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FISCAL IMPACT REPORT

ORIGINAL DATE 02/15/11

SPONSOR Fischmann LAST UPDATED _____ HB _____

SHORT TITLE Motor Excise Tax Increase & Offset SB 244

ANALYST Burrows

Revenue (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	\$39,750	\$50,140.0	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total	\$58.0	\$0.0	\$0.0	\$58.0	Nonrecurring	TRD Operating Budget

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Taxation and Revenue (TRD)

Responses Not Received From

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 244 proposes to increase the motor vehicle excise tax from 3 percent of the price paid to 3 percent of the price paid on the first \$10,000 of value and 5 percent of the price paid on values above \$10,000. The bill also proposes to phase out the trade-in deduction from taxable value over a period of three years.

The effective date of the provisions of this bill is July 1, 2011.

FISCAL IMPLICATIONS

TRD reports the revenue estimate was calculated using average vehicle price and trade-in values for six classes of vehicles extracted from the FY10 motor vehicle excise file. The six classes included vehicles with a pre-trade-in price of: 1) under \$10,000; 2) \$10,001 to \$15,000; 3) \$15,001 to \$20,000; 4) \$20,001 to \$25,000; 5) \$25,001 to \$30,000; and 6) over \$30,000. Amounts were further scaled to the revenue trends shown in the December 2010 general fund revenue forecast.

According to TRD, the tax increase for individuals purchasing a vehicle is difficult to evaluate since each will have a different trade-in situation, however, the average numbers shown in the table below illustrates the average impact for various classes of vehicles.

Vehicle Price Class (pre-trade-in price)	Average Vehicle Price (before trade-in)	Current Average Taxable value (after trade-in)	Current MVX Tax (FY2011)	Proposed MVX Tax (FY2012)	Proposed MVX Tax (FY2013)	Proposed MVX Tax (FY2014)
Up to \$10,000	\$2,953	\$2,889	\$87	\$87	\$88	\$89
\$10,001 to \$15,000	\$12,711	\$11,967	\$359	\$411	\$423	\$436
\$15,001 to \$20,000	\$17,588	\$16,092	\$483	\$629	\$655	\$679
\$20,001 to \$25,000	\$22,585	\$20,171	\$605	\$848	\$889	\$929
\$25,001 to \$30,000	\$27,470	\$24,079	\$722	\$1,060	\$1,118	\$1,174
Over \$30,000	\$43,398	\$37,499	\$1,125	\$1,772	\$1,873	\$1,970

SIGNIFICANT ISSUES

The motor vehicle excise tax is considered a stable revenue source with built in growth since the tax is computed based on generally increasing MSRP valuation. This growth is compounded with a stable upward trend in the number of vehicles registered annually.

TRD reports the elimination of the trade-in allowance for vehicle purchases could result in some restructuring of the used vehicle market. There may be a slightly increased incentive for people to sell their old vehicle themselves, rather than trading-in the old vehicle on a new one.

Moreover, the increased tax rate for taxable value above \$10,000 could create incentive to purchase lower priced vehicles, and thus negatively impact the new-car industry.

TRD reports programming changes would be needed in SAMBA (the title and dealer software), and such changes have been difficult to implement quickly. Implementation of this bill will have a high impact for the Information Technology Division (ITD), including MVD 2.0 Vehicles (520 hrs), Mainframe Batch (300 hrs), Mainframe MVRO (240 hrs), and User Acceptance Testing (100 hrs), for a total of 1,160 hours at \$50 per hour or a one-time cost of \$58,000.

TECHNICAL ISSUES

According to TRD, Section 7-14-4C provides for different allowances for trade-in values. The existing regulation for that issue, Regulation 3.11.4.13 NMAC, will need to be amended.

TRD also reports that due to time and resource constraints, the July 1, 2011 deadline will be difficult to meet. The Department requests that the effective date be changed to January 1, 2012.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The motor vehicle excise tax will remain at 3 percent of taxable value, and trade-in value will continue to be 100 percent deductible from taxable value.

LKB/bym

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