



Study of Motor Vehicle and Motor Vehicle Rental Taxes

Annapolis, Maryland
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**Department of Legislative Services
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Annapolis, Maryland**

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Contributing Staff

Writers and Contributors

George H. Butler, Jr.
Richard L. Duncan, III
Matthew B. Jackson

Reviewer

Matthew J. Bennett

Support Staff

Katylee Cannon

For further information concerning this document contact:

Library and Information Services
Office of Policy Analysis
Department of Legislative Services
90 State Circle
Annapolis, Maryland 21401

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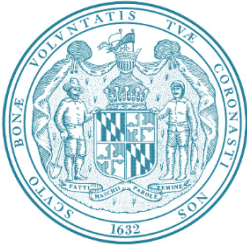
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF POLICY ANALYSIS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Ryan Bishop
Director

December 23, 2020

The Honorable Bill Ferguson, President of the Senate
The Honorable Adrienne A. Jones, Speaker of the House of Delegates
Members of the General Assembly

Ladies and Gentlemen:

Chapter 567 of 2020 required the Department of Legislative Services to report to the General Assembly following a study of excise titling taxes, motor vehicle fees, income taxes, and sales taxes relating to short-term vehicle rentals and peer-to-peer car sharing in Maryland and other states. This report supplements reports previously submitted by the Maryland Department of Transportation and the Office of the Comptroller in accordance with Chapter 852 of 2018.

The report provides an overview of the legislative history of the motor vehicle excise tax, certificate of title fees, motor vehicle registration fees, and the taxation of motor vehicle rentals in this State. In addition, the report provides an overview of states' sales and excise taxes imposed on the purchases of vehicles, states' taxes on short-term rentals of vehicles, and taxes on rentals of vehicles through car sharing networks.

We trust that this information is responsive to your request. If you have any questions regarding this report, please do not hesitate to contact us.

Sincerely,

Handwritten signature of Victoria L. Gruber in blue ink.

Victoria L. Gruber
Executive Director

Handwritten signature of Ryan Bishop in blue ink.

Ryan Bishop
Director

Legislative Services Building • 90 State Circle • Annapolis, Maryland 21401-1991
410-946-5500 • FAX 410-946-5508 • TDD 410-946-5501
301-970-5500 • FAX 301-970-5508 • TDD 301-970-5401
Other areas in Maryland 1-800-492-7122

Study of Motor Vehicle and Motor Vehicle Rental Taxes

Introduction

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. Peer-to-peer car sharing programs, such as Turo and Getaround, have grown more popular in the State and nationally as alternatives to traditional vehicle rentals from companies like Enterprise and Hertz.

Chapter 852 of 2018 established (1) a 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. For informational purposes, the tax rate for traditional vehicle rentals is currently 11.5%. Chapter 567 of 2020 extended the termination date of the 8% tax rate through June 30, 2021. In addition, Chapter 567 required the Department of Legislative Services (DLS) to study and report to the General Assembly by December 31, 2020, on:

- a comparison of excise titling taxes and other motor vehicle fees in the State relating to short-term vehicle rentals and peer-to-peer car sharing;
- a comparison of excise titling taxes and other motor vehicle fees relating to short-term vehicle rentals and peer-to-peer car sharing in other states;
- a comparison of taxation and other governmental fees in the State relating to short-term vehicle rental companies and peer-to-peer car sharing companies, including with regard to income tax and sales tax;
- a comparison of sales taxes imposed in other states on short-term vehicle rentals and on peer-to-peer car sharing;
- a comparison of taxation and other governmental fees relating to short-term vehicle rentals and peer-to-peer car sharing in other states; and
- any other information that DLS determines relevant to the identification and compilation of information that could assist the General Assembly in determining a fair and equitable State taxation on sales and charges made in connection with a shared motor vehicle used for peer-to-peer car sharing and made available on a peer-to-peer car sharing program.

Evolution of the Motor Vehicle Excise and Motor Vehicle Rental Taxes

Over the past four decades, the taxation of motor vehicle sales and rentals has undergone several significant changes. This section provides an overview of the legislative history of the motor vehicle excise tax, certificate of title fees, motor vehicle registration fees, and the taxation of motor vehicle rentals.

Certificate of Title Fees

Chapter 520 of 1927 established a general certificate of title fee at \$1; the fee remained unchanged until it was raised to \$2 by Chapter 556 of 1969. Chapter 698 of 1984 subsequently reduced the fee to \$1 until 1991, at which point Chapter 2 of the 1991 First Special Session removed the certificate of title fees from statute and authorized the Motor Vehicle Administration to establish the fees in regulation. Initially set at \$12, the fee for a certificate of title for a new vehicle increased over the subsequent decade to \$23. Chapter 6 of the 2007 Special Session recodified certificate of title fees, setting the general fee at \$50. Chapter 397 of 2011 raised that general fee to \$100. The Act also established a reduced certificate of title fee for rental vehicles of \$50; although originally subject to sunset, this \$50 fee was made permanent by Chapter 78 of 2015.

Motor Vehicle Excise Tax

Prior to 1978, the State imposed a 4% excise tax on motor vehicle purchases; in 1978, the rate was raised from 4% to 5%. That tax rate remained unchanged for nearly three decades. Chapter 6 increased the vehicle excise tax rate from 5% to 6% of the vehicle's purchase price or fair market value and allowed for a reduction in the amounts subject to the tax by 100% of the value of a trade-in.

Motor Vehicle Registration Fees

Chapter 93 of 1957 established motor vehicle registration fees for multiple classes of vehicles. Over the following decades, most notably in 1968 and 1987, subsequent legislation increased these registration fees and established fees for additional classes of vehicles. More recently, in response to underfunded capital transportation needs, the General Assembly raised State vehicle registration fees for the first time in 17 years. Chapter 9 of 2004 increased registration fees for all classes of vehicles. The biennial registration fee for a Class A passenger car or Class M vehicle (*e.g.*, minivans) increased from \$54 (excluding surcharges) to \$101. The biennial fee for heavier vehicles such as SUVs increased from \$81 (excluding surcharges) to \$153.

Taxation of Motor Vehicle Rentals

Prior to 1982, rental companies paid a 5% excise tax on motor vehicle purchases and collected the 5% sales tax on the rental services those companies provided. In 1982, the sales tax was increased to 8%, against which credits for the entire amount of the 5% excise tax could be applied. As the sales tax on motor vehicle rentals is often paid by nonresidents and rental car

customers are not assumed to respond much to price changes, the 8% sales tax was not expected to drastically affect the volume of vehicle rentals.

In 1992, the credit for titling taxes paid was repealed. Concern about the competitive position of Maryland-only rental firms relative to multistate companies as well as the increased tax burden imposed by the repeal of the credit led to the passage of Chapter 254 of 1993. The Act increased the sales tax on short-term rentals from 8% to 11.5%, applied the sales tax to all charges on a rental contract except fuel, and reinstated the credit for the excise taxes paid by rental firms. The Act was to sunset on June 30, 1995, but that sunset was subsequently extended until June 30, 1999.

Chapter 706 of 1998 revised the tax treatment of short-term rental vehicles in the State, effective July 1, 1999. The Act simplified the existing double taxation/credit system by exempting short-term rental vehicles from the motor vehicle excise tax. To offset the loss of revenue to the Transportation Trust Fund (TTF) that resulted from this exemption, the Act provided for a distribution to the TTF of 45% of the sales and use tax collected on short-term rental vehicles with 80% of that amount going to the Gasoline and Motor Vehicle Revenue Account. The Act repealed the credit provision under the sales and use tax and made permanent the 11.5% sales and use tax rate applicable to short-term rentals of passenger cars and multipurpose vehicles.

Chapter 430 of 2004 (the Budget Reconciliation and Financing Act (BRFA)) exempted rental vehicles from the increases to motor vehicle registration fees imposed by Chapter 9.

Chapter 6 redirected the 55% of revenues from the sales and use tax on short-term vehicle rentals that would otherwise have been credited to the General Fund to the Chesapeake Bay Trust Fund instead.

Chapters 483 and 484 of 2013 expanded the definition of “short-term vehicle rental” for purposes of the sales and use tax to include motorcycle rentals so that those rentals are subject to the 11.5% sales tax rate applicable to short-term vehicle rentals. The Acts also included motorcycles in the definition of “rental vehicle” for purposes of the motor vehicle law, which in turn exempted motorcycles used for rentals from the motor vehicle excise tax, and specified that rental motorcycles are subject to a \$35 annual vehicle registration fee.

Chapter 852 established the regulatory framework for peer-to-peer car sharing programs in the State. A peer-to-peer car sharing program is a platform that is in the business of connecting vehicle owners with drivers to enable the sharing of motor vehicles for financial consideration. The Act also imposed a sales and use tax rate of 8% for sales and charges related to peer-to-peer car sharing for two years only, terminating June 30, 2020. Chapter 567 extended the 8% tax rate for an additional year.

Comparison of States' Taxation of Motor Vehicle Purchases and Rentals

As with other areas of taxation, the taxation of motor vehicle purchases and rentals varies across the nation. This section provides an overview of states' sales and excise taxes imposed on the purchases of vehicles, states' taxes on short-term rentals of vehicles, and taxes on rentals of vehicles through car sharing networks.

Taxation of Motor Vehicle Purchases

The primary method of motor vehicle taxation for most states is the sales and excise tax imposed on vehicle purchases, although multiple states permit local jurisdictions to impose additional taxes or surcharges as well. **Exhibit 1** provides detail on states' sales and excise taxes. Generally, these tax rates average approximately 5% of a vehicle's price or value. Three states – Alaska, Montana, and New Hampshire – do not impose sales or excise taxes on the purchase of vehicles. Oregon imposes a 0.5% vehicle privilege tax or vehicle use tax. In several states, the sales or excise tax imposed depends on the motor vehicle's weight or purchase price. South Carolina and Vermont cap the amount of tax due at \$500 and \$2,075, respectively.

Exhibit 1 Sales or Excise Taxes Imposed on Purchase of Motor Vehicle July 2020

<u>State</u>	<u>Sales or Excise Tax Imposed on Purchase of Motor Vehicle</u>
Alabama	2.0%
Alaska	None
Arizona	5.6%
Arkansas	6.5%
California	7.25%
Colorado	2.9%
Connecticut	6.35%
	7.75% on motor vehicles that cost more than \$50,000 (with certain exceptions)
Delaware	4.25% (motor vehicle document fee)
District of Columbia	6.0% to 8.0%, dependent on weight
Florida	6.0%
Georgia	6.6% (title ad valorem tax)
Hawaii	4.0% (general excise tax)
Idaho	6.0%
Illinois	6.25%
Indiana	7.0%
Iowa	5.0% (one-time registration fee)

<u>State</u>	<u>Sales or Excise Tax Imposed on Purchase of Motor Vehicle</u>
Kansas	6.5%
Kentucky	6.0% (motor vehicle usage tax)
Louisiana	4.45%
Maine	5.5%
Maryland	6.0% (excise tax)
Massachusetts	6.25%
Michigan	6.0%
Minnesota	6.5% (excise tax)
Mississippi	5.0%
Missouri	4.225%
Montana	None
Nebraska	5.5%
Nevada	6.85%
New Hampshire	None
New Jersey	6.625%
New Mexico	4.0% (excise tax)
New York	4.0%
North Carolina	3% (highway use tax), not to exceed \$2,000 for commercial vehicles
North Dakota	5.0% (excise tax)
Ohio	5.75%
Oklahoma	1.25% sales tax and 3.25% excise tax (new vehicles) or \$20 on the first \$1,500 of value and 3.25% of the remainder (used vehicles)
Oregon	0.5% (vehicle privilege tax or vehicle use tax)
Pennsylvania	6.0%
Rhode Island	7.0%
South Carolina	5.0%, not to exceed \$500 (infrastructure maintenance fee)
South Dakota	4% (excise tax)
Tennessee	7.0%
Texas	6.25%
Utah	4.85%
Vermont	6%, not exceeding \$2,075 (motor vehicle purchase and use tax)
Virginia	4.15%
Washington	6.5%
West Virginia	5.0%
Wisconsin	5.0%
Wyoming	4.0%

Source: The Tax Foundation; Department of Legislative Services

In addition, a state may have other registration fees or taxes that apply to a motor vehicle purchase; for example, Montana imposes a personal property tax on motor vehicles. Lastly, several states exempt vehicles purchased by a licensed motor vehicle carrier from these sales or excise taxes if those vehicles will be used as rental vehicles. North Carolina permits such retailers to elect not to pay its 3% highway use tax when applying for a certificate of title for a motor vehicle purchased for lease or rental and instead pay the tax on the gross receipts of the lease or rental of the vehicle.

Taxation of Motor Vehicle Rentals

Even though every state and the District of Columbia imposes a tax on traditional motor vehicle rentals, DLS could only identify 11 states (including Maryland) that explicitly impose a tax on rentals through car sharing networks. These states either provide guidance regarding the taxation of car sharing network rentals or enacted legislation that clearly imposes the tax.

Exhibit 2 details states' taxes on short-term rentals of motor vehicles. These tax rates vary considerably. For states that impose a tax on short-term rentals, excluding daily surcharges, the combined state tax rates range from 1.9914% (Delaware) to 16.85% (Nevada) and average approximately 8.6% of rental cost. It is important to note that a majority of states permit local jurisdictions to impose additional taxes or surcharges, such as airport fees; consequently, the fees described in Exhibit 2 may not reflect the total taxes imposed on short-term vehicle rentals. Several states, such as Nebraska, South Carolina, and Wyoming, permit rental companies to retain certain fees in order to offset costs associated with licensing and registering rental vehicles; similarly, Connecticut permits rental companies to charge individually itemized charges or fees on rentals for periods of less than 31 days.

Exhibit 2
Taxes on Short-term Rental of Motor Vehicles
July 2020

<u>State</u>	<u>State Taxes on Short-term Rental of Motor Vehicle</u>
Alabama	1.5% rental tax and 4% sales tax
Alaska	10.0% rental tax
Arizona	5.0% surcharge and 5.6% sales tax
Arkansas	10.0% rental tax and 6.5% sales tax
California	7.25% sales tax
Colorado	2.9% sales tax and \$2 per day fee
Connecticut	9.35% sales tax and \$1 tourism surcharge; in addition, rental companies have the option to charge individually itemized charges or fees (<i>e.g.</i> , cost recovery fee, airport access fee, airport concession fee) on rentals for a period of less than 31 days
Delaware	1.9914% use tax
District of Columbia	10.25% rental tax
Florida	6.0% sales tax and \$2 per day surcharge for first 30 days
Georgia	4.0% sales tax
Hawaii	4.0% general excise tax and \$3 per day surcharge with a valid Hawaii driver's license/\$5 per day without
Idaho	6.0% sales tax
Illinois	5.0% automobile renting use tax
Indiana	4.0% rental excise tax and 7.0% sales tax
Iowa	5.0% rental excise tax and 6.0% sales tax
Kansas	3.5% rental excise tax and 6.5% retailers' sales tax
Kentucky	6.0% U-Drive-It tax
Louisiana	2.5% state, 0.5% local rental tax, and 4.45% sales tax
Maine	10.0% sales tax
Maryland	11.5% sales tax
Massachusetts	6.25% sales tax and \$2 surcharge
Michigan	6.0% sales tax
Minnesota	9.2% sales tax plus 5.0% fee
Mississippi	5.0% sales tax plus 6.0% rental tax
Missouri	4.225% use tax and 4.225% sales tax ¹
Montana	4.0% rental tax
Nebraska	5.5% sales tax and 5.75% rental fee ²
Nevada	6.85% sales tax and 10.0% government service fee
New Hampshire	9.0% rental tax

<u>State</u>	<u>State Taxes on Short-term Rental of Motor Vehicle</u>
New Jersey	6.625% sales tax and \$5 per day domestic security fee
New Mexico	5.0% leased vehicle gross receipts tax, \$2 per day surcharge, and 5.125% gross receipts tax
New York	4.0% sales tax and 6.0% special tax
North Carolina	4.75% sales tax and 8.0% gross receipts tax
North Dakota	5.0% sales tax and 3.0% surcharge
Ohio	5.75% sales tax
Oklahoma	4.5% sales tax and 6.0% rental tax
Oregon	None
Pennsylvania	6.0% sales tax, 2.0% rental tax, and \$2 per day rental fee
Rhode Island	7.0% sales tax and 8.0% rental surcharge
South Carolina	6.0% sales tax and additional vehicle license fee (calculated by dealer to recover its actual total annual recoverable costs associated with licensing and registering the vehicle)
South Dakota	4.5% sales tax, 4.5% rental excise tax, and 1.5% tourism tax
Tennessee	7.0% sales tax and 3.0% rental surcharge
Texas	6.25% sales tax and 10.0% rental surcharge
Utah	4.85% sales tax and 2.5% rental tax
Vermont	9.0% motor vehicle purchase and use tax
Virginia	4.0% rental tax, 4.0% local tax, and 2.0% rental fee
Washington	6.5% sales tax and 5.9% rental tax
West Virginia	6.0% sales tax and \$1 to \$1.50 per day surcharge
Wisconsin	5.0% sales tax and 5.0% rental tax
Wyoming	4.0% sales tax and 4.0% rental surcharge ³

¹ A person or company that is engaged in the business of renting or leasing motor vehicles in the state of Missouri and that has been approved by the Director of Revenue to operate as a leasing or rental company has the option of paying the motor vehicle sales tax due either at the time of registration or on each rental and lease payment while the property is domiciled in Missouri.

² The fee is retained by the vehicle owner or rental company and must be used as reimbursement for the motor vehicle taxes and fees paid by them on vehicles they own. Any amount of the collected fees that exceeds the amount of motor vehicle taxes paid in the preceding calendar year must be remitted to the county treasurer on February 15 of each year.

³ The surcharge may be retained by the rental vehicle agency as reimbursement for any registration fees paid on the rental vehicles.

Exhibit 3 provides an overview of taxes imposed by several states on the rentals of motor vehicles through car sharing networks. It is important to note that this exhibit is not exhaustive. In addition, as with short-term rentals of motor vehicles, local jurisdictions may impose additional taxes or surcharges, and the fees described in Exhibit 3 may not reflect the total taxes imposed on rentals of motor vehicles through car sharing networks. As the exhibit indicates:

- multiple states, including Alaska, Colorado, Minnesota, New Mexico, North Carolina, and Ohio, tax short-term rentals of motor vehicles and rentals of motor vehicles through car sharing networks *identically*;
- Hawaii imposes taxes on rentals of motor vehicles through car sharing networks similar to those imposed on short-term rentals of motor vehicles but imposes an hourly rental fee for rentals less than six hours; rentals for six hours or more are subject to the same \$3 per day surcharge imposed on short-term rentals;
- Maryland imposes an 8% sales and use tax on sales and charges made in connection with a shared motor vehicle used for peer-to-peer car sharing and made available on a peer-to-peer car sharing program, as compared to the 11% sales and use tax rate imposed on short-term rentals of passenger cars, multipurpose passenger vehicles, and motorcycles; and
- Virginia imposes a 6.5% gross proceeds tax (to be increased to 7% effective July 1, 2021) on rentals of motor vehicles through car sharing networks if the shared vehicle owner registers no more than 10 different shared vehicles on any combination of peer-to-peer vehicle sharing platforms at any one time; if the shared vehicle owner registers vehicles in excess of that number, the taxes otherwise due on the rental of a vehicle apply.

Exhibit 3
Taxes on Rental through Car Sharing Network
July 2020

<u>State</u>	<u>State Taxes on Rental Through Car Sharing Network</u>
Alaska	10.0% rental tax
Colorado	2.9% sales tax and \$2 per day fee
Hawaii	4.0% GET and (1) for rentals less than 6 hours, \$.25 per half hour surcharge or (2) for rentals of 6 hours or more, \$3 per day surcharge with a valid Hawaii driver's license/\$5 per day without
Indiana	7.0% sales tax and 2.0% vehicle sharing excise tax
Maryland	8.0% sales tax
Minnesota	9.2% sales tax + 5% fee
New Mexico	5.0% leased vehicle gross receipts tax, \$2 per day surcharge, and 5.125% gross receipts tax
North Carolina	4.75% sales tax and 8.0% gross receipts tax
Ohio	5.75% sales tax
Virginia	July 1, 2020 to June 30, 2021: 6.5% gross proceeds tax Beginning July 1, 2021: 7.0% gross proceeds tax
West Virginia	6.0% use tax

Source: Department of Legislative Services; The Tax Foundation

Income Tax Reporting Requirements for Car Sharing Network Vehicle Owners

In its December 2019 report on car sharing networks, the Office of the Comptroller discussed concerns that the income of vehicle owners participating in car sharing networks would fall significantly short of standard income reporting thresholds (at least 200 transactions and \$20,000 of gross income paid to the owner of a vehicle in a calendar year) and not be tracked appropriately. Vermont and Massachusetts addressed similar concerns by issuing legal guidance to car sharing network companies that require the “third party settlement organization” transactions to be reported to the states following the lower threshold of \$600 in total transactions.

Chapter 538 of 2020 (BRFA) requires certain payees and third-party settlement organizations that must submit 1099-K statements to annually report the amount of gross payments received during the taxable year to the Comptroller and the payment recipient if the amount exceeds \$600. The 1099-K is an information return that reports the gross amount of all reportable transactions during the calendar year that a person receives from payment card transactions and/or third-party network transactions if the gross payments are in excess of \$20,000 and

200 transactions. The 1099-K return is typically sent to persons engaged in “gig economy” activities such as ridesharing, nontransportation services, online sales, and short-term property rentals. Chapter 538 adopted the payment threshold of \$600 required under federal law under form 1099-MISC, which generally applies to payments made to nonemployees such as general contractors.

Conclusion

As noted earlier in this report, the taxation of purchases of vehicles, short-term rentals of vehicles, and rentals of vehicles through car sharing networks varies considerably across the nation. Multiple questions remain as to how Maryland might move forward with the taxation of rentals through car sharing networks. Most notably, there are questions concerning the revenue effects of modifying the various taxes surrounding peer-to-peer car sharing. Any such revenue effect depends wholly on the actual taxes collected by the Comptroller’s Office, which were not available at the time of publication of this report. However, DLS does not anticipate any significant overall revenue impact from the modification of these taxes since peer-to-peer car sharing is a relatively small industry in the State.