



DEPARTMENT OF AUDITS AND ACCOUNTS

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February 23, 2018

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

SUBJECT: Revised Fiscal Note
House Bill 327 (LC 28 8709S)

Dear Chairman Powell:

This original fiscal note for LC 28 8709S, dated February 22, 2018, has been revised and replaced. The fiscal note contained an incorrect method for assessing the value of used cars. As a result, the state and local revenue projections were too high in the original fiscal note.

The bill would modify several provisions related to the Title Fee Ad Valorem Tax (TAVT). It would lower the TAVT rate from 7 percent to 6.75 percent; change the distribution of revenue between the state and local governments; change the valuation of used vehicles; modify the treatment of out-of-state registrations, vehicles transferred through divorce settlements, pre-1963 vehicles, and vehicles donated to nonprofit organizations; and clarify the valuation of KIT cars. The legislative changes would be effective for registrations, purchases, and distributions occurring on or after July 1, 2019.

Impact on State and Local Revenue

Georgia State University's Fiscal Research Center (FRC) estimated the bill's impact on state and local revenue. FRC found that state revenue could decrease by as much as \$15.5 million or increase by \$22.0 million in FY 2020, depending on the bill's impact on TAVT revenue from used car sales (Table 1 on the following page). State TAVT revenue is likely to decline each year through FY 2023. The bill would increase local revenue in FY 2020 by \$0.6 million to \$45.3 million and by \$51.3 million to \$109.5 million in fiscal year 2023 (Table 2). While the bill does not take effect until FY 2020, FRC did estimate small revenue changes in FY 2019 due to anticipated shifting of purchases or registrations as a result of the bill. Details of FRC's analysis are included in the appendix.

Table 1. Projected State Revenue Effects of HB 327 LC 28 8709S

(\$ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Reduce TAVT rate to 6.75%, July 1, 2019	(\$7.2)	(\$49.7)	(\$63.7)	(\$68.2)	(\$73.0)
Revenue distribution—state and local govt ¹	\$0.0	\$5.2	\$7.4	\$6.0	\$1.7
Treatment of vehicles donated to nonprofits	<i>Revenue Loss of less than \$1 million annually</i>				
Modify treatment of OOS registrations	(\$1.0)	(\$10.5)	(\$9.5)	(\$9.1)	(\$8.9)
Value used vehicles at invoice price					
High	\$3.1	\$78.4	\$85.0	\$84.9	\$85.9
Low	\$3.1	\$41.0	\$46.0	\$46.0	\$46.5
Modify treatment of vehicles transferred through divorce settlements	\$0.0	(\$1.4)	(\$1.4)	(\$1.3)	(\$1.3)
Valuation of KIT Cars, Modify treatment for pre-1963 vehicles	<i>Revenue Effect of less than \$1 million annually</i>				
Total State Revenue Effect					
High	(\$5.0)	\$22.0	\$17.8	\$12.4	\$4.3
Low	(\$5.0)	(\$15.5)	(\$21.2)	(\$26.6)	(\$35.1)

Note: Numbers may not add due to rounding.

Note: LC 28 8709S has no provision affecting leased vehicles. House Bill 340, passed during the 2017 session, changed the method of assessing leased vehicles, resulting in an estimated state revenue reduction in FY 2019 of \$55.4 million.

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 HB 327 LC 28 8709S

(\$ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Reduce TAVT rate to 6.75%, July 1, 2019	(\$10.6)	(\$27.8)	(\$0.3)	\$0.0	(\$0.0)
Revenue distribution—state and local govt ¹	\$0.0	(\$5.8)	(\$7.3)	(\$5.8)	(\$1.1)
Treatment of vehicles donated to nonprofits	<i>Revenue Gain of less than \$1 million annually</i>				
Modify treatment of OOS registrations	(\$1.4)	(\$12.8)	(\$12.9)	(\$13.5)	(\$14.1)
Value used vehicles at invoice price					
High	\$4.6	\$93.3	\$103.8	\$116.6	\$126.9
Low	\$4.6	\$48.6	\$56.2	\$63.1	\$68.7
Modify treatment of vehicles transferred through divorce settlements	\$0.0	(\$1.6)	(\$1.7)	(\$1.9)	(\$2.1)
Valuation of KIT Cars, Modify treatment for pre-1963 vehicles	<i>Revenue Effect of less than \$1 million annually</i>				
Total Local Revenue Effect					
High	(\$7.5)	\$45.3	\$81.6	\$95.3	\$109.5
Low	(\$7.5)	\$0.6	\$34.0	\$41.8	\$51.3

Note: Numbers may not add due to rounding.

Note: LC 28 8709S has no provision affecting leased vehicles. House Bill 340, passed during the 2017 session, changed the method of assessing leased vehicles, resulting in an estimated local revenue reduction in FY 2019 of \$18.7 million.

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) is implementing a new Driver Record and Integrated Vehicle Enterprise System (DRIVES) that is scheduled to be completed May 27, 2019. DOR officials contend that making the changes in the bill after that date (July 1, 2019) will result in additional costs of \$5.6 million. If the changes are effective on the May 27, 2019 implementation date, they can be incorporated into the existing project scope at no additional cost. DOR officials noted that

one bill provision—the rate change from 7 percent to 6.75 percent—can be made on July 1, 2019 at no additional cost.

Sincerely,



Greg S. Griffin
State Auditor



Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Reduce the TAVT rate to 6.75% -

This legislation reduces the overall TAVT rate from 7 percent to 6.75 percent for all transactions occurring on or after July 1, 2019. The revenue effects shown in Table 1 and Table 2 for this provision reflect the revenue loss from the rate change assuming the current law distribution arrangement. Because the current law distribution arrangement guarantees a level of revenue for the local governments, the revenue effect of the rate change under the current distribution arrangement is borne by the state government. For calendar years 2021 and later, the local government revenue effect is minimal. The local government revenue effect is more significant in 2019 and 2020 because the current law guarantee formula adjustment is made on a one-year lagged basis, i.e. based on prior year distributions. The estimates also assume that some amount of June 2019 purchases will be shifted into July 2019 due to the scheduled reduction in the rate.

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 on an annual basis, state and local revenues will be distributed so 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:

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
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 6.75 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 1.15 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.

- Under the current law distribution arrangement, the annual state and local government shares are computed on a calendar year basis. Under the proposed distribution arrangement, the state and local government shares are computed on a fiscal year basis.
- 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 (incorporating the TAVT rate change) and the proposed law are as follows:

Current Law	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023
State Government	0.0306	0.0272	0.0253	0.0256	0.0276
Local Government	0.0369	0.0403	0.0422	0.0419	0.0399

Proposed Law	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
State Government	0.0315	0.0292	0.0279	0.0266	0.0247
Local Government	0.0360	0.0383	0.0396	0.0409	0.0428

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 6.75 percent.¹ In the case of the proposed law, the effective local (state) TAVT rate is equal to 6.75 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 that 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.

¹ Current law effective TAVT rate for CY 2020 = 0.0675*0.4242 and the current law effective local TAVT rate for CY 2020 = 0.0675*0.5758.

² Proposed state effective TAVT rate for FY 2020 = 0.0675*(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 FY 2020 = 0.0675*(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.

- 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 2018-2022 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 state and local TAVT rates that will arise due to the change in the allocation of revenues between the state and local governments.
- The estimate assumes that some amount of May and June 2019 registrations will be shifted into July of 2019 to take advantage of the reduced rate.

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 retail selling price of the motor vehicle. 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 vehicles 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 high 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), on average over the 2013-2015 period the retail price of used vehicle was 35 percent above its wholesale price.
- Based on the TAVT data provided by DOR, the estimate assume an average used car price of approximately \$13,000. This value is adjusted for trade-in values and is further reduced to reflect fact that under current law, used vehicles are valued for the purposes of the TAVT at the average of the wholesale and retail price. Incorporating these adjustments and applying the 35 percent factor, the estimate incorporates an average mark-up of approximately \$2,200 per vehicle for 2019. This forms the basis of the low 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 state and local TAVT rates that will arise due to the change in the allocation of revenues between the state and local governments.
- The estimate assumes that some amount of July 2019 purchases will be shifted into June of 2019 to avoid the additional tax liability.

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 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.