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FISCAL IMPACT REPORT

SPONSOR Rehm **ORIGINAL DATE** 2/18/09
LAST UPDATED _____ **HB** 682
SHORT TITLE Motor Vehicle Tax as Actual Price Paid **SB** _____
ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	(\$12,001.3)	(\$12,001.3)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to HB649

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department, Motor Vehicle Division (TRD, MVD)

SUMMARY

Synopsis of Bill

House Bill 682 amends Section 7-14-4 NMSA 1978 restricting the motor vehicle excise tax to actual price paid thereby removing the provision that allows motor vehicle excise tax to be applied to the reasonable value of a vehicle when the price paid does not reflect the true value.

Because no effective date is provided in the bill, its provisions will become effective June 19, 2009, ninety (90) days after the 2009 legislative session adjourns.

FISCAL IMPLICATIONS

According to the MVD, in FY08 there were 106,000 sales transactions of vehicles where the price of the vehicle sold was listed as \$0. For this fiscal impact, it is assumed that 75%, or 79,500, of those transactions were understated. The average declared price for a vehicle in FY08 was \$5,032. Multiplying that average price by 79,500 vehicles gives a total understated vehicle value of \$400 million. This understated value multiplied by the 3% motor vehicle excise tax rate gives you a loss of \$12 million in excise tax for FY08. This analysis assumes that the average cost per declared vehicle stays flat over the next five years. All revenue from this tax is distributed to the general fund.

SIGNIFICANT ISSUES

HM35 (2007 session) had Cambridge Systematics, Inc. prepare a final report regarding transportation and its funding in New Mexico. This report noted that the majority of states that assess a motor vehicle excise tax (MVET) treat it as a property tax imposed annually at the original or renewal vehicle registration. However, New Mexico and eight other states administer the tax as a sales tax imposed at the moment the vehicle is sold/traded.

Motor Vehicle Excise Tax: Sales vs. Property Tax

Sales tax	KY, MD, MT, NC, ND, NM, OK, TX, WV
Property Tax	AZ, CA, IN, IA, KS, LA, ME, MA, MI, MN, MS, NE, NV, RI, SC, SD, VT, VA, WA

Source: Cambridge Systematics, Inc., and Motor Vehicle Excise Tax Study, Washington State Joint Transportation Committee, 2006.

For those states that treat the MVET as a sales tax, most of the states assess vehicle value for either new or used cars based on a motor vehicle value guidebook or on the manufacturer's suggested retail price. Only Oklahoma and New Mexico establish their assessments based on the retail price claimed by the buyers. However, Oklahoma imposes some enforcement methods to reduce tax evasion such as requiring buyers of new vehicles to present a copy of the contract or purchase of agreement and used vehicles buyers are required to present a notarized declaration of the purchase price.

Beginning January 1, 2009, MVD started enforcing the provision in statute allowing MVD to use the National Automobile Dealership Association (NADA) average trade-in or wholesale value as the value to tax if the stated sales price was exceptionally low (Section 7-14.4 NMSA 1978 and 3.11.4.14 NMAC). This new enforcement was projected to increase revenue by \$5.9 million in FY09 and \$11.8 million in FY10. This bill would effectively negate that enforcement.

RELATIONSHIP

This bill relates to HB649 which increases the motor vehicle excise tax to 4% and creates a "state transit fund".

BLG/mt

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc