DEPARTMENT OF AUDITS AND ACCOUNTS

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

SUBJECT: Fiscal Note
House Bill 340 (LC 28 8462S)

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, the verification of trade-in vehicles, and the treatment or valuation of leased vehicles; used vehicles; KIT vehicles; pre-1963 vehicles; out-of-state registrations; and vehicles transferred through divorce settlements. The legislative changes would be effective for registrations occurring on or after January 1, 2018.

Impact on State and Local Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill's impact on state revenues in FY 2018 would increase between $2.1 million and $55.2 million (Table 1). In FY 2022, the bill would result in state revenue loss of $104.4 million to $170.0 million. The impact on local revenue in FY 2018 ranges from an $8.8 million loss to a $7.2 million gain (Table 2). In FY 2022, local revenue would increase between $112.4 million and $207.2 million. The wide ranges each year are due to the difficulty determining the precise revenue gain that would result from the change in used car valuation (Tables 1 and 2). Details of FRC's analysis are included in the appendix.

Table 1. Projected State Revenue Effects of HB 340 LC 28 8462S

($ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenue distribution—state and local govt	$2.0	($25.7)	($86.4)	($132.6)	($142.9)
Verification of trade-in vehicles	*Positive Revenue Effect but not quantifiable*				
Impose TAVT on total of base payments pursuant to the lease agreement	($23.3)	($55.4)	($54.0)	($51.4)	($42.8)
Modify treatment of OOS registrations	($1.2)	($8.4)	($16.0)	($15.0)	($14.6)
Used vehicles at greater of invoice or book value					
High	78.8	178.8	154.6	130.6	97.4
Low	25.7	58.3	50.4	42.5	31.7
Modify treatment of vehicles transferred through divorce settlements	($1.1)	($2.6)	($2.2)	($1.8)	($1.4)
Treatment of KIT cars, vehicle donations to nonprofits, pre-1963 vehicles	*Technical Clarification - Negligible Revenue Effect*				
Total State Revenue Effect					
High	$55.2	$86.8	($3.9)	($70.2)	($104.4)
Low	$2.1	($33.8)	($108.1)	($158.2)	($170.0)

Note: Numbers may not add due to rounding.

Table 2. Projected Local Revenue Effects of HB 340 LC 28 8462S

($ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenue distribution—state and local govt	($2.5)	$31.8	$89.9	$136.8	$139.1
Verification of trade-in vehicles	*Positive Revenue Effect but not quantifiable*				
Impose TAVT on total of base payments pursuant to the lease agreement	($7.0)	($18.7)	($29.3)	($42.3)	($64.0)
Modify treatment of OOS registrations	($6.7)	($7.3)	($2.4)	($4.8)	($6.5)
Used vehicles at greater of invoice or book value					
High	23.6	58.9	82.1	105.1	140.5
Low	7.7	19.2	26.8	34.3	45.8
Modify treatment of vehicles transferred through divorce settlements	($0.3)	($0.8)	($1.1)	($1.5)	($2.0)
Treatment of KIT cars, vehicle donations to nonprofits, pre-1963 vehicles	*Technical Clarification - Negligible Revenue Effect*				
Total Local Revenue Effect					
High	$7.2	$63.8	$139.2	$193.4	$207.2
Low	($8.8)	$24.1	$83.8	$122.5	$112.4

Note: Numbers may not add due to rounding.

Impact on Agency Costs

The Department of Revenue (DOR) estimated one-time costs of $235,000 to implement the bill's requirements. Changes to IT systems are estimated at $220,000, while the remaining $15,000 would be used for drafting new documents to explain the changes and counseling those impacted.

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, between 2018 and 2021, 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 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 2018	CY 2019	CY 2020	CY 2021
State Government	80%	70%	60%	50%
Local Government	20%	30%	40%	50%

Beginning in 2022 the state will receive 30 percent of the total state and local TAVT revenue collection and the local government will receive 70 percent of the total state and local TAVT revenue collection. After 2021, the local governments will no longer retain an amount of TAVT revenues equal to the amount of ad valorem taxes collected in 2012 less the amount of ad valorem taxes collected in that year.

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 2018-22.
- Vehicle prices are assumed to increase at an average annual rate of 1.5 percent over all types of vehicle transactions over the 2018-22 period.
- Local ad valorem receipts are forecasted to fall at an average rate of 23 percent per year over the 2018-22 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.

Verification of Trade-In Vehicles –
This legislation prohibits the use of a trade-in to reduce the TAVT liability unless the owner's name and the Vehicle Identification Number of the trade-in vehicle is provided. There have been reported instances of abuse involving the use of trade-ins in used vehicle transactions. The result of this abuse is to reduce, in some cases perhaps significantly, the TAVT liability for that

transaction. Current law does not require the provision of any information on the trade-in vehicle or the owner.

At this point it is not possible to quantify the amount of revenue that would be gained by the state and local governments if this abuse is mitigated. At present, DOR does not review TAVT returns since the dealer invoices are sent to individual counties. A conversation with officials at DOR in 2016 did not yield any additional information regarding the size of this abuse. Therefore, while we believe that the state and local governments will likely see some increase in revenues due to the prevention of this abuse, we are unable to quantify the size of the revenue increase.

Treatment of leased vehicles –
This legislation modifies the treatment of leased vehicles under the TAVT. Under current law, the TAVT is applied to the full fair market value of the leased vehicle at the time the lease is signed. Under the proposal, the TAVT is applied to the sum of the base payments under the lease agreement.

- Based on TAVT data provided by DOR and the forecast of vehicle registrations for Georgia produced by Moody's Analytics, it is expected that registered leases will equal approximately 60,000 vehicles in 2018.
- Using data provided by DOR, the leasing rate in Georgia in 2016 was about 10 percent of all new vehicles transactions. Under current law, this rate is forecasted to increase to 12 percent by 2018 and 18 percent by 2022.
- Based on industry reports from Experian, the national average for leasing of new vehicles has been increasing significantly over the 2010-2015 period but the same publications also provide evidence that leasing rates in Georgia may be perpetually lower than the national average. In general, leasing activity is relegated to consumers with prime and super-prime credit ratings. Because the credit ratings of Georgia consumers tend to be below the national average, it is assumed that leasing activity in Georgia will be less than the national average. However, it is expected that the treatment of leases under the proposed law will encourage more leasing activity than is currently experienced in Georgia. To reflect this assumption, the leasing rate in Georgia is anticipated to increase to 13 percent by 2018 and 19 percent by 2022.
- Using the historical TAVT data provided by DOR, the estimate incorporates an average value for a leased vehicle of $37,000 in 2018 and $41,000 in 2022.
- Lastly, based on a sample of 50 2015 vehicles of various makes and models, the residual value after 36 months is assumed to equal 48 percent of the vehicle MSRP.
- 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.

Treatment of out of state vehicles –
HB 340 LC 8462S 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, vehicles shall be assessed a

state and local TAVT fee based on the fair market value of the vehicle but such fee would be limited a maximum of $1,100. Under the proposed law, the TAVT liability is due in full at the time of registration.

- The estimate assumes that approximately 94,000 vehicles will be registered as OOS transfers in 2018 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 approximately $17,000 in 2017 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.
- To estimate the revenue effect of this provision, we construct a distribution of vehicle values for 2017 that is consistent with our estimated average value of $17,000. We apply this distribution to the expected totals of OOS vehicles for years 2018-2022.
- Based on our distribution of values, approximately 50 percent of vehicles would be subject to the cap of $1,100 in 2017.
- The average values are adjusted for an anticipated annual growth of 1.5 percent.
- 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 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.

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 the retail selling price of the motor vehicle or 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. 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 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 $1,500 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.

- Assuming an average used car price of approximately $13,000, the estimate incorporates an average retail premium of approximately $4,600 per vehicle. 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 733,000 will be sold in 2018.
- This estimate 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.

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 a conversation with the bill sponsor, it is intended that the revenue associated with these transactions will be distributed to the state and local governments per the standard state and local distribution arrangement specified in (b)(1)(B)(iii) of the bill and discussed earlier in this fiscal note.

- 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 about 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 $4,100 in 2018.
- This estimate 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, donations of vehicles to nonprofits, 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. Furthermore, the bill amends the current law treatment of vehicles donated to nonprofit organizations. Under current law, these vehicles are assessed a state TAVT fee equal to 1 percent of the fair market value of the

vehicle. No local TAVT fee is assessed under current law. The proposed legislation would apply a 1 percent TAVT fee to the fair market value of the vehicle which would be shared between the state and local governments according to the schedule presented in (b)(1)(B)(iii) of the bill. Lastly, 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.