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FISCAL IMPACT REPORT

SPONSOR Rawson DATE TYPED 2/13/04 HB _____
 SHORT TITLE Value Standard for Motor Vehicle Tax SB 237a/SFC
 ANALYST Reynolds-Forte

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	\$9,600.0	\$10,000.0	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Response Received From
 Taxation and Revenue Department

SUMMARY

Synopsis of SFC Amendment/Senate Bill 237

The Senate Finance Committee Amendment to Senate Bill 237 establishes a standard for determining the value of a vehicle for purposes of calculating the motor vehicle excise tax. The value of the vehicle, to which the three percent motor vehicle excise tax will be applied is the higher of either the actual price paid for the vehicle as reported by the taxpayer, or 75% of the average trade-in value of the vehicle at the place of sale as determined by the national automobile dealers association. An allowance is granted for a trade-in vehicle which may be deducted from the value of the vehicle.

The amendment provides that the Taxation and Revenue Department may, by regulation, adopt an equivalent standard based on other widely available resources.

FISCAL IMPLICATIONS

The Taxation and Revenue Department calculated that the average value reported on used vehicles not sold by dealers would increase by twelve hundred dollars per vehicle (\$1200). There are approximately 266 thousand vehicles sold each year; this would provide \$9.6 million of additional motor vehicle excise tax revenue annually.

ADMINISTRATIVE IMPLICATIONS

The Taxation and Revenue Department Motor Vehicle Division would be impacted. The Motor Vehicle Division Clerks will be required to determine the vehicle value upon which the tax would be paid when the client comes into the office. This will mean training for the clerks and changes to the information technology systems to implement a system to calculate the vehicle value. The Department will be required to make system changes and train not only their own staff but also the fee agents, both municipal and private.

The Taxation and Revenue Department does not believe they could be ready to implement this change by July 1, 2004 which is the effective date of the bill. The training and system changes could be complete by January 1, 2005.

TECHNICAL ISSUES

The Taxation and Revenue Department recommends changing the effective date to January 1, 2005.

Synopsis of Original Bill

Senate Bill 237 establishes a standard for determining the reasonable value of a vehicle for purposes of calculating the motor vehicle excise tax. In the absence of any special factors, the reasonable value will not be less than the average trade-in value for the vehicle at the place of sale as determined by the National Automobile Dealers Association (NADA). Special factors include whether the transaction is a transfer among immediate family members, whether the vehicle is a salvage vehicle and any other factors the department may identify by regulation.

FISCAL IMPLICATIONS

The Taxation and Revenue Department believes that receipt of revenue from this proposal is highly uncertain. Vehicle registration statistics for FY 2003 indicate that the average non-dealer vehicle sales price was significantly lower than the average dealer used car sales price (adjusted for retail markup). It appears, therefore, this bill offers the potential for a significant increase in motor vehicle excise tax revenue. The Taxation and Revenue Department estimates there could be potential for up to \$1 million of increased revenue related to this bill. However, the Department does note that other states who have implemented similar proposals report the actual revenue increase was far below the amount expected. Revenue potential is limited because the tax can be avoided if a seller declares that the transaction is a "transfer among immediate family members". MVD clerks will have no reliable means of challenging such an assertion.

