



DEPARTMENT OF AUDITS AND ACCOUNTS

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February 12, 2019

Honorable Brett Harrell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 28 9064)

Dear Chairman Harrell:

The bill would modify the calculation of the Title Ad Valorem Tax (TAVT) for used motor vehicles. Under the proposed law, the TAVT for used vehicles would be based on the retail price of the vehicle. Under current law, the TAVT is based on the value of the vehicle as listed in the Georgia Department of Revenue Vehicle Valuation book, which is updated annually. The bill does not specify an effective date, but the estimate assumes an effective date of January 1, 2020.

Impact on Revenue

Georgia State University's Fiscal Research Center estimated that the bill would result in additional state revenue of \$31.9 million to \$36.4 million in FY 2021, the first full year of the bill's effect (Table 1). The additional revenue would slightly increase through FY 2024. Local revenue would increase by \$59.3 million to \$67.8 million in FY 2021, with the gain increasing in subsequent years. The attached appendix details the analysis.

Table 1. Projected State Revenue Effects of LC 28 9064

<i>(\$ millions)</i>	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Value used vehicles at retail price					
High	\$15.0	\$36.4	\$38.1	\$39.6	\$39.5
Low	\$13.1	\$31.9	\$33.4	\$34.6	\$34.5

Table 2. Projected Local Revenue Effects of LC 28 9064

<i>(\$ millions)</i>	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Value used vehicles at retail price					
High	\$33.4	\$67.8	\$71.2	\$73.5	\$73.3
Low	\$29.2	\$59.3	\$62.3	\$64.3	\$64.2

It should be noted that FRC was unable to estimate the financial impact of two issues.

- By eliminating the Georgia Department of Revenue (DOR) book value from the valuation process, there is no check against the value of the vehicle stated on the bill of sale. In the absence of a valuation guide, buyers and sellers could understate the actual transaction price to reduce the TAVT liability. This risk is likely greater in the case of casual sales but could also occur with some dealer sales. This would increase the potential for tax evasion.
- Casual sales between family members could result in a reduction that could not be calculated. In many family transfers, the vehicle is transferred as a gift or for only nominal consideration, but the TAVT is computed on the DOR book value. Under the bill, the sale price would be the basis for taxation and the price may be zero, one dollar, or some other non-market, non-arms-length value. This would not be evasion behavior but legitimate pricing for such related party "sales." Unfortunately, the numbers and values of these transactions currently occurring are not known, so this expected impact is not reflected in the estimates.

Impact on State Expenditures

The Department of Revenue estimated additional, one-time costs of \$48,000 for IT system changes.

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

Analysis by Fiscal Research Center

This legislation modifies current law by requiring that the TAVT liability for used vehicles be based on the actual 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 motor vehicles listed in the motor vehicle ad valorem assessment guide used by DOR, regardless of the transaction price. Unlike past versions of this legislation, the provision would apply to sales of all used vehicles, including casual sales.

- The high estimate is based on information contained in a 2016 whitepaper produced by the National Auto Dealers Association (NADA). This information shows that on average over the 2013-2015 period, the retail price of a used vehicle was 35 percent above its wholesale price. Based on historical values from DOR for dealer sales and after adjusting for the relationship between the DOR book value and the wholesale price, this equates to a \$2,252 markup for 2018.
- The low estimate is constructed using data supplied by the Georgia Automobile Dealers Association. The Association provided the FRC with an analysis of approximately 200 vehicles per year for the years 2015, 2016, and 2017. This analysis computes the difference between the retail price and the DOR book value for the sample of vehicles. Based on this information, the average difference between the retail and DOR book value equals about \$2,000 per vehicle.
- The estimates assume that the DOR book value, on average, reflects the market value of a casual sale vehicle. Thus, the estimates attribute no revenue gain or loss from the inclusion of casual sales in this provision, though this is in the absence of any tax evasion from underreporting of transaction prices for casual sales.
- Based on the TAVT data provided by DOR, the estimates assume an average used car price of approximately \$13,000 for dealer sales and \$4,000 for casual sales in 2018.
- Based on historical data on used car transactions, the estimates assume approximately 1.1 million used vehicles will be sold in 2020. Based on trends in past data, 59 percent of these will be dealer sales and 41 percent will be casual sales.
- The estimates also incorporate the 2018 changes to the allocation of the TAVT that will occur as of July 2019 and assume that the subject legislation applies to purchases occurring on or after January 1, 2020.
- As currently drafted, this legislation introduces a source of potential evasion that is not present under current law, but the potential impact of such activity could not be estimated and thus is not reflected in the estimates below. By eliminating the Georgia Department of Revenue (DOR) book value from the valuation process, there is no check against the value of the vehicle stated on the bill of sale. In the absence of such a valuation guide, buyers and sellers have the ability to understate the actual transaction price in order to reduce the

TAVT liability. This risk is likely greater in the case of casual sales but could also occur with some dealer sales.

- Family transfers are classified under current law as casual sales. In many of these cases, the vehicle is transferred as a gift or for only nominal consideration, but the TAVT is computed based on the DOR book value. Under the proposed law, the sale price would be the basis for taxation and the price, the actual consideration paid, may be zero, one dollar, or some other non-market, non-arms-length value. This would not be evasion behavior, but legitimate pricing for such related party “sales”, thus the amount of TAVT collected on these transfers may be reduced significantly from that collected under current law. Unfortunately, the numbers and values of these transactions currently occurring are not known, so this expected impact is not reflected in the estimates.
- In 2018, state and local TAVT from casual sales equaled \$151 million and state and local TAVT from dealer sales equaled \$701 million.
- The estimate does not include a revenue effect from changes in the transfers due to inheritances or divorces. These transactions are subject to reduced rates and it is assumed that these transfers will not be affected by passage of this legislation. The estimates assume that the DOR Book will continue to be published and available for valuation of transfers due to inheritance and divorce.