Hayes)

Budget and Taxation

**Sales and Use and Vehicle Excise Taxes – Peer-to-Peer Car Sharing and Short-Term Vehicle Rentals – Alterations and Distribution**

This bill extends the 8% State sales and use tax imposed on peer-to-peer car sharing beyond fiscal 2021 and reduces the sales and use tax imposed on short-term vehicle rentals from 11.5% to 8%. The bill also repeals the motor vehicle excise tax exemption for rental vehicles and requires that the additional revenue be distributed to the Historically Black Colleges and Universities Reserve Fund (HBCURF). **The bill takes effect June 1, 2021, with the tax rate changes taking effect July 1, 2021. The vehicle excise tax revenue distribution to HBCURF is contingent upon passage of SB1/HB 1 of 2021.**

**Fiscal Summary**

**State Effect:** State revenues increase by \$64.9 million in FY 2022 and by \$75.3 million in FY 2026. State expenditures increase by \$6.8 million in FY 2022 and decrease by \$0.8 million in FY 2026.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
SF Revenue	\$64.9	\$70.6	\$73.9	\$75.4	\$75.1
GF/SF Rev.	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
SF Expenditure	\$6.7	(\$1.0)	(\$1.1)	(\$0.8)	(\$0.8)
Net Effect	\$58.2	\$71.7	\$75.1	\$76.3	\$76.1

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** Local highway user revenues increase by \$6.7 million in FY 2022 and decrease by \$1.0 million in FY 2023 and by \$0.8 million annually beginning in FY 2025. Local expenditures are not affected.

**Small Business Effect:** Minimal.

## Analysis

### Current Law:

#### *Sales and Use Tax*

The State imposes an 11.5% sales and use tax on short-term rentals of passenger cars, multipurpose passenger vehicles, and motorcycles.

#### *Vehicle Excise Tax*

A motor vehicle excise (titling) tax of 6% is imposed on the sale of motor vehicles in lieu of the State sales and use tax. Rental vehicles are exempt from the motor vehicle excise tax.

#### *Peer-to-peer Car Sharing*

A peer-to-peer car sharing program is an online platform that connects vehicle owners with drivers to enable the sharing of motor vehicles for financial consideration. Chapter 852 of 2018 established a (1) regulatory framework for peer-to-peer car sharing in the State and (2) a sales and use tax rate of 8% for related sales and charges, which was to terminate June 30, 2020, reverting to the standard 6% rate. Chapter 567 of 2020 extended the termination date of the 8% tax rate through June 30, 2021.

**State Revenues:** State revenues will increase by approximately \$64.9 million in fiscal 2022 and by \$75.3 million in fiscal 2026. State sales tax revenues from short-term vehicle rentals decrease by \$20.1 million in fiscal 2022; while vehicle excise tax revenues increase by \$85.0 million in fiscal 2022. State sales tax revenues from peer-to-peer car sharing increase by \$0.1 million. **Exhibit 1** shows the net impact on State finances from the various tax provisions. **Exhibit 2** shows the net impact on State revenues by fund type.

**Exhibit 1**  
**Fiscal Impact of Legislative Changes**  
**Fiscal 2022-2026**  
**(\$ in Millions)**

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
<b>State Revenues</b>					
Peer-to-peer Car Sharing	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Short-term Vehicle Rentals	-20.1	-21.4	-22.1	-22.7	-23.3
Vehicle Excise Tax Exemptions	85.0	91.9	96.0	98.1	98.4
<b>Total Revenues</b>	<b>\$64.9</b>	<b>\$70.6</b>	<b>\$74.0</b>	<b>\$75.5</b>	<b>\$75.3</b>
<b>State Expenditures</b>					
Administrative Cost	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0
Local Transportation Grants	6.7	-1.0	-1.1	-0.8	-0.8
<b>Total Expenditures</b>	<b>\$6.8</b>	<b>-\$1.0</b>	<b>-\$1.1</b>	<b>-\$0.8</b>	<b>-\$0.8</b>
<b>Net Effect</b>	<b>\$58.2</b>	<b>\$71.7</b>	<b>\$75.1</b>	<b>\$76.3</b>	<b>\$76.1</b>

**Exhibit 2**  
**Revenue Impact by Fund Type**  
**Fiscal 2022-2026**  
**(\$ in Millions)**

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
GF/BMFF	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
TTF	75.9	-9.6	-9.9	-10.2	-10.5
CB 2010	-11.1	-11.7	-12.1	-12.5	-12.8
HBCURF	0.0	91.9	96.0	98.1	98.4
<b>Total Revenues</b>	<b>\$64.9</b>	<b>\$70.6</b>	<b>\$74.0</b>	<b>\$75.5</b>	<b>\$75.3</b>

BMFF: Blueprint for Maryland's Future Fund

CB 2010: Chesapeake and Atlantic Coastal Bays 2010 Trust Fund

GF: General Fund

HBCURF: Historically Black Colleges and Universities Reserve Fund

TTF: Transportation Trust Fund

### *Peer-to-peer Car Sharing*

Under current law, the sales tax rate on peer-to-peer car sharing will decline from 8% to 6% beginning in fiscal 2022. The State is estimated to collect approximately \$275,500 in State sales taxes from peer-to-peer car sharing in fiscal 2022 and \$353,600 in fiscal 2026. Pursuant to the bill, the sales and use tax rate on peer-to-peer car sharing will remain at 8%. Sales and use tax revenues from peer-to-peer car sharing are distributed between the general fund and the Blueprint for Maryland's Future Fund. As a result of the tax rate change, total sales and use tax revenues from peer-to-peer car sharing will increase by \$91,800 in fiscal 2022 and by \$117,900 in fiscal 2026.

### *Short-term Vehicle Rentals*

The State collected \$70.4 million from short-term vehicle rentals in fiscal 2020, with 55% of the revenues allocated to the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund and 45% to the Transportation Trust Fund (TTF). Pursuant to the bill, the State sales and use tax rate for short-term vehicle rentals will decrease from 11.5% to 8% beginning in fiscal 2022. As a result, State revenues will decrease by \$20.1 million in fiscal 2022 and by \$23.3 million in fiscal 2026.

### *Motor Vehicle Excise Tax Exemption*

The bill repeals an exemption from the vehicle excise tax for rental vehicles beginning in fiscal 2022 and requires that the additional revenues be distributed to HBCURF beginning in fiscal 2023. Based on the Department of Budget and Management *Tax Expenditure Report for FY 2020*, the motor vehicle excise tax exemption for rental vehicles will reduce State revenues by approximately \$84.4 million in fiscal 2020. As a result, it is estimated that repealing the exemption will increase State revenues by approximately \$85.0 million in fiscal 2022 and by \$98.4 million in fiscal 2026. The additional revenues will be distributed to the TTF in fiscal 2022 and to the HBCURF beginning in fiscal 2023.

**State Expenditures:** State expenditures will increase by \$6.8 million in fiscal 2022 due to administrative costs at the Comptroller's Office and for local transportation grants due to the increase in TTF revenues in that year. Beginning in fiscal 2023, State expenditures will decrease by approximately \$0.8 million due to a reduction in local transportation grants.

### *Administrative Costs*

The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2022 to notify the approximately 130,000 sales and use tax account holders of the sales tax rate changes.

### *Local Transportation Grants*

A portion of TTF revenues are used to provide capital transportation grants to local governments. Thus, any change in TTF revenues results in either an increase or decrease in TTF expenditures to local governments. Due to the anticipated change in TTF revenues, State expenditures for local transportation grants will increase by \$6.7 million in fiscal 2022 and decrease by \$1.0 million in fiscal 2023 and by \$0.8 million annually beginning in fiscal 2025.

**Local Fiscal Effect:** Local highway user revenues increase by \$6.7 million in fiscal 2022 and decrease by \$1.0 million in fiscal 2023 and by \$0.8 million annually beginning in fiscal 2025.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** HB 869 (Delegate Smith) - Ways and Means.

**Information Source(s):** Comptroller's Office; Department of Budget and Management; Department of Legislative Services

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Analysis by: Michael Sanelli

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510