



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

March 7, 2019

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

SUBJECT: Revised Fiscal Note
House Bill 365 (LC 28 9258S)

Dear Chairman Harrell:

This replaces the previous fiscal note for LC 28 9258S dated March 5, 2019. This fiscal note revises the estimate of the FY 2020 revenue effects related to the modification of vehicle valuations. The bill does not specify an effective date for modification of vehicle valuation methods, and the original estimate assumed an effective date of January 1, 2020. This revised estimate assumes an effective date of July 1, 2019.

The bill modifies the current Title Ad Valorem Tax (TAVT) by temporarily reducing the TAVT rate from 7 percent to 6.6 percent of the fair market value of the motor vehicle for transactions occurring on or after July 1, 2019 and before July 1, 2023. In addition, the bill modifies the methodology for establishing the fair market value for new motor vehicles, certain used motor vehicles, and kit cars. The bill also broadens the model year window for vehicles taxed at the 0.5% rate to 1963 through 1989.

Impact on State Revenue

Georgia State University's Fiscal Research Center estimated that state revenue changes resulting from the bill would range from a reduction of \$2.2 million to an increase of \$2.2 million in FY 2020, but would increase by \$33.0 to \$37.7 million in FY 2024 when the TAVT rate returns to the current level (Table 1). In FY 2020, the local revenue impact ranges from a \$4.5 million reduction to a \$3.6 million increase. In FY 2024, the increase would be \$61.4 million to \$70.1 million (Table 2). The attached appendix details the analysis.

Table 1. Projected State Revenue Effects of HB 365 LC 28 9258S

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
TAVT Rate Reduction	(\$33.2)	(\$33.6)	(\$34.0)	(\$34.4)	(\$0.0)
Modify valuation of vehicles - high	\$35.3	\$34.3	\$36.0	\$37.3	\$37.7
Modify valuation of vehicles – low	\$30.9	\$30.0	\$31.5	\$32.7	\$33.0
Modify treatment of Kit Cars/Model years 1985-1989	Revenue Effect of less than \$1 million annually				
Total State Revenue Effect – High	\$2.2	\$0.7	\$2.0	\$2.9	\$37.7
Total State Revenue Effect – Low	(\$2.2)	(\$3.6)	(\$2.5)	(\$1.8)	\$33.0

Table 2. Projected Local Revenue Effects of HB 365 LC 28 9258S

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
TAVT Rate Reduction	(\$61.6)	(\$62.4)	(\$63.1)	(\$64.0)	(\$0.0)
Modify valuation of vehicles - high	\$65.2	\$63.9	\$67.2	\$69.3	\$70.1
Modify valuation of vehicles – low	\$57.1	\$55.9	\$58.8	\$60.7	\$61.4
Clarify valuation of KIT Cars, Modify treatment for pre-1963 vehicles	Revenue Effect of less than \$1 million annually				
Total Local Revenue Effect - High	\$3.6	\$1.5	\$4.1	\$5.3	\$70.1
Total Local Revenue Effect – Low	(\$4.5)	(\$6.5)	(\$4.3)	(\$3.3)	\$61.4

Impact on State Expenditures

The Department of Revenue estimated additional, one-time costs of \$53,000 for changes to its information technology systems.

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

Analysis by the Fiscal Research Center

This legislation modifies current law by reducing the TAVT rate and 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.

TAVT Rate Reduction

- The proposed legislation would affect the TAVT rate levied on approximately 80 percent of all TAVT transactions and covering about 92 percent of TAVT revenue.
- Some vehicle transactions are subject to an alternative TAVT rate. These include rental and salvage vehicles, out of state registration, transfers associated with inheritances, transfers to nonprofits, and transfers in the case of divorce. These transactions would not be affected by the proposed rate reduction.
- Under current law, Buy Here Pay Here (BHPH) vehicles are subject to a TAVT rate that is 2.5 percentage points less than the standard rate. Thus, the applicable TAVT to BHPH vehicles would be reduced from 4.5 percent to 4.1 percent by this legislation.
- This rate reduction equates to a \$150 reduction in the TAVT liability for the average new car purchase.

Valuation of Used Vehicles

- 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 estimate assumes that the retail selling price of new vehicles is higher than the DOR book value. Thus, the estimate attributes no revenue effect from the change to the TAVT calculation on new vehicle transactions.
- Based on the TAVT data provided by DOR, the estimates assume an average used car price of approximately \$13,000 for dealer sales in 2018.
- Based on historical data on used car transactions, the estimates assume approximately 650,000 used vehicles will be sold through dealerships in 2020.

Kit Cars and Model year vehicles 1985-1989 –

- This legislation allows kit cars to be valued at the retail selling price of the kit for the purposes of computing the TAVT liability. Under current law, kit cars are 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.

- In addition, the bill modifies the treatment of vehicles with a model year between 1985 and 1989. Under the proposal, these vehicles would be subject to a state TAVT liability equal to 0.5 percent and a local TAVT liability of 0.5 percent of the fair market value of the vehicle. Under current law, these vehicles are subject to a TAVT liability based on the standard TAVT rate.
- We have limited data with which to construct an estimate for this modification to the treatment of kit cars. Prior estimates assumed that the revenue raised from taxing kit cars at the greater of the retail price of the kit and their book value was equal to less than \$1 million annually. Thus, adjusting the valuation of these vehicles to value of the kit is assumed to reduce revenues by less than \$1 million annually.
- We have limited data with which to construct an estimate for this modification to the treatment of cars of model years between 1985 and 1989. This modification technically reduces the TAVT liability for these vehicles. Due to their age, it is anticipated that the vast majority of these vehicles will have a very low sale price. We assume a sale price of \$1,000. Based on this assumption, there would need to be over 50,000 sale transactions or 4 percent of all used car transactions to generate a revenue loss to the state of more than \$1 million annually. Based on these assumptions, we estimate that this provision will reduce state revenues by less than \$1 million annually.