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HB 480 – ELIMINATING THE MOTOR VEHICLE PROPERTY TAX: ESTIMATING PROCEDURE, REVENUE EFFECTS, AND DISTRIBUTIONAL IMPLICATIONS

In 2009, legislation (HB 480) was introduced to change how motor vehicles are taxed. While this legislation was defeated in the 2010 session of the General Assembly, it is possible that the legislation or variants of it could be introduced in the future. Thus, it is of interest to consider the effects of HB 480.

In general, HB 480 involved a tax swap in which two existing taxes, the one-time sales tax and the annual property tax were replaced by a title fee due when the vehicle changed title. The major components of the bill were the:

- Elimination of the property tax on all motor vehicles purchased after 1/1/2011;
- Elimination of the sales tax on all motor vehicles purchased after 1/1/2011;
- Imposition of a 6.75 percent title fee on the value of all motor vehicles net of trade-in value titled after 1/1/2011 with the value determined by the Georgia Department of Revenue.

In addition, several special provisions were included, such as the:

- Continuation of all current exemptions from the sales and property tax for the title fee system, except the exemption for casual sales;

- Imposition of a reduced title fee for rental car fleets based on the size of their fleet; a combined state and local fee equal to \$350 for large fleets and \$250 for small fleets;
- Imposition of a \$20 combined state and local title fee on salvage titles;
- Allowance for individuals moving into the state to pay the title fee in two equal installments over a 12 month period;
- Allowance for vehicles purchased in 2010 to opt-into the title fee system in 2011 by paying the difference between their 2010 sales and property tax liabilities and the 2011 title fee liability, if any.

While the legislation was not in its final form at the time this report was written, these were the provisions common to the various versions that had been considered by members of the General Assembly. It is important to note that the legislation eliminated the sales tax on motor vehicles but not the use tax currently imposed on leased and rental vehicles. Therefore, under the title fee system, the use tax, that is currently paid on a monthly basis as part of the lease payment or as part of a rental car expense, would continue to be levied. In addition,

some versions of the legislation imposed a cap on the maximum title fee liability per vehicle, such as a maximum combined state and local title fee cap of \$2,000 or \$1,500. Another option that was suggested imposed the title fee on 80 percent or 90 percent of the vehicle value; this would have the same effect as lowering the title fee rate.

Shown below are the revenue estimates for two of the more common versions of the legislation. The first imposes a 6.75 percent title fee net of trade-in values (see Table 1 for the revenue estimates). The second option assumes the same title fee but also imposes a \$720 state and \$780 local title fee cap (see Table 2 for the revenue estimates). As specified in the legislation, the title fee schedule for the state declines at a fixed rate per year while the local title fee revenue rate increases annually by the same margin until 2016 (see Table 1).¹ The state title fee cap imposed in the second option decreases by \$30 each year, while the local cap increases by \$30 per year until 2016.

The upper panel of Table 1 refers to the revenue effect to the state, while the lower panel reflects the effects to local government revenues. The first two lines of each panel refer to the loss in property and sales tax revenue that would have accrued to the respective governments under current law. The third line provides the revenue gain expected to accrue to the governments under the proposed title fee system. In the case of the state, the title fee gains additional revenue each year through 2013 and then gains less revenue in the subsequent years. This pattern is due to the interaction of the title fee schedule, which declines each year for the state, and the forecast of titles for the 2011-2015 period, which increases each year. Although the state title fee schedule decreases each year, the forecast of additional titles over the previous year is enough to maintain positive growth in the title fee estimate for years 2011-2013. By 2014 and onward, the decline in the title fee schedule for the state outweighs the annual increase in anticipated titles, leading to a positive revenue estimate in title fee revenue but one that is smaller than the previous year. Long term analysis of this proposal indicates that the revenue effect to the state will remain positive after 2016 when the title fee rate for both the state and local governments remains constant.

Overall the revenue impact of the title fee legislation results in an initial gain for both the state and local governments, as shown in the last line of both the state and local estimates. Over the 2011-2015 period the state government gains revenue under the title fee system relative to the existing system, but each year after 2013 the state gains less revenue

than the previous year. The local governments gain revenue through 2013 but then lose revenue relative to the existing system. Although the local title fee rate increases annually, this increase is unable to make up for the revenue loss attributable to the anticipated property and sales tax losses.

The revenue estimate for the system with caps (Table 2) follows the same layout as the first. This estimate also applies a 6.75 percent title fee but caps the maximum liability at a combined amount of \$1,500 (\$720 state and \$780 local cap) for 2011. Although the maximum \$1,500 cap remains for each year thereafter, the value of the local cap rises by \$30 per year while the value of the state cap declines by \$30 per year. The capped version of the proposal raises less revenue via the title fee than the uncapped version because vehicles with a net of trade-in value of \$22,222 or greater have a reduced title fee liability compared to the non-capped option.²

Under the proposal, the new sources of revenue for the local governments are from the inclusion of casual and OOS vehicles in the tax base. These vehicles are not currently subject to sales tax but do contribute to the property tax base. The seven counties that levy a 2 percent sales tax will experience a larger increase in revenue over the existing sales tax relative to the other counties as the local title fee increases over time from 3.51 percent to 4.05 percent. The state government experiences the same expansion of the tax base with the inclusion of casual sales and OOS vehicles. On the other hand, the state title fee rate decreases from 3.24 percent to 2.70 percent, which counteracts the effect of the base expansion to some extent. The main difference in the revenue consequences between the state and local governments is the presence of the property tax revenue loss. At the state level, the property tax loss is inconsequential compared to that of the local governments. In addition, the state receives a small amount of revenue from the decrease in the value of itemized deductions. Because this later effect works through the income tax, there is no corresponding local effect.

HB 480 proposed the elimination of the sales and property tax currently imposed on motor vehicles and replaced it with a title fee system levied on the net of trade-in value of the motor vehicle. The initial impact of the legislation on state and local governments is to increase revenues because the title fee is levied on two classes of vehicles not currently subject to the sales tax under the current system. Under the title fee system, casual sale vehicles incur a tax liability when titled, as do out of state vehicles (OOS). In addition, the local title fee rate is higher than the current sales tax rate. These factors serve to initially increase revenues under title fee system relative to the existing sales and property tax system. On the other hand, the revenue loss

TABLE 1. REVENUE ESTIMATE 1 – 6.75% TITLE FEE WITH NO CAP

	-----State Fiscal Year/\$ in Millions-----					
	2011	2012	2013	2014	2015	Total 2011-2015
STATE REVENUE EFFECT						
Eliminate Property Tax (Loss)	-\$1	-\$2	-\$4	-\$5	-\$6	-\$17
Eliminate Sales Tax (Loss)	-\$212	-\$452	-\$487	-\$500	-\$513	-\$2,163
Impose Title Fee with no maximum cap (Gain)	\$274	\$574	\$594	\$577	\$558	\$2,577
Increase in Income Tax due to lower Property Tax Deductions (Gain)	\$2	\$5	\$7	\$10	\$12	\$35
Net Effect to State	\$63	\$124	\$110	\$82	\$52	\$432
LOCAL REVENUE EFFECT						
Eliminate Property Tax (Loss)	-\$89	-\$253	-\$398	-\$532	-\$651	-\$1,923
Eliminate Sales Tax (Loss)	-\$148	-\$316	-\$340	-\$349	-\$358	-\$1,510
Impose Title Fee with no maximum cap (Gain)	\$364	\$672	\$746	\$782	\$817	\$3,381
Net Effect to Locals	\$127	\$103	\$8	-\$98	-\$192	-\$52
Title Fee Schedule – State	3.24%	3.11%	2.97%	2.84%	2.70%	
Title Fee Schedule - Local	3.51%	3.65%	3.78%	3.92%	4.05%	

NOTE: Assumes legislation is effective 1/1/2011.

TABLE 2. REVENUE ESTIMATE 2 – 6.75% TITLE FEE WITH \$1,500 MAXIMUM CAP

-----State Fiscal Year/\$ in Millions-----						
	2011	2012	2013	2014	2015	Total 2011-2015
STATE REVENUE EFFECT						
Eliminate Property Tax (Loss)	-\$1	-\$2	-\$4	-\$5	-\$6	-\$17
Eliminate Sales Tax (Loss)	-\$212	-\$452	-\$487	-\$500	-\$513	-\$2,163
Impose Title Fee with no maximum cap (Gain)	\$257	\$537	\$554	\$537	\$517	\$2,402
Increase in Income Tax due to lower Property Tax Deductions (Gain)	\$2	\$5	\$7	\$10	\$12	\$35
Net Effect to State	\$46	\$88	\$70	\$42	\$11	\$256
LOCAL REVENUE EFFECT						
Eliminate Property Tax (Loss)	-\$89	-\$253	-\$398	-\$532	-\$651	-\$1,923
Eliminate Sales Tax (Loss)	-\$148	-\$316	-\$340	-\$349	-\$358	-\$1,510
Impose Title Fee with \$1,500 maximum cap (Gain)	\$346	\$630	\$696	\$727	\$757	\$3,155
Net Effect to Locals	\$108	\$61	-\$42	-\$153	-\$252	-\$278
Title Fee Schedule – State	3.24%	3.11%	2.97%	2.84%	2.70%	
Title Fee Schedule - Local	3.51%	3.65%	3.78%	3.92%	4.05%	
Cap Schedule – State	\$720	\$690	\$660	\$630	\$600	
Cap Schedule - Local	\$780	\$810	\$840	\$870	\$900	

NOTE: Assumes legislation is effective 1/1/2011.

associated with the property tax increases significantly over time. Because the local governments receive a larger amount of property tax revenue relative to the state, this increase in the property tax revenue loss affects each government differently. On a statewide basis, the state gains revenue each year from the switch to the title fee system. Due to its larger reliance on property taxes, the local governments gain revenue initially but by 2014 are estimated to lose revenue because of the reform efforts. In addition, some counties are expected to lose more than others. The net fiscal impact on any given county is dependent on several factors, including the number of casual sale and OOS vehicles, the property tax millage rates and local option sales tax rate, and the mix of new, used, and OOS vehicles titled in the county. It is difficult to foresee which counties will be less harmed by the reform without a thorough analysis because of the interplay between all the different factors affecting the result.

NOTES

1. While the split in the rate between the state and local governments is 45/55 percent in 2011, the revenues are split at a slightly lower percentage due to the title fee on rental vehicles which is split between the state and local government at a 40/60 percent rate.
2. The \$22,222 is the breakeven price point for a 6.75 percent title fee, i.e. $\$1,500 = (\text{breakeven price} / 0.0675)$.

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