



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 9063)

Dear Chairman Harrell:

The bill would reduce the title ad valorem tax rate on motor vehicles from 7 percent to 6 percent. The legislation has no effective date but is assumed to be July 1, 2019 for the purposes of the analysis.

Impact on Revenue

The University of Georgia's Carl Vinson Institute of Government estimated that the bill would result in state revenue loss of \$86.9 million in FY 2020 (Table 1). The revenue loss would decline to \$75.0 million in FY 2024. Local revenue would decline by \$161.4 million in FY 2020, with the loss rising to \$192.7 million by FY 2024. The attached appendix details the analysis.

Table 1. Estimated Revenue Loss from LC 28 9063

<i>(\$ millions)</i>	FY 2020	FY 2021	FY2022	FY 2023	FY2024
State Revenue Loss	\$86.9	\$80.3	\$74.1	\$73.2	\$75.0
Local Revenue Loss	\$161.4	\$170.8	\$181.5	\$188.3	\$192.7

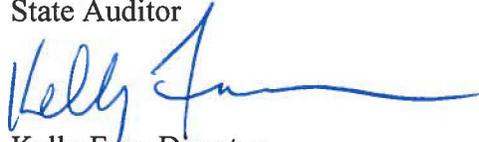
Impact on State Expenditures

The Department of Revenue would require no additional funds for implement the provisions of the bill.

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by Carl Vinson Institute of Government

Historical motor vehicle title ad valorem tax data on the annual number transactions, total fair market value of vehicles sold, and tax collections, by vehicle category, were obtained from the Georgia Department of Revenue. These data indicate that 92% of motor vehicle title ad valorem tax collections are from the sale of new cars, dealer sales of used cars and casual sales of used cars. The remainder is primarily from new residents titling automobiles upon moving to Georgia and from rental fleet vehicles and vehicles that are inherited, salvaged, or rebuilt.

These data were used to project title ad valorem tax collections through 2024 at the 7 percent rate. The projections were then re-calculated at the proposed 6 percent rate. The state/local tax split enumerated in (b)(1)(A)(vii) through (b)(1)(A)(xii) was applied to arrive at the state and local portions of the tax revenue. The difference in revenue projected at the current 7 percent rate and revenue projected at the proposed 6 percent rate, for both the state and local portions of the tax, are show in Table 1. These differences represent the estimated decline in tax revenue due to the proposed tax rate reduction. Table 2 shows the estimated vehicle title ad valorem tax revenue collected for the 7% and 6% tax rate scenarios, both in total and at the state and local levels.

Major factors that could affect vehicle title ad valorem tax revenue include the number of vehicles sold and the average price of both new and used vehicles. Based on information provided by the National Automobile Dealers Association, sales of new automobiles are projected to decline by roughly 3 percent in 2019 and 1.2 percent in each of years 2020 and 2021, before leveling off between 2022 and 2024. Fewer new car sales will lead to fewer trade-in vehicles that are available to be re-sold, retitled, and subject to ad valorem tax in the used market. These percentages were used to project new and used car sales for 2019-2024. Tax collections for other categories such as new residents, inherited, salvaged, and rebuilt vehicles were projected based on historical Department of Revenue data. Reasons cited for these trends include rising new car prices and financing rates, competition from late model vehicles coming off of expiring lease agreements, and the large number of new vehicles purchased during the years after the 2007-2009 recession, which are expected to remain serviceable for several more years.

Kelly Blue Book, a nationally recognized vehicle valuation and automotive research company, reports that new car prices have historically risen by an average of 2 percent per year. To account for the fact that Georgia has an automobile market dominated by light trucks and SUV's, and that automobile price increases are expected to accelerate over the next few years due to technological and fuel efficiency requirements, an inflation rate of 3 percent was used to account for price increases.

There is no effective date specified in the legislation. Assuming it becomes effective July 1, 2019, it would affect title ad valorem tax receipts beginning with FY2020. Using baseline data provided by the Georgia Department of Revenue and information obtained from the National Automobile Dealers Association, the exemption would result in a projected state revenue loss of \$86.9 million in revenue for FY2020, decreasing to \$75.0 million by FY2024. The decrease over the period is due to the decline in the state's share of the revenue as stipulated in the code section. As the revenue split between the state government and local governments is adjusted based on existing law, the

local government revenue loss would increase from \$161.4 million in FY2020 to \$192.7 million in FY2024.

Table 1A shows the estimated revenue impact of the proposed motor vehicle title ad valorem tax change for the five years FY2020 through FY2024.

Table 1A: LOSS TO STATE VEHICLE TITLE AD VALOREM TAX REVENUE

<i>In millions</i>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>	<u>Total</u>
State Impact	\$86.9	\$80.3	\$74.1	\$73.2	\$75.0	\$389.5
Local Impact	\$161.4	\$170.8	\$181.5	\$188.3	\$192.7	\$894.7
Total	\$248.3	\$251.2	\$255.6	\$261.5	\$267.7	\$1,284.2

Note: Numbers may not total due to rounding

Table 2A shows total estimated vehicle title ad valorem tax revenue collected, along with state and local portions, for 7% and 6% tax rate scenarios.

Table 2A: PROJECTED VEHICLE TITLE AD VALOREM TAX REVENUE

<i>In millions</i>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>	<u>Total</u>
Total at 7%	\$1,737.9	\$1,758.1	\$1,788.9	\$1,830.7	\$1,873.8	\$8,989.3
Total at 6%	\$1,489.7	\$1,506.9	\$1,533.3	\$1,569.1	\$1,606.1	\$7,705.1
State at 7%	\$608.2	\$562.4	\$518.6	\$512.6	\$524.7	\$2,726.4
State at 6%	\$521.3	\$482.0	\$444.5	\$439.4	\$449.7	\$2,336.9
Local at 7%	\$1,129.8	\$1,195.7	\$1,270.3	\$1,318.1	\$1,349.1	\$6,263.0
Local at 6%	\$968.4	\$1,024.9	\$1,088.8	\$1,129.8	\$1,156.4	\$5,368.3

Note: Number may not total due to rounding