

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0026-04
Bill No.: HCS for HB 703
Subject: Motor Vehicles; Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Property; Taxation and Revenue - Sales and Use
Type: Original
Date: March 13, 2009

Bill Summary: Would allow for the collection of sales and use taxes on boats and motor vehicles by boat and motor vehicle dealers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	\$0	\$0	(More than \$100,000)
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	(More than \$100,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Highway	\$0	\$0	(More than \$100,000)
Road Bond	\$0	\$0	More than \$100,000
Transportation	\$0	\$0	Unknown
Road	\$0	\$0	More than \$100,000
School District Trust	\$0	\$0	More than \$100,000
Conservation Commission	\$0	\$0	More than \$100,000
Parks, and Soils and Water	\$0	\$0	More than \$100,000
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	More than \$100,000

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	0	0	0
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government	\$0	\$0	(More than \$100,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed this proposal would not result in added cost to their organization. BAP officials stated that this proposal would allow for the collection of sales and use taxes at the point of sale by certain motor vehicle and boat dealers, and would set up procedures to do so. This proposal would have no direct impact on general and total state revenues, but may increase general and total state revenues if these provisions prevent some levels of sales tax evasion.

BAP officials also stated that current law provides for the sales tax on a newly purchased vehicle to be calculated on the purchase price less the value of any trade-in or other credit on which sales tax has already been paid. This proposal would impose sales tax on no less than 80% of the value of the newly purchased vehicle, despite the trade-in value. This proposal may increase sales tax collections, but BAP has no data to estimate the impact.

Officials from the **Department of Revenue** (DOR) assumed that a previous version of this proposal would allow but not require dealers to collect sales tax on their sales. It is unknown how many dealers would choose to collect and remit sales tax. The following is based on 50% of all dealers choosing to do so.

There were approximately 29,388 individuals who purchased vehicles from a dealer and didn't pay their sales tax or apply for title. With this proposal those individuals would have to pay sales tax (an average state sales tax of \$480 and an average of \$340 local sales tax each) directly to the dealer at the time of sale. This proposal would result in an increase in motor vehicle sales tax collected by DOR. Likewise, there would be an increase in marine sales tax based on approximately 109 individuals who purchased vessels and/or outboard motors from dealers but did not pay their sales tax or apply for title. With this proposal those individuals would have to pay sales tax (an average state sales tax of \$439 and an average of \$312 local sales tax each) directly to the dealer at the time of sale.

ASSUMPTION (continued)

The following is the allocation to each fund.

Sales Tax	FY 2012	FY 2013	FY 2014
General Revenue Fund	\$72,197	\$144,395	\$144,395
State Road Bond Fund	\$2,504,069	\$5,008,138	\$5,008,138
State Transportation Fund	\$66,793	\$133,586	\$133,586
State Road Fund	\$2,437,276	\$4,874,552	\$4,874,552
School District Trust Fund	\$858,732	\$1,717,464	\$1,717,464
Conservation Commission Trust Fund	\$211,710	\$423,420	\$423,420
Parks, and Soils and Water Funds	\$169,283	\$338,567	\$338,567
Cities	\$3,041,007	\$6,082,014	\$6,082,014
Counties	\$2,874,060	\$5,748,119	\$5,748,119
Total State Revenue	\$6,320,061	\$12,640,122	\$12,640,122
Total Local Revenue	\$5,915,067	\$11,830,133	\$11,830,133
Total:	\$12,235,128	\$24,470,256	\$24,470,256
Less 2% collection fee:	\$244,703	\$489,405	\$489,405
Net total:	\$11,990,425	\$23,980,851	\$23,980,851

ASSUMPTION (continued)

DOR assumes there would be an unknown increase in vehicle/marine use tax on sales between individuals since vehicle purchasers would have to pay use tax on no less than 80% of the trade-in value of the vehicle, regardless of any 180-day tax credit that would otherwise be allowed. There would be a corresponding increase in title fees from the 29,388 vehicle purchasers and 109 vessel/outboard motor purchasers who now apply for title at \$8.50 and \$7.50 each respectively as shown below. The \$8.50 title fee is distributed \$1 to Highway Fund and the remaining \$7.50 is distributed: 75% Highway Fund, 15% Cities, and 10% Counties.

Motor Vehicle Title Fee Increase	FY 2012 (6mnths)	FY 2013	FY 2014
Highway Fund - \$1 each	\$14,694	\$29,388	\$29,388
Highway Fund - 75% of Balance	\$82,654	\$165,308	\$165,308
Cities - 15% of Balance	\$16,531	\$33,062	\$33,062
Counties - 10% of Balance	\$11,021	\$22,041	\$22,041
Total	\$124,899	\$249,798	\$249,798

Marine Title Fee Increase	FY 2012 (6mnths)	FY 2013	FY 2014
General Revenue Fund	\$1,737	\$3,474	\$3,474

Dealer Penalty for Failure to Pay Promptly

DOR assumes there would also be an unknown increase in penalties assessed to dealers who fail to remit sales tax in a timely manner.

Reduction in Penalties for Failure to Apply for Title Promptly

DOR assumes that because buyers would be paying sales tax up front, there would no longer be a reason to delay applying for title so there would be a projected decrease in title penalties each year of \$4,580,650 to the Highway Fund for vehicle transactions, and \$163,410 to the General Revenue Fund for marine transactions each year.

ASSUMPTION (continued)

DOR officials assume their organization would need to revise policies and procedures, the DOR website, and sales tax charts and notify motor vehicle dealers, leasing companies and salvage dealers regarding this legislation. DOR assumes that \$4,130 would be required for the Motor Vehicle Commission Fund for the cost of these notifications.

Based on their assumption that fifty percent of dealers would collect and remit sales taxes, DOR officials assume they would process 29,388 additional transactions per year which would require funding of \$6,817 in FY 2012, \$14,045 in FY 2013, and \$14,467 in FY 2014 for printing the titles and envelopes, and postage to mail them to the owner.

DOR officials assume there would be a decrease in the number of delinquent fee letters issued. In FY 2007, there were a total of 29,388 delinquent fee letters generated due to unpaid motor vehicle or marine dealer sales transactions. DOR assumes this proposal would eliminate fifty percent of the delinquent fee letters, which would result in cost savings for letters, postage, and envelopes in the amount of \$6,802 in FY 2012, \$13,607 in FY 2013 and FY 2014.

Currently, when customers take an application for title and license to a contract office, the contract offices process and enter data into the TRIPS system. DOR officials assume that dealers would not have access to the TRIPS system; therefore, dealers that elect to process registrations, licenses, and titles would be sending applications directly to the central office instead of the applicants taking them to contract offices. DOR officials assume that an unknown number of additional FTE's would be required for keying and processing those applicaitons.

DOR officials assume that an unknown additional inventory of additional plates and tabs would be distributed to dealers across the state who are designated as DOR agents, and there would be additional UPS costs associated with shipping those plates to the dealers.

DOR officials assume that Collections and Tax Assistance would need one FTE Revenue Processing Technician I for every 8,300 registrations/maintenance to business tax accounts, one FTE Tax Collection Technician I for every 15,000 calls a year to the delinquency phone line, one FTE Revenue Processing Technician I for every additional 4,800 contacts in the field offices, and one FTE Revenue Processing Technician I for every additional 3,000 revocations annually.

ASSUMPTION (continued)

In addition, DOR officials assume that Cashiering and Processing would require one FTE Revenue Processing Technician I for every additional 50,000 data-entry returns, one FTE Revenue Processing Technician I for every additional 17,000 returns to be verified, and one FTE Revenue Processing Technician I for every additional 25,000 pre-edited returns.

DOR officials included an estimate of the cost to implement this proposal including seven additional employees and the related equipment and expenditures totaling \$270,389 for FY 2012, \$293,332 for FY 2013, and \$302,134 for FY 2014.

Oversight assumes this proposal would require considerably less revision of current DOR procedures than is included in the DOR cost estimate. Many sales would likely be trade-in transactions in which the buyer would retain their current license plate. Oversight assumes that title application forms completed by dealers would be sent to DOR by those dealers; the dealers would issue temporary license plates as they currently do, and DOR would mail plates or tabs to buyers. Alternatively, the title application forms could be completed on a web-based system developed by DOR to allow for editing and verification before the transaction is entered into the TRIPS system. Oversight will include an unknown cost for DOR administration of the proposal, and will include the Motor Vehicle Commission notification cost in the unknown cost to the General Revenue Fund.

Oversight also notes that the DOR estimates of additional revenues and reduced penalties appear to be based on the collection of a historical average amount of sales and use taxes for all of the current non-filers; DOR has also assumed that fifty percent of dealers would collect and remit sales taxes. Oversight assumes that collection from fifty percent of current non-filers is a more realistic estimate although this proposal could result in collection from significantly more or less than fifty percent of current nonfilers.

Oversight will indicate an unknown increase in administrative cost to implement this proposal, an unknown increase in sales tax collections, and an unknown decrease in penalties for the applicable funds and local governments. For fiscal note purposes, Oversight assumes that for all years the cost to the General Revenue Fund to administer this proposal would exceed the additional revenue for the General Revenue Fund. Oversight also assumes that the loss of title penalties would significantly exceed the revenues from additional title fee collections. Finally, Oversight assumes that additional revenues would exceed \$100,000 except for the Transportation Fund.

<u>FISCAL IMPACT - State Government</u>	FY 2010	FY 2011	FY 2012 (6 Mo)
GENERAL REVENUE FUND			
<u>Revenue increase</u> - sales and use tax	\$0	\$0	More than \$100,000
<u>Revenue increase</u> - marine title fees	\$0	\$0	Less than \$100,000
<u>Revenue increase</u> - administrative sanctions	\$0	\$0	Unknown
<u>Revenue reduction</u> - title penalties	\$0	\$0	(More than \$100,000)
<u>Cost</u> - Department of Revenue	<u>\$0</u>	<u>\$0</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>(More than \$100,000)</u>
HIGHWAY FUND			
<u>Revenue increase</u> - Title fees	\$0	\$0	More than \$100,000
<u>Revenue reduction</u> - title penalties	<u>\$0</u>	<u>\$0</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON HIGHWAY FUND	<u>\$0</u>	<u>\$0</u>	<u>(More than \$100,000)</u>

<u>FISCAL IMPACT</u> - State Government	FY 2010	FY 2011	FY 2012 (6 Mo)
STATE ROAD BOND FUND			
<u>Revenue increase</u> - sales and use tax	<u>\$0</u>	<u>\$0</u>	<u>More than \$100,000</u>
ESTIMATED NET EFFECT ON ROAD BOND FUND	<u>\$0</u>	<u>\$0</u>	<u>More than \$100,000</u>
STATE TRANSPORTATION FUND			
<u>Revenue increase</u> - sales and use tax	<u>\$0</u>	<u>\$0</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON STATE TRANSPORTATION	<u>\$0</u>	<u>\$0</u>	<u>Unknown</u>
STATE ROAD FUND			
<u>Revenue increase</u> - sales and use tax	<u>\$0</u>	<u>\$0</u>	<u>More than \$100,000</u>
ESTIMATED NET EFFECT ON STATE ROAD FUND	<u>\$0</u>	<u>\$0</u>	<u>More than \$100,000</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue increase</u> - sales and use tax	<u>\$0</u>	<u>\$0</u>	<u>More than \$100,000</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>More than \$100,000</u>

<u>FISCAL IMPACT</u> - State Government	FY 2010	FY 2011	FY 2012 (6 Mo)
CONSERVATION COMMISSION FUND			
<u>Revenue increase</u> - sales and use tax	<u>\$0</u>	<u>\$0</u>	<u>More than \$100,000</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>\$0</u>	<u>\$0</u>	<u>More than \$100,000</u>
PARKS, AND SOILS and WATER FUNDS			
<u>Revenue increase</u> - sales and use tax	<u>\$0</u>	<u>\$0</u>	<u>More than \$100,000</u>
ESTIMATED NET EFFECT ON PARKS, AND SOILS AND WATER FUNDS	<u>\$0</u>	<u>\$0</u>	<u>More than \$100,000</u>
<u>FISCAL IMPACT</u> - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
LOCAL GOVERNMENTS			
<u>Revenue increase</u> - sales and use tax	<u>\$0</u>	<u>\$0</u>	<u>More than \$100,000</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>\$0</u>	<u>More than \$100,000</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which buy or sell vehicles or watercraft. Small businesses which buy and sell vehicles and water craft could contract to collect and remit sales taxes on behalf of the Department of Revenue and retain a percentage of taxes collected as compensation. In addition, the provisions allowing dealers to charge administrative fees in connection with sales of vehicles could increase revenues to those businesses.

This proposal could result in reduced operating revenues to small businesses which operate Department of Revenue contract offices, to the extent that dealers in the vicinity of the contract office choose to collect and remit sales taxes, and process registration and title forms.

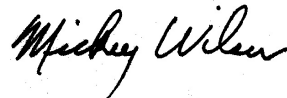
FISCAL DESCRIPTION

This proposal would allow for the collection of sales and use taxes on boats and motor vehicles by dealers.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of Administration
Division of Budget and Planning
Department of Revenue



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