DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

January 22, 2018

Honorable Jay Powell
Chairman, House Ways and Means
133 State Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 327 (LC 28 8589S)

Dear Chairman Powell:

The bill would modify several provisions related to the Title Fee Ad Valorem Tax (TAVT), including the distribution of revenue between the state and local governments and the treatment or valuation of vehicles donated to nonprofit organizations; used vehicles; KIT vehicles; pre-1963 vehicles; out-of-state registrations; and vehicles transferred through divorce settlements or business restructuring. The legislative changes would be effective for registrations occurring on or after January 1, 2019.

Impact on State and Local Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would increase state revenues in FY 2019 by $81.8 million and $89.6 million (Table 1 on the following page). In FY 2023, the state revenue increase would be lower, at $62.8 million to $70.0 million. The bill would increase local revenue in FY 2019 by $80.6 million to $88.9 million and by $104.7 million to $115.9 million in fiscal year 2023 (Table 2). Details of FRC's analysis are included in the appendix.

Table 1. Projected State Revenue Effects of LC 28 8589S

($ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue distribution—state and local govt[1]	$1.8	$3.6	$2.7	$1.8	($2.7)
Treatment of vehicles donated to nonprofit	*Revenue loss of less than $1 million annually*				
Modify treatment of OOS registrations	($14.1)	($29.0)	($21.7)	($20.8)	($20.1)
Used vehicles at greater of invoice or book value					
High	$102.6	$98.5	$91.8	$93.0	$94.2
Low	$94.8	$91.0	$84.8	$85.9	$87.0
Modify treatment of vehicles transferred through divorce settlements	($0.7)	($1.5)	($1.4)	($1.4)	($1.4)
Treatment of KIT cars, pre-1963 vehicles	*Revenue gain of less than $1 million annually*				
Total State Revenue Effect					
High	$89.6	$71.6	$71.4	$72.7	$70.0
Low	$81.8	$64.1	$64.4	$65.6	$62.8

Note: Numbers may not add due to rounding.
[1] In a calendar year, the amounts in tables 1 and 2 would cancel out. However, the delay in money being transferred to the state results in slight differences when reported by fiscal year.

Table 2. Projected Local Revenue Effects of LC 28 8589S

($ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue distribution—state and local govt[1]	($2.1)	($3.4)	($2.7)	($1.6)	$3.4
Treatment of vehicles donated to nonprofit	*Revenue gain of less than $1 million annually*				
Modify treatment of OOS registrations	($16.7)	($29.8)	($27.0)	($28.7)	($30.1)
Used vehicles at greater of invoice or book value					
High	$108.6	$111.6	$120.2	$133.2	$144.8
Low	$100.3	$103.0	$111.0	$123.0	$133.7
Modify treatment of vehicles transferred through divorce settlements	($0.9)	($1.8)	($1.9)	($2.1)	($2.3)
Treatment of KIT cars, vehicle donations to nonprofits, pre-1963 vehicles	*Revenue gain of less than $1 million annually*				
Total Local Revenue Effect					
High	$88.9	$76.6	$88.5	$100.8	$115.9
Low	$80.6	$68.0	$79.2	$90.5	$104.7

Note: Numbers may not add due to rounding.
[1] In a calendar year, the amounts in tables 1 and 2 would cancel out. However, the delay in money being transferred to the state results in slight differences when reported by fiscal year.

Impact on Agency Costs

The Department of Revenue (DOR) estimated one-time costs of $746,000 to implement the bill's requirements. Changes to IT systems are estimated at $741,600, while the remaining $4,400 would be used for drafting new documents to explain the changes and counseling those impacted. The IT costs are significantly higher than the cost estimate provided for a similar bill (LC 28 8373S) introduced during the 2017 session. DOR officials noted that the agency's cost of implementing HB 340 last year were higher than originally estimated. In addition, it has increased the number of vendors with which its system must interface, which will require additional design and testing.

It should be noted that the changes required by the bill could impact the implementation schedule and costs of the Driver Record and Integrated Vehicle Enterprise System (DRIVES). DOR and the Department of Driver Services are developing DRIVES to replace existing systems, including

DOR's Georgia Registration and Title Information System (GRATIS). The DOR IT personnel assigned to the DRIVES implementation would be required to update GRATIS, then make the same changes in DRIVES.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Change the State and Local allocation schedule of TAVT revenues

The legislation modifies the current allocation schedule of TAVT revenues between the state and local governments. Under current law, TAVT revenues are shared between the state and local governments according to a formula specified in O.C.G.A § 48-5C-1. Under the current law arrangement, local government receipts for a given year must fall within a range of plus or minus 1 percent of the local government target amount. If local government revenues for the previous year do not fall within this range, the allocation between the state and local governments for the current year is adjusted so that, with the application of the adjusted rates, the local revenue for the prior year would have equaled the target amount. Under the proposed law, state and local revenues will be distributed such that, for each year, the county will retain an amount of TAVT revenues equal to the amount of ad valorem taxes (including associated fees, penalties and interest) collected in 2012 less the amount of ad valorem taxes collected in that year. Any remaining TAVT proceeds will be allocated between the state and local governments according to the following schedule:

	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023
State Government	80%	75%	70%	65%	60%
Local Government	20%	25%	30%	35%	40%

Based on the provisions in the proposed law, these allocation shares are not subject to annual revision and the TAVT rate will continue at the current value of 7 percent indefinitely. Lastly, the proposed legislation leaves unchanged the provision that local county governments may retain up to a maximum of 1 percent of state TAVT proceeds to defray cost of administration.

- State and local revenues are forecasted based on historical TAVT data from the Georgia Department of Revenue (DOR) and reflect the forecast of vehicle registrations in Georgia produced by Moody's Analytics for years 2018-23.
- Vehicle prices are assumed to increase at an average annual rate of 1.5 percent over all types of vehicle transactions over the 2018-23 period.
- The revenue effects presented in Table 1 and Table 2 assume the counties retain 1 percent of state revenues as compensation for administrative costs.
- Based on the current forecast of TAVT revenues and local ad-valorem revenues under the pre-TAVT system of taxation, this provision results in a revenue loss (gain) for the local (state) government between 2019 and 2023. The forecasted effective state and local TAVT rates under current law and the proposed law are as follows:

Current Law	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023
State Government	0.0317	0.0297	0.0279	0.0281	0.0301
Local Government	0.0383	0.0403	0.0421	0.0419	0.0399

Proposed Law	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023
State Government	0.0341	0.0312	0.0294	0.0284	0.0267
Local Government	0.0359	0.0388	0.0406	0.0416	0.0433

In the case of current law, the effective local (state) TAVT rate is computed as the forecasted local (state) share multiplied by the TAVT rate of 7 percent.[1] In the case of the proposed law, the effective local (state) TAVT rate is equal to 7 percent multiplied by the annual share of the true-up amount multiplied by the ratio of the true-up revenues to total TAVT revenues, plus the annual share of the remaining TAVT revenues multiplied by the remaining TAVT revenues.[2]

Treatment of vehicles donated to a nonprofit organization
This legislation modifies the distribution of the revenues from the TAVT levied on vehicles donated to nonprofit organizations. Under current law, vehicles transferred to a nonprofit organization are subject to a 1 percent TAVT rate upon transfer with all the proceeds distributed to the state government. Under the proposal, these transfers would still be subject to a 1 percent TAVT rate, but the revenue would be shared between the state and local governments using the annual shares for the standard TAVT transactions discussed above. The estimate reflects the shift in current law revenues from the state to the local governments but no overall change in revenues from the taxation of these transfers.

Treatment of out-of-state vehicles
The proposed legislation modifies the procedures for the registration of out-of-state vehicles when an owner is relocating to Georgia. Under current law, the TAVT is levied on the fair market value of the vehicle at the time it is registered in Georgia and the owner is allowed to pay the tax liability in two equal amounts over a 12-month period. Under the proposal, the TAVT rate for the registration of out-of-state vehicles would be equal to 4 percent of the fair market value of the vehicle and may be paid in one lump sum or in two equal installments over a 12-month period.

- The estimate assumes that approximately 94,000 vehicles will be registered as OOS transfers in 2019 and this amount is assumed to remain flat over the 2019-2023 period based on historical trends of U.S. Census Bureau data of domestic migration into Georgia since 2010.
- The average value of an OOS vehicle is assumed to be $17,022 in 2019 and is based on TAVT data provided by DOR for prior years. This value is assumed to grow annually at a rate of about 1.5 percent based on historical data of the CPI for used vehicles produced by the Bureau of Labor Statistics and based on historical TAVT data.
- The revenue estimate reflects the fact that some individuals are choosing to pay the current OOS registration fee in one payment instead of two equal installments over a 12- month period.
- This estimate also incorporates the effective state and local TAVT rates that will arise due to the change in the allocation of revenues between the state and local governments.

---

[1] Current law effective state TAVT rate for 2019 = 0.07*0.4531 and the current law effective local TAVT rate for 2019 = 0.07*0.5469.

[2] Proposed state effective TAVT rate for 2019 = 0.07*(0.0*(est. true-up amount/est. total TAVT revenue) + (0.8*(est. remaining TAVT revenue/est. total TAVT revenue)) and the proposed local effective TAVT rate for 2019 = 0.07*(1.0*(est. true-up amount/est. total TAVT revenue) + (0.2*(est. remaining TAVT revenue/est. total TAVT revenue)). The true-up amount is defined as the amount of revenue by which current local government ad-valorem revenue from motor vehicles fall short of 2012 local government ad-valorem revenues from motor vehicles.

Valuation method of used vehicles

This legislation modifies current law by requiring that the TAVT liability on used motor vehicles sold through dealerships be valued at the greater of a) the retail selling price of the motor vehicle or b) the average of the current fair market value and the current wholesale value of a motor vehicle listed in the motor vehicle ad valorem assessment guide used by the DOR. Under current law, the TAVT liability for used vehicles is based on the average of the current fair market value and the current wholesale value of a motor vehicle listed in the motor vehicle ad valorem assessment guide used by DOR, regardless of the transaction price. Adoption of this provision means that the TAVT liability would be computed in the same manner for both new and used vehicles sold through dealerships. The provision does not apply to casual sales of vehicles.

- Past versions of this provision have been estimated by relying on a sample of 25 vehicle invoices from automobile dealers provided to the Fiscal Research Center in 2013. This small sample of invoices was used to produce an estimate of the average difference between the book value of a used vehicle and its selling price. The low estimate shown in Tables 1 and 2 of this fiscal note assumes that the difference between the invoice and book value in the case of dealer sales of used vehicles is approximately $3,800 and is based on a review of these invoices.
- As an alternative estimate, a new data source has been identified that has not been available in the past. Based on a 2016 whitepaper produced by the National Auto Dealers Association (NADA), the retail price over the 2013-2015 period of used vehicles exceeded their wholesale values by 35 percent, on average.
- This results in an estimated premium of retail over wholesale prices of $4,115 in 2015. This figure is adjusted for an anticipated annual increase in used car prices of 1.5 percent and results in an estimated premium of approximately $4,400 per vehicle in 2019. This forms the basis of the high estimate presented in Tables 1 and 2.
- Based on historical data of used car transactions by used car dealers, the estimate assumes approximately 691,000 will be sold in 2019.
- This estimate also incorporates the effective state and local TAVT rates that will arise due to the change in the allocation of revenues between the state and local governments.

Vehicles transferred through divorce settlements

This legislation also allows vehicles transferred because of a divorce decree to be subject to a reduced state TAVT rate of 0.5 percent of vehicle fair market value and a reduced local TAVT rate of 0.5 percent of vehicle fair market value. Under current law, vehicles transferred because of a divorce decree are subject to the standard TAVT rate applicable to other transactions, such as dealer or casual sales.

- Based on data from the Centers for Disease Control, the national divorce rate in 2016 was 3.3 per 1,000 persons. Using this information, the estimate assumes approximately 34,000 divorces annually in Georgia.
- Based on data from the American Community Survey for 2013, Georgia residents owned 1.3 vehicles per household.
- Assuming half of the vehicles per household are transferred in a divorce settlement, the estimate assumes roughly 14,000 vehicles are transferred via a divorce settlement per year.

- Conversations with individuals at the DOR indicated that the TAVT levied currently in some of these cases may already be the reduced rate, as there seems to be some confusion among the county agents about how to process these transactions under current law. This is reflected in the estimate.
- The average value of vehicles transferred in a settlement is based on the historical values of casual sales transactions and is estimated to equal approximately $4,300 in 2019.
- This estimate also incorporates the effective state and local TAVT rates that will arise due to the change in the allocation of revenues between the state and local governments.

Kit Cars and pre-1963 vehicles
The legislation allows Kit cars to be valued at the greater of the retail selling price of the kit or the average of the current fair market value and the current wholesale value of the motor vehicle as listed in the current valuation book utilized by the state revenue commissioner. The modification in this bill codifies the typical treatment of these vehicles under current law.

In addition, the bill modifies the treatment of pre-1963 model vehicles. Vehicles with a model year prior to 1963, for which a conditional title has been obtained, would be allowed to opt into the TAVT system upon payment of a state TAVT payment equal to 0.5 percent of the fair market value of the vehicle and a local TAVT payment equal to 0.5 percent of the fair market value of the vehicle.