



FISCAL RESEARCH CENTER

ANALYSIS AND RECOMMENDATIONS FOR THE PROPERTY TAX ON MOTOR VEHICLES IN GEORGIA

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Analysis and Recommendations for the Property Tax On Motor Vehicles in Georgia

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Analysis and Recommendations for the Property Tax On Motor Vehicles in Georgia

Executive Summary

Nothing excites Americans like taxes and automobiles. Thus, it is hard to imagine a more potent tax proposal than one that lowers the tax on automobiles. Over the past several months, there has been renewed interest by citizens and legislators in Georgia in the idea of reducing the property tax levied on motor vehicles. In 1998, legislatures in four states (Virginia, South Carolina, California, and Missouri) proposed bills that would, over time, eliminate or reduce the property tax on motor vehicles in those states. With vehicle ownership so widespread, this is an appealing idea from which most citizens can benefit.

Georgia Proposal to Eliminate the Motor Vehicle Property Tax

Recently, a proposal, HB 585, has been advanced by members of the Georgia General Assembly that eliminates the property tax on motor vehicles. The proposal phases out the property tax paid by all noncommercial motor vehicle owners over a three-year period. The motor vehicle exemption applies to all school, county, state, and municipal property taxes. The proposal provides that the state reimburse the local governments for lost revenue by transferring funds on a monthly basis to the respective local governments. Reimbursements are to be equal to the full amount taxpayers would have paid in the absence of this legislation.

The legislation includes a provision to cover circumstances in which insufficient funds may exist in the state budget to cover the cost of the reimbursements to the local governments. Under this situation the legislation allows for funds to be diverted from other programs to cover the cost of reimbursements. Alternatively, the legislation allows for a reduction in the amount of the exemption level.

Issues Associated with the Motor Vehicle Property Tax

- Part of what is disliked about the motor vehicle property tax is that property taxes are taxes on a stock of wealth instead of a stream of income. Therefore, an asset may have a positive value, such as a house or car, but creates no income from which to pay the annual property tax.

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- Another source of ire with the motor vehicle property tax is that it is due in its entirety on the vehicle owner's birthday. This can cause a cash flow problem for taxpayers who have more than one vehicle registered under their name. This administrative issue could be addressed by collecting the tax on the anniversary of the vehicle purchase.
- Exempting all motor vehicles from the property tax base creates some additional avenues for avoiding the tax. Recreational vehicles that also serve as primary and secondary homes would no longer be subject to tax but permanent structures serving in this same purpose would. Modifying the law to only exempt vehicles under a certain weight or those without sleeping facilities would easily address this issue.

Revenue Effect of Reducing the Motor Vehicle Property Tax

An estimate of the revenue loss associated with various exemption levels is shown in Table A. The revenue estimate assumes the exemption only applies to personal-use vehicles. Furthermore, the estimate provided below is tentative in that it is based on a state-wide average property tax of 28.47 mills that existed in 2004.^A It is assumed that the state would fully reimburse the local governments for lost revenue.

TABLE A. REVENUE EFFECT OF MOTOR VEHICLE PROPERTY TAX EXEMPTION FOR 2004 (\$ IN MILLIONS)

Exemption Level	Revenue Loss to State	Revenue Loss to Local Gov't	Total Revenue Loss	Reimbursement as a percent of Total Net State Revenue Collections
\$10,000	\$2.1	\$240	\$243	1.8%
\$15,000	\$2.4	\$270	\$273	2.0%
\$20,000	\$2.5	\$288	\$290	2.1%
100 percent of vehicle value	\$2.7	\$308	\$311	2.3%

The revenue effect consists of two pieces. The first is the direct loss in revenues to the state from a reduction in the state property tax base. The second revenue loss is the loss to the local governments. This is the value of the state

^A A formal revenue estimate of this proposal would incorporate the actual millage rates of the taxing districts.

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reimbursement to the localities. The last column represents the size of the state reimbursements to localities relative to the size of net state revenue collections. It is estimated that eliminating the tax on vehicle values of \$20,000 or less would completely exempt about 96 percent of the vehicle stock from the property tax. A \$10,000 cap would exempt about 88 percent of the vehicle stock.

Table B shows the distributional effect of eliminating the property tax on motor vehicles under three alternatives. The data in Table B reflects the total tax savings per family over all personal vehicles. The lowest income groups experience the greatest gain when expressed as a percent of income. On the other hand, the average tax savings increases with income, reflecting both the consumption of higher-end vehicles and of a larger number of vehicles as income increases.

TABLE B. DISTRIBUTIONAL EFFECT OF MODIFYING THE MOTOR VEHICLE PROPERTY TAX

Income Category	-----Amount of Motor Vehicle Value Exempted-----					
	-----\$10,000-----		-----\$20,000-----		Complete Exemption-----	
	As a %		As a %		As a %	
	Average Tax Savings	of Total Income	Average Tax Savings	of Total Income	Average Tax Savings	of Total Income
Less than \$25,000	\$78	0.7%	\$90	0.8%	\$92	0.9%
\$25,000<=Income< \$50,000	\$115	0.3%	\$143	0.4%	\$149	0.4%
\$50,000<=Income<\$75,000	\$162	0.3%	\$214	0.4%	\$229	0.4%
\$75,000<=Income<\$100,000	\$186	0.2%	\$258	0.3%	\$278	0.3%
\$100,000<=Income<\$150,000	\$202	0.2%	\$296	0.2%	\$336	0.3%
\$150,000<=Income	\$228	0.1%	\$359	0.1%	\$486*	0.2%*

Source: Calculations are based on 2005 Consumer Expenditure Survey. * Because the values for income and vehicle value are top-coded in the dataset, this result understates the average tax savings and tax savings as a percent of total income for individuals in this income category.

Recommendations

- From an economic standpoint, the preferred choice is to eliminate the many exemptions to the property tax base and by doing so, expand the base and allow property tax rates to be reduced for all types of property and all owners. Limiting the exemption to personal-use motor vehicles only lowers the value of the remaining base and forces the state to seek other sources of revenue.
- If the decision is made to go forward with property tax relief, then this proposal should be considered in tandem with the existing Homeowner Tax Relief Credit (HTRC) program. That is, this proposal should be viewed as an

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extension of the original HTRC. Designed in the same manner, both programs provide relief from state, local, and school property taxes. As such, these programs will be competing for the same state resources to fund their reimbursement obligations to the local governments. Increasing the exemption of one program will reduce the likelihood of an increase in the exemption of the other.

- With that tradeoff in mind, lawmakers should focus on their desired goal of property tax relief. Offering property tax relief through an exemption in the motor vehicle tax base affects a larger population and is more progressive than tax relief provided through the HTRC. This is because the ownership of motor vehicles is more wide-spread and less concentrated among higher-income individuals relative to property ownership. On the other hand, taxpayer relief may not be as important in the case of a depreciating asset, such as motor vehicles. If this is the case, then state resources should be targeted to increasing the exemption granted under the HTRC program.
- Based on a review of the experiences of other states, it seems clear that the state's annual obligation to the local governments should be predictable and limited. To this end, provisions in the legislation that cap the exemption amount, freeze the local government millage rates that are used to determine the amount of state reimbursement, or permanently set the reimbursement amount will create more manageable, less volatile and burdensome obligations for the state.
- To increase the progressive nature of this tax provision and limit the revenue effect to the state, exemptions could be granted only up to some specified amount. Approximately 96 percent of all vehicles registered in Georgia would be completely exempt from the motor vehicle property tax with a \$20,000 exemption cap. Allowing an exemption up to some level of value benefits all vehicle owners, but concentrates the benefits on relatively lower-income individuals. While the revenue loss may not be particularly large, allowing a complete exemption of all personal-use vehicles creates some very large gains for a select number of luxury vehicle consumers.
- In addition, a proposal that only eliminates the tax on personal-use vehicles creates a need to clearly define what is meant by personal-use, especially in the case of mixed-use vehicles, and have in place a procedure for preventing tax avoidance. This is probably best done by a sharing of information between the federal government and the state government. This will prevent taxpayers from claiming a vehicle as business property on the federal return and as personal-use vehicle at the state and local level. Furthermore, if the reimbursement process involves sending checks directly to the individuals, the state government would need to annually send a 1099 statement to the federal government for each check received by all vehicle owners in the state.

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- Legislation in this area needs to clearly specify the conditions under which the state reimbursements cease or are curtailed. Several states have legislation stipulating that reimbursements are to cease or be restricted when there are insufficient funds to cover the state obligation. In order for this type of language to be effective, a list of state priorities including the reimbursements to localities for this lost revenue must also be available. Without an understanding of the relative position of this state obligation compared to others, it will be difficult to determine when the state has adequate revenues for this program or if other state funding obligations should be cut instead.
- Including explicit procedures in the legislation to cover situations in which state motor vehicle property tax reimbursements are in jeopardy is critical. Tying actions to a slower than anticipated growth in tax receipts or larger than anticipated revenue effect to the state budget provides some guidance. But even in this case, it is not clear whether the exemption level should be reduced, or if so, by how much. One alternative would be to limit this obligation to a fixed amount or fixed percentage of the state own-source revenues. It should also be made clear whether or not this limit applies solely to the reimbursements for the motor vehicle property tax revenues or is also meant to include state reimbursements associated with the Homeowner's Tax Relief Credit.
- While not included in the current version of the proposal, a previous version incorporated an alternative reimbursement system that was designed to eliminate any risk of reduced funding on the part of the local governments, a procedure similar to Virginia's original program. This was done by requiring the taxpayer to continue to pay in full their usual motor vehicle property tax liability. Therefore, the local taxing authorities would see no change in their level of incoming revenues or in the timing of these revenues. A significant problem with the Virginia motor vehicle tax reduction plan was that the local governments were completely dependent on the state for the eliminated revenues. If the state did not have the resources to fulfill this obligation or if the state's timing of payment to the local governments' was different or late, then the local governments' had no recourse. The revised Georgia proposal has the potential to create similar situations for the Georgia local governments.
- Although the direct taxpayer reimbursement design has many advantages, it also has several disadvantages.
 - Under the direct reimbursement design, taxpayers still paid the tax liability in a lump sum. This can create liquidity problems, especially for those individuals with more than one vehicle. To address this issue, the tax can be levied instead on the anniversary of the vehicle purchase.

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- Additionally, the taxpayer reimbursement design is administratively costly, as it is expensive to issue 6 million reimbursement checks annually.^B Some costs may be avoided if the reimbursement is combined with the state income tax. If the reimbursement process is combined with the state income tax then the reimbursement must be treated as a 100 percent refundable credit so that all individuals have an incentive to file a return even when no income tax liability is incurred.
- Furthermore, if the reimbursement check is issued directly to the taxpayer after the taxes are paid, the taxpayer may not link the check to the property tax liability but see it instead as simply an annual windfall. In addition, there will be much less pressure on the state to provide the same level of reimbursements each year since the local governments would have already received their payments.
- Finally, with regards to a capped exemption level, to maintain the same level of property tax relief from year to year, the exemption level should be indexed each year to reflect the annual increase in automobile prices. Without an indexed threshold the percent of a vehicle's value covered by the exemption will decline each year.

^B This is the number of registered vehicles from the DOR 2005 property tax digest.

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I. Introduction

Nothing excites Americans like taxes and automobiles. Thus, it is hard to imagine a more potent tax proposal than one that lowers the tax on automobiles. Over the past several months, there has been renewed interest by citizens and legislators in Georgia in the idea of reducing the property tax levied on motor vehicles. In 1998, 30 states included motor vehicles in their property tax base or imposed some other annual registration fee on the motor vehicles in their states. In 1998, legislatures in four states (Virginia, South Carolina, California, and Missouri) proposed bills that would, over time, eliminate or reduce the property tax on motor vehicles in those states. With vehicle ownership so widespread, this is an appealing idea from which most citizens can benefit.

This analysis is an update of a 1998 Fiscal Research Center report that considered the economic consequences of eliminating the property tax on motor vehicles and explored the manner in which this may be accomplished (Wheeler 1998). This updated report outlines the major elements of a recent proposal to eliminate the tax on motor vehicles in Georgia, and provides an estimate of the fiscal and distributional consequences associated with the proposal. The report is not designed to focus specifically on the merits and faults of any single proposal. Instead, the report is meant to be a discussion of the economic consequences of reducing or eliminating this tax and of a review of the experiences of other states in regards to this issue. To that effect, the paper offers several recommendations designed to aid policymakers in their decisions regarding the future of the motor vehicle property tax in Georgia.

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II. The Motor Vehicle Property Tax

Georgia imposes a personal property tax, the base of which includes motor vehicles. A motor vehicle is defined to include personal and commercial automobiles, trucks, motorcycles, boats, aircraft, and recreational vehicles. Manufactured homes are not considered motor vehicles. Leased vehicles are treated as if they are owned for the purposes of the property tax; the leasee is responsible for the annual property tax payment. The tax is levied on 40 percent of the market value of the vehicle.¹ The vehicle owner's tax liability is computed by applying the millage rate of the appropriate county, municipality, school district, and special district to the assessed value of the vehicle.²

By law, in most counties the owners of personal vehicles must remit their property tax payment at any time during the 30-day period ending on their birthday. Talbot County uses a 4-month staggered registration schedule. In this system, residents are assigned a registration month based on the month in which their birthday falls. For example, residents with a birthday in January, February, or March must complete their registration by the end of January. All motor vehicle registrations for the county are conducted between January 01 and April 30. Eight counties in the state have a non-staggered registration window. All registrations in these counties are conducted at anytime between January 01 and April 30. All counties in the state require payments to be made in one installment.

Owners of business vehicles are required to remit payment according to a different 12-month staggered schedule. The business schedule divides businesses into 12 categories based on the first letter of their registered name and assigns a due date to each group. For instance, businesses with names that begin with the letter A or B must remit their motor vehicle property tax payments by January 31 of each year.

¹ The market value is determined by a combination of the current value and the wholesale value.

² The previous year's millage rate is used to compute the motor vehicle tax liability for the current year.

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III. Motor Vehicle Tax Revenues

As is shown in Table 1, county governments and school districts are the main recipients of the revenue from the motor vehicle property tax. The state receives very little of the motor vehicle property tax revenue because of its low millage rate of 0.25 mills.

TABLE 1. 2005 MOTOR VEHICLE REVENUE BY RECIPIENT GOVERNMENT

Government	2005 Revenue (\$ in millions)	Percent of Total MV Revenue
State	\$5.2	1%
School District	\$376.2	57%
County Incorporated	\$55.9	8%
All Municipal and Special Districts	\$97.6	15%
County Unincorporated	\$122	19%
Total	\$657.8	100%

Note: Data presented in Table 1 is based on author's own calculations from state published property tax digest for 2005. Figures in Table 1 represent the amount levied and may not be equal to the amount collected.

The motor vehicle property tax base in the state was \$21.5 billion in 2004 and \$21.3 billion in 2005 (Department of Revenue 2005). The total revenue received by all state and local governments from the motor vehicle property tax was approximately \$634 million in 2004 and \$658 million in 2005, as shown in Table 2. The average motor vehicle property tax liability per vehicle over all levying governments was \$95 in 2005. This average is computed over all vehicles registered in the state, including personal vehicles, commercial vehicles, leased vehicles, and recreational vehicles.³

³ Manufactured homes are not included in the category of motor vehicles.

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TABLE 2. MOTOR VEHICLE TOTAL LEVY – ALL GOVERNMENTS, ALL VEHICLES

	2002	2003	2004	2005
Levy (\$ in millions)	\$629	\$638	\$634	\$658
No. of Registered Vehicles (in millions)	6.3	6.5	6.6	6.9
Average levy per vehicle (in \$)	\$101	\$99	\$96	\$95

Note: Data presented in Table 2 is based on author's own calculations from published state property tax digest for years 2002-05. These figures are computed using current year millage rates. Actual levies are computed using the prior years' millage rate.

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IV. Georgia Proposal to Eliminate the Motor Vehicle Property Tax

Recently a proposal, HB 585, has been advanced by members of the Georgia General Assembly that would eliminate the property tax on motor vehicles. The proposal phases out the property tax paid by all noncommercial motor vehicle owners over a three-year period. In this first year, the first \$7,500 of fair market value of a vehicle is exempt from tax. The exemption rises to \$15,000 in the second year and to \$30,000 of market value in the third year. For every year after that, 100 percent of the market value of all noncommercial vehicles is exempt under this proposal. The exemption applies to all school, county, state, and municipal property taxes. The proposal provides that the state reimburse the local governments for lost revenue by transferring funds on a monthly basis to the respective local governments. Reimbursements are to be equal to the full amount taxpayers would have paid in the absence of this legislation. The legislation does not require local taxing jurisdictions to freeze their millage rates at current rates. Thus, the reimbursements will be computed based on the millage rates in use each previous year. Furthermore, the population of automobiles exempted under this legislation is not limited to those registered in the state at the time of enactment of this legislation. Therefore, additional vehicles registering in the state after the enactment of this legislation will also be exempted from the motor vehicle property tax.

The legislation includes a provision to cover circumstances in which insufficient funds may exist in the state budget to cover the cost of the reimbursements to the local governments. Under this situation the legislation allows for funds to be diverted from other programs to cover the cost of reimbursements. Alternatively, the legislation allows for a reduction in the amount of the exemption level.

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V. Economic Effects of a Reduction in the Motor Vehicle Property Tax

A 1999 study (Dill, et al.) of the distribution of the property tax on motor vehicles in California indicates that the tax is fairly regressive. That is, the value of the tax liability as a percent of income decreases as income rises. Based on 1995 data of vehicle ownership, the study found that in California the tax levied on motor vehicles is about as regressive as the California state sales tax. The regressivity of the motor vehicle property tax is supported by 2005 data from the Consumer Expenditure Survey, which shows that the value of consumption of vehicles as a percent of personal income decreases as income increases. Assuming the Georgia motor vehicle property tax is also a regressive tax, reducing the burden will have a larger impact on lower income vehicle owners compared to higher income owners. This effect will be even more pronounced if the proposal only exempts vehicle values below some threshold amount, such as \$15,000. This is because capping the exempt value of a vehicle concentrates the benefit of the exemption on less expensive vehicles. With an exemption cap in place, all vehicles benefit from the exemption, but fewer are 100 percent exempt.

Under current law, individuals who itemize deductions on their federal return can deduct the motor vehicle property tax they pay. Therefore, reimbursements will be of less value to higher income taxpayers because for these taxpayers a lower property tax liability at the state level is offset by a higher federal tax liability.

Another interesting finding of the Dill et al. study was the fact that the motor vehicle tax liability as a percent of household income was highest for two-parent families with teenage children. This demographic group paid 2.7 times more than the demographic group with the lowest motor vehicle tax liability as a percent of household income, which was the group consisting of one adult with a child too young to drive. This is not an unexpected finding in that these are the families with the highest number of potential drivers. Therefore, these findings imply that a reduction in the motor vehicle property tax will have the greatest benefit to two-parent families with teenagers.

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A second study, by Craft and Schmidt (2005), finds that the value of the motor vehicle property tax affects the value of the vehicles owned, the number of vehicles owned, and the decision to purchase new vehicles. Based on their findings, the authors estimate that a 1 percentage point increase in the effective tax rate on motor vehicles reduces the value of vehicular capital in a taxing jurisdiction by 5.2 percent in the long-run. That is, the value of the vehicle stock declines by 5.2 percent for each 1 percentage point increase in the motor vehicle property tax rate. The same percent increase results in a 12.3 percent reduction in new vehicle purchases and a 5.5 percent increase in the total number of vehicles purchased. That is, these results indicate that the property tax on motor vehicles causes people to delay the vehicle purchase decision and to substitute more used cars or less expensive new cars for fewer higher-end new cars. Therefore, based on these results efforts to reduce the property tax on motor vehicles will have the likely effect of increasing the value of the vehicle capital stock and may actually reduce the number of vehicles in the state as consumers substitute a larger number of lower-cost vehicles for fewer higher-cost vehicles.

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VI. Issues Associated with the Motor Vehicle Property Tax

Part of what is disliked about the motor vehicle property tax is common to all property taxes. Property taxes are taxes on a stock of wealth instead of a stream of income. Therefore, an asset may have a positive value, such as a house or car, but create no income from which to pay the annual property tax bill. This disconnect between the value of the taxed asset and the annual tax liability is an issue common to all property taxed under the property tax.

Another source of ire with the motor vehicle property tax is that it is due in its entirety on the vehicle owner's birthday. This can cause a cash flow problem for taxpayers who have more than one vehicle registered under their name. This administrative issue could be addressed by collecting the tax on the anniversary of the vehicle purchase. This would enable owners of more than one vehicle to spread the property tax payments for all the vehicles out over two or more time periods of the year. In addition, tax liability payments in excess of a certain amount, for example \$100, could be paid over a two or three month period for a service fee of \$2 or 2 percent of the tax liability. This same practice is used by many insurance companies in the payment of their annual or semi-annual bills. The fee represents the cost of funds for the local government and keeps this financing privilege from being a government-funded benefit for higher income taxpayers who are more likely to have larger tax liabilities.

In addition to creating a potential cash flow problem, this tax is a relatively visible one. Most other taxes are paid through an escrow account or withholding so that the amount of the total tax is less obvious. Individuals are likely to be more aware of the motor vehicle property tax because it is not rolled in with any other payment. Therefore, while this is not a popular tax, it is probably not disliked any more than any other tax would be under those circumstances.

Exempting all motor vehicles from the property tax base creates some additional avenues for avoiding the tax. Recreational vehicles that also serve as primary and secondary homes would no longer be subject to tax but permanent structures serving in this same purpose would. This creates an advantage especially

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for the large motor homes. Modifying the law to only exempt vehicles under a certain weight or those without sleeping facilities would easily address this issue.

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VII. Revenue Effect of Reducing the Motor Vehicle Property Tax

An estimate of the revenue loss associated with various exemption levels is shown in Table 3. The revenue estimate assumes that only noncommercial vehicles are exempt from the tax. Furthermore, the estimate provided below is tentative in that it is based on a state-wide average property tax rate of 28.47 mills and on data of vehicle values from a national survey.⁴

The exemption levels in Table 3 refer to the value of the vehicle that is excluded from the tax. For example, one possible option is to exclude from tax the first \$20,000 of a vehicle's value. Under this option a vehicle with a market value of \$15,000 is completely exempted from the property tax on motor vehicles. A vehicle valued at \$30,000 is only taxed on the \$10,000 in value in excess of the exemption amount of \$20,000. The revenue effect of several different exemption levels and for a complete elimination is considered; it is assumed that the state fully reimburses the local governments for all lost revenue.

**TABLE 3. REVENUE EFFECT OF MOTOR VEHICLE PROPERTY TAX EXEMPTION FOR 2004
(\$ IN MILLIONS)**

Exemption Level	Revenue Loss to State	Revenue Loss to Local Gov't	Total Revenue Loss	Reimbursement as a percent of Total Net State Revenue Collections
\$10,000	\$2.1	\$240	\$243	1.8%
\$15,000	\$2.4	\$270	\$273	2.0%
\$20,000	\$2.5	\$288	\$290	2.1%
100 percent of vehicle value	\$2.7	\$308	\$311	2.3%

Source: Author's own calculations.

The revenue effect consists of two pieces. The first is the direct loss in revenues to the state from a reduction in the state property tax base. This revenue loss is small because the state millage rate is only 0.25 mills. The second and more

⁴ A formal revenue estimate of this proposal would incorporate the actual millage rates of the taxing districts and Department of Revenue data on the value of the vehicle capital stock in Georgia.

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significant revenue loss is the loss to the local governments. This is the value of the state reimbursement to the localities. The last column of Table 3 represents the size of the state reimbursements to localities relative to the size of net state revenue collections.

TABLE 4. PER VEHICLE EFFECTS OF PROPOSAL TO MODIFY MOTOR VEHICLE PROPERTY TAX

Exemption Level	Percent of Stock with 100% Exemption	Maximum Value of Tax Savings per Vehicle	Average Value of Tax Savings per Vehicle
<i>A. Based on Average Total Millage Rate State-wide</i>			
\$10,000	88%	\$113.88	\$42.82
\$15,000	93%	\$170.82	\$48.12
\$20,000	96%	\$227.76	\$51.24
<i>B. Based on Total Millage Rates in Atlanta/Fulton County</i>			
\$10,000	88%	\$163.96	\$61.65
\$15,000	93%	\$245.95	\$69.28
\$20,000	96%	\$327.93	\$73.77
<i>C. Based on Total Millage Rates in Towns County (unincorporated only)</i>			
\$10,000	88%	\$47.64	\$17.91
\$15,000	93%	\$71.46	\$20.13
\$20,000	96%	\$95.28	\$21.43

Panel A of Table 4 shows the percent of the vehicle stock that is completely exempt from property tax under three alternatives exemption levels based on 2004 data.⁵ For example, if vehicle values up to \$20,000 are exempt from tax, it is estimated that the property tax will be eliminated from 96 percent of all personal-use vehicles in the state. Based on the state average millage rate, the maximum tax savings per vehicle per taxpayer under this option is \$227.76. That is, each vehicle owner with a car valued in excess of \$20,000 will save \$227.76 on their annual property tax bill. Over all vehicle owners, the average tax savings is estimated to be \$51.24. In an effort to illustrate the range in tax savings based on jurisdiction, Panels B and C of Table 4 show the average tax savings for a resident living in the Fulton

⁵ The underlying distribution of the vehicle stock is based on a national sample of the vehicle stock obtained from the Survey of Consumer Finances. This same distribution is used for all geographic areas in the state.

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County area of Atlanta in 2004 and a resident from the unincorporated area of Towns County in 2004.

Table 5 shows the distributional effect of eliminating the property tax on motor vehicles under three alternative exemption levels and a full elimination option. The data in Table 5 reflects the total tax savings per family over all personal vehicles. As discussed earlier, the lowest income groups experience the greatest gain when expressed as a percent of income. On the other hand, the average tax savings increases with income reflecting both the consumption of higher-end vehicles and of a larger number of vehicles as income increases.

TABLE 5. DISTRIBUTIONAL EFFECT OF MODIFYING THE MOTOR VEHICLE PROPERTY TAX

Income Category	-----Amount of Motor Vehicle Value Exempted-----					
	-----\$10,000-----		-----\$20,000-----		Complete Exemption-----	
	Average Tax Savings	As a % of Total Income	Average Tax Savings	As a % of Total Income	Average Tax Savings	As a % of Total Income
Less than \$25,000	\$78	0.7%	\$90	0.8%	\$92	0.9%
\$25,000<=Income< \$50,000	\$115	0.3%	\$143	0.4%	\$149	0.4%
\$50,000<=Income<\$75,000	\$162	0.3%	\$214	0.4%	\$229	0.4%
\$75,000<=Income<\$100,000	\$186	0.2%	\$258	0.3%	\$278	0.3%
\$100,000<=Income<\$150,000	\$202	0.2%	\$296	0.2%	\$336	0.3%
\$150,000<=Income	\$228	0.1%	\$359	0.1%	\$486*	0.2%*

Source: Calculations are based on 2005 Consumer Expenditure Survey. * Because the values for income and vehicle value are top-coded in the dataset, this result understates the average tax savings and tax savings as a percent of total income for individuals in this income category.

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VIII. Experiences from Other States

According to 1998 data from the National Conference of State Legislatures, 30 states levy a personal property tax on motor vehicles.⁶ Initiated by then Virginia gubernatorial candidate Gilmer's campaign pledge to eliminate the property tax levied on motor vehicles, several bills have been submitted in other state legislatures with the intent of eliminating the motor vehicle property tax in those states. Several measures have been successful to some degree or another. These include states such as Virginia, California, and Rhode Island. The lessons learned from these other states offer useful insights for the design of a similar exemption in Georgia.

Virginia

Perhaps the most prominent of these cases has been the one involving Virginia. Originally enacted in 1998, the Personal Property Tax Relief Act (PPTRA) put in place a gradual elimination of the property tax on motor vehicles levied on the first \$20,000 of the value of personal-use vehicles such as cars and trucks. The elimination was phased-in over several years and in 1998, the reimbursement rate to local governments was 12.5 percent. It was anticipated that the tax would be fully phased-out by 2002.

In an attempt to hold the counties harmless from the loss of revenue, the original legislation specified that the counties would be reimbursed by the state. The reimbursement amount was to be determined based on the tax rates and assessment practices that existed in the counties at the time the legislation was passed. The legislation did allow for growth in the number of vehicles and their value. That is, the aggregate state reimbursement to a locality was expected to increase each year as the 1998 tax rates were applied to a growing population of vehicles. Initially, the process was set up so that individuals paid the full property tax bill to their local taxing authority. The state sent the annual relief check directly to the taxpayer. In subsequent years, the process was modified so that taxpayers only submitted the net amount owed to their taxing authority and the amount of the state offset was shown

⁶ See Mackey & Rafool (1998).

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on the taxpayer's bill. This eliminated the administrative step of issuing reimbursement checks to all owners of personal-use vehicles but the local governments were now completely dependent on the reimbursements from the state.

While the original plan was for a gradual phase-out of the tax, the legislation did include special provisions that froze the process in place if the state ran into financial stress. If state revenues did not grow at anticipated levels, the reimbursement rate would be frozen at the previous year's level. Due to these fiscal triggers, the reimbursement rate was frozen at 70 percent in 2001 and remained at that level until 2006 when the legislature capped total state reimbursements to all counties at an aggregate fixed amount of \$950 million.

Due to increasing costs to the state, the 1998 PPTRA was modified in 2004. SB 5005, introduced in a special session in 2004, limited the amount of the state reimbursement to the localities at \$950 million annually for all future years. The \$950 million dollar amount represented the cost to the state of providing a 70 percent reimbursement rate for all vehicles in 2004.⁷ This, in effect, changed the reimbursement arrangement from a vehicle-based reimbursement plan to a block grant. Under the new system, the state's obligation is fixed. Furthermore, the local government's annual grant is also fixed from year to year. Under the new system, the annual grant to local governments is determined by their share of the state-wide reimbursements for tax year 2004. For instance in 2004, if a county's total motor vehicle property tax levy was \$1 million and the combined total levy of all taxing districts was \$100 million, this county would receive 1 percent of the allocated \$100 million or \$1 million per year in perpetuity. Also under the new system, the receiving government, while required to earmark the "reimbursement" funds for motor vehicle property tax relief, can allocate the money for that purpose at their own discretion. For example, counties may distribute the grant in a disproportionate manner toward the lower income or in favor of low emission vehicle owners. Over time this annual grant will represent a decreasing share of the total vehicle population covered at a 70 percent reimbursement level for any taxing district. Over time the

⁷ This figure represents 70 percent of the total revenue loss associated with granting an exemption of up to \$20,000 on all personal-use vehicles.

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value of a jurisdiction's vehicle capital stock increases as population increases and prices for vehicles rise with inflation. Thus, a fixed grant represents a smaller percentage of the total capital stock as this base increases over time.

California

In 1999 California also began a process to reduce the fee residents pay annually on the value of their vehicle. The vehicle license fee (VLF) is an annual fee paid in lieu of property taxes and is levied on the market value of the vehicle based on a depreciation schedule published by the state. The revenues generated from the VLF prior to 1999 went to fund local government services. The proposal to reduce the VLF also contained a reimbursement process by which the state would make up the loss in funds to the local governments. In addition, the proposal required that the VLF rate be restored to its original level if the General Fund was insufficient to cover the cost of the reimbursement to the localities. This provision became a difficult one to implement because the definition of insufficient funds was not clearly defined in the legislation. That is, when specified in this manner, the legislation should also include a ranking of state funding priorities. Without this ranking, it is unclear if there are insufficient funds to cover the reimbursements or if other items in the state budget are too costly.

In 1998 the VLF was 2 percent. The rate was then reduced to 1.5 percent in 1999, with the potential for future reductions if General Fund revenues grew faster than forecasted. The rate was lowered again on a one-time basis for 2000 to 1.3 percent. Due to unexpectedly higher than anticipated state revenues, the VLF rate was lowered again in 2001 to 0.65 percent.

Because of insufficient funds in the General Fund in June of 2003, the budget protection measures were triggered and the VLF reverted to its original 2 percent level effective October 1, 2003. Therefore payments to the local governments from the state ceased in June and as of September 1, 2003 taxpayers paid the full amount of the VLF again. This lapse in time between the cessation of reimbursement payments and the increase in the new rate caused a gap in payments to occur to the local governments. The revenue loss to the local governments during this gap was

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considered a loan from the local governments to the state government to be repaid at a future date.

The Schwarzenegger administration, possibly in response to pressure from residents of the state, reinstated the VLF rate of 0.65 percent where it remains at the present time. The reimbursement payments have a continuous appropriation in the annual budget and are therefore somewhat protected from annual attempts to change the VLF rate.⁸

Rhode Island

Rhode Island is also in the process of eliminating or reducing its property tax on motor vehicles.⁹ While the original plan was to completely eliminate the property tax on all motor vehicles by 2006, the current status is a \$6,000 exemption on the value of a motor vehicle. This exemption applies to all vehicles and the state reimburses the local governments for any loss in revenue. Unlike many other states, Rhode Island has not experienced as many problems with their tax reduction and reimbursement process. It may be because the size of their initial reimbursement obligations was relatively small. It should be noted that there is no longer a target date for the complete elimination of this tax. Elimination is expected to continue on a gradual basis as long as revenues are available but the current budget only maintains the previous year's exemption amount of \$6,000 and does not allow for an increase in this amount.

Georgia

Georgia currently provides some property tax relief in the form of the Homeowner Tax Relief Credit (HTRC). While this credit applies to the reduction in the property tax liability of real property, it is designed in the same manner as the proposed motor vehicle property tax relief. Through this credit, homeowners are

⁸ In retrospect, analysts have found that the original legislation did not clearly specify the conditions under which there are insufficient funds for this reimbursement program. In addition, there was room for interpretation over the costs, especially in the area of short term financing, incurred by the local governments when the state fails to make adequate reimbursements.

⁹ Rhode Island actually levies an excise tax in lieu of property taxes on the value of the motor vehicle.

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allowed a credit against their property tax bill. The credit is equal to \$8,000 multiplied by the combined county, state, school, and municipal millage rates faced by the homeowner. The legislation authorizing the credit also provides that the state reimburse the localities for the loss of revenue. In FY 2005, the state issued \$412 million in grants to localities for the purpose of local property tax relief. It is important to note that the original goal was to offer an exemption of \$20,000 per homeowner. As stress on the state budget resources increased, the exemption was limited to \$8,000.

This current design of the HTRC reimbursement system creates a somewhat less open-ended obligation for the state than the Virginia's PPTRA. In the case of the Virginia PPTRA, the state obligation increased substantially on an annual basis for several reasons. The first is that the elimination was phased-in over time. The second was because the transfer was a per-vehicle transfer. Therefore, as the number of vehicles in a jurisdiction increased from year to year, the state reimbursement increased. The combination of these two forces created an increasing obligation for the state occurring at the same time as a decrease in state revenues due to a recession. The current design of the Georgia HTRC is slightly less open-ended in that it is a fixed dollar amount per taxpayer. This creates a smaller and less volatile obligation for the state.

Lessons Learned

After reviewing the experiences of these states, several conclusions can be drawn. First is that the main stumbling block to the removal of motor vehicles from the property tax base is the risk it poses to the local governments in terms of lost revenue. This risk is greater for those governments with less diverse sources of revenue. Governments more reliant on the property tax revenue from motor vehicles face more risk from the elimination or reduction of the tax than governments with other means of support. For example, school districts are more reliant on this revenue source than county governments. Rough estimates indicate that this revenue

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source makes up about 7 percent of school district revenue but only about 3 percent of county revenue.¹⁰

A second conclusion to be drawn from these experiences is that while not overwhelmingly large relative to state budgets, the reimbursements are vulnerable to cuts in funding in times of tight state finances. In each case discussed above, the states were forced to curtail their original goal of eliminating the tax. Virginia has essentially abandoned its effort by converting its payments to a fixed, lump-sum grant. California has been successful in reducing the rate, but not in eliminating it. Even the original expectations in Rhode Island have been scaled back. When held up against other state spending responsibilities, these sorts of burden sharing programs seem to have a lower priority. The demands for state funds continue to grow and state revenues are limited and subject to annual variations. Thus, these experiences lead to the conclusion that future obligations of this sort need to be limited and predictable.

One characteristic of these proposals is the manner in which the distributions are handled. The more common approach is to have the state send the reimbursements directly to the taxing government and have the taxpayer pay the tax levy net of the reimbursement. Alternatively the system could be designed so that the taxpayer pays the full levy and the state sends the reimbursement to the taxpayer, a method of reimbursement referred to later in this report as direct taxpayer reimbursement. We should take note that both Virginia and California have had some experience with providing reimbursements directly to the taxpayer. Both states have had periods of time when the reimbursement checks were issued directly to the taxpayers. In both cases this practice was substituted for direct reimbursements to the local governments. While it was not possible to find any documented evidence to support this claim, it is assumed that their final choice reflects an optimal one. That is, given that these two governments had experience with both methods of reimbursement and chose the direct reimbursement to the local governments, we can

¹⁰ Author's own calculations based in data from Georgia Department of Revenue and US Census Annual Survey of Governments.

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then assume that this method is the preferred method over the method of reimbursing taxpayers directly.

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IX. Recommendations

From an economic standpoint, the preferred choice is to eliminate the many exemptions to the property tax base and by doing so, expand the base and allow property tax rates to be reduced for all types of property and all owners. Limiting the exemption to personal-use motor vehicles only lowers the value of the remaining base and forces the state to seek other sources of revenue.

If the decision is made to go forward with property tax relief, then this proposal should be considered in tandem with the existing Homeowner Tax Relief Credit (HTRC) program. That is, this proposal should be viewed as an extension of the original HTRC. Designed in the same manner, both programs provide relief from state, local, and school property taxes. As such, these programs will be competing for the same state resources to fund their reimbursement obligations to the local governments. Increasing the exemption of one program will reduce the likelihood of an increase in the exemption of the other.

With that tradeoff in mind, lawmakers should focus on their desired goal of property tax relief. Offering property tax relief through an exemption in the motor vehicle tax base affects a larger population and is more progressive than tax relief provided through the HTRC. This is because the ownership of motor vehicles is more wide-spread and less concentrated among higher-income individuals relative to property ownership. On the other hand, taxpayer relief may not be as important in the case of a depreciating asset, such as motor vehicles. If this is the case, then state resources should be targeted to increasing the exemption granted under the HTRC program.

Based on a review of the experiences of other states, it seems clear that the state's annual obligation to the local governments should be predictable and limited. State resources are limited and as this obligation grows in size, it becomes more burdensome to the state. To this end, provisions in the legislation that cap the exemption amount, freeze the local government millage rates that are used to determine the amount of state reimbursement, or permanently set the reimbursement amount will create more manageable, less volatile and burdensome obligations for the state.

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To increase the progressive nature of this tax provision and limit the revenue effect to the state, exemptions could be granted only up to some specified amount. Approximately 96 percent of all vehicles registered in Georgia would be completely exempt from the motor vehicle property tax with a \$20,000 exemption cap. Allowing an exemption up to some level of value benefits all vehicle owners, but concentrates the benefits on relatively lower-income individuals. While the revenue loss may not be particularly large, allowing a complete exemption of all personal-use vehicles creates some very large gains for a select number of luxury vehicle consumers.

In addition, a proposal that only eliminates the tax on personal-use vehicles creates a need to clearly define what is meant by personal-use, especially in the case of mixed-use vehicles, and have in place a procedure for preventing tax avoidance. This is probably best done by a sharing of information between the federal government and the state government. This will prevent taxpayers from claiming a vehicle as business property on the federal return and as personal-use vehicle at the state and local level. Furthermore, if the reimbursement process involves sending checks directly to the individuals, the state government would need to annually send a 1099 statement to the federal government for each check received by all vehicle owners in the state.

Legislation in this area needs to clearly specify the conditions under which the state reimbursements cease or are curtailed. Several states have legislation stipulating that reimbursements are to cease or be restricted when there are insufficient funds to cover the state obligation. In order for this type of language to be effective, a list of state priorities including the reimbursements to localities for this lost revenue must also be available. Without an understanding of the relative position of this state obligation compared to others, it will be difficult to determine when the state has adequate revenues for this program or if other state funding obligations should be cut instead.

Including explicit procedures in the legislation to cover situations in which state motor vehicle property tax reimbursements are in jeopardy is critical. Tying actions to a slower than anticipated growth in tax receipts or larger than anticipated revenue effect to the state budget provides some guidance. But even in this case, it is

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not clear whether the exemption level should be reduced, or if so, by how much. One alternative would be to limit this obligation to a fixed amount or fixed percentage of the state own-source revenues. It should also be made clear whether or not this limit applies solely to the reimbursements for the motor vehicle property tax revenues or is also meant to include state reimbursements associated with the Homeowner's Tax Relief Credit.

While not included in the current version of the proposal, a previous version incorporated an alternative reimbursement system that was designed to eliminate any risk of reduced funding on the part of the local governments. This was done by requiring the taxpayer to continue to pay in full their usual motor vehicle property tax liability. Therefore, the local taxing authorities would see no change in their level of incoming revenues or in the timing of these revenues. A significant problem with the Virginia motor vehicle tax reduction plan was that the local governments were completely dependent on the state for the eliminated revenues. If the state did not have the resources to fulfill this obligation or if the state's timing of payment to the local governments' was different or late, then the local governments' had no recourse. The revised Georgia proposal poses this same threat to local governments in Georgia.

Although the direct taxpayer reimbursement design has many advantages, it also has several disadvantages. For instance, it does not address another problem of the motor vehicle property tax, the lump sum tax liability. The taxpayer reimbursement design still requires motor vehicle owners to pay their property tax liability in a lump sum and still on their birthday. This can be especially difficult for individuals with multiple vehicles registered to them. To address this issue, the tax can be levied instead on the anniversary of the vehicle purchase. This would keep most vehicle owners from having to pay the tax on more than one vehicle at a time which would help alleviate the liquidity problem associated with current system.

Additionally, the taxpayer reimbursement design is administratively costly, as it is expensive to issue 6 million reimbursement checks annually.¹¹ Some procedures will need to be in place for those individuals who relocate during the year. Some costs may be avoided if the reimbursement is combined with the state income tax. If

¹¹ This is the number of registered vehicles from the DOR 2005 property tax digest.

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the reimbursement process is combined with the state income tax then the reimbursement must be treated as a 100 percent refundable credit so that all individuals have an incentive to file a return even when no income tax liability is incurred.

Furthermore, if the reimbursement check is issued directly to the taxpayer after the taxes are paid, the taxpayer may not link the check to the property tax liability. It may be seen instead as simply an annual windfall. In addition, there will be much less pressure on the state to provide the same level of reimbursements each year since the local governments would have already received their payments. This could be especially true in times of budget shortfalls. On the other hand, this reimbursement process presents an opportunity to the state to provide a relatively larger subsidy for special circumstances, such as low-emission vehicles or high-mileage vehicles.

Finally, with regards to a capped exemption level, to maintain the same level of property tax relief from year to year, the exemption level should be indexed each year to reflect the annual increase in automobile prices. Without an indexed threshold the percent of a vehicle's value covered by the exemption will decline each year.

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