

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 358

SHORT TITLE: Fair Automobile Property Taxes

SPONSOR(S): Representative Allred

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$ Millions)				
	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
REVENUES					
General Fund	<u>No General Fund Impact</u>				
Local Governments	(82 - 90)	(105 -116)	(112 – 124)	(120 – 133)	(129 – 142)
EXPENDITURES					
Local Governments	* See Assumptions and Methodology *				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: County Governments, City Governments.					
EFFECTIVE DATE: Effective for taxes imposed for taxable years beginning on or after July 1, 1999.					

BILL SUMMARY: The bill has two primary elements. First, it limits the appraised value of a classified motor vehicle to the lesser of its true value, in money, or the retail trade-in value as defined by the National Automobile Dealers Association (N.A.D.A.) Official Used Car Guide ©. Currently motor vehicles are to be appraised at their true value in money. This is generally referred to as the market or retail value. Second, the bill extends the time allowed to appeal an automobile value for property tax purposes. Under current law, a property owner has thirty days from the time the tax notice was prepared to appeal. The bill moves this deadline to thirty days after bill preparation or thirty days after the tax is due, whichever is later.

ASSUMPTIONS AND METHODOLOGY: There are two potentially significant costs associated with the legislation; lost revenue on property taxes, resulting from lower motor vehicle values, and the expense to counties of altering their computer systems and possibly purchasing new equipment.

Reduced Motor Vehicle Tax Values

At present one data company, TEC Data Systems, provides vehicle tax values to all county assessors, statewide. This information is generally used to determine the value for property tax purposes, and reflects a value that is equivalent to or slightly less than retail. This is the amount most counties use to determine the “market value” of a vehicle.

The total statewide value of all vehicles, as reported to the Department of Revenue, for fiscal years 1995-96 through 1998-99 is as follows:

	1995-96	1996-97	1997-98	1998-99*
Vehicle Value	\$ 33,430,604,088	\$ 37,563,953,946	45,081,633,555	45,456,523,592

** Indicates this is preliminary data, with only 95 of 100 counties reporting.*

While growth in this sector has been very strong, it is expected to level off in the next few years. As such, this note assumes a 7% growth rate.

The 1997-98 weighted average property tax rate for all governmental jurisdictions in the state (cities and counties) was \$0.968 per \$100.00 of assessed value. The rate has varied from in the past ten years from a low of \$0.938 per \$100.00 (1988-89) to a high of \$0.994 per \$100.00 (1993-94 and 1994-95). Because of increasing pressures to build schools and provide other services, this note assumes a rate of \$1.00 per \$100.00 of assessed value for the five year period of the note.

Assuming 7% annual growth in the motor vehicle tax base, and a flat weighted average tax rate of \$1.00 per \$100.00 of assessed value, the expected property tax revenue from motor vehicles is as follows:

	1999-00	2000-01	2001-02	2002-03	2003-04
Vehicle Value	\$51,613,962,257	\$55,226,939,615	\$59,092,825,388	\$63,229,323,165	\$67,655,375,787
Property Tax	\$516,139,623	\$552,269,396	\$590,928,254	\$632,293,232	\$676,553,758

Under the bill counties must use either the market or N.A.D.A. trade-in value, whichever is lower. Because the market appraisals reflect retail prices, and the N.A.D.A. values reflect trade-in, N.A.D.A. will be lower across the board. Therefore the N.A.D.A. Official Used Car Guide © will be the new appraised value when an N.A.D.A. value is available.

A private, for profit firm produces the N.A.D.A. Official Used Car Guide ©. This organization produces several books and tapes that provide used car values. Because the publication that offers trade-in prices can be obtained only through contract or membership in the National Automobile Dealers Association, Fiscal Research does not have access to this guide. Since none of the North Carolina tax collectors have contracted with N.A.D.A. to determine values, at the trade in or retail level, no county comparisons can be drawn directly between N.A.D.A. trade-in retail and the current system.

According to the Department of Revenue and TEC Systems, wholesales and trade-in motor vehicle values are very similar, although not always identical. Representatives of N.A.D.A.’s marketing division also believe their values are generally near what would be termed “wholesale”, although they note there could be significant variance for individual vehicles. Therefore, in the absence of better data, information about wholesale value can be used as a near proxy.

Under a contract with the North Carolina Department of Transportation, TEC Data Systems provides value estimates to the Division of Motor Vehicles. The estimated values given to the Division of Motor Vehicles are considered to be representations of “wholesale” value. According to TEC Data Systems, those wholesale numbers are, on average, 20% lower than the market value numbers delivered to county assessors. As such, changing to wholesale values would reduce the motor vehicle tax base by approximately 20%. The new total vehicle values, and the associated property taxes, are found below.

	1999-00	2000-01	2001-02	2002-03	2003-04
Total Wholesale Value	\$41,291,169,806	\$44,181,551,692	\$47,274,260,311	\$50,583,458,532	\$54,124,300,630
Property Tax	\$ 412,911,698	\$ 441,815,517	\$ 472,742,603	\$ 505,834,585	\$ 541,243,006

Assuming these wholesale numbers are a reasonable proxy for the N.A.D.A. trade-in value, the net property tax loss under the bill would be as follows:

	1999-00	2000-01	2001-02	2002-03	2003-04
Property Tax Loss	(\$103,227,925)	(\$110,453,879)	(\$118,185,651)	(\$126,458,646)	(\$135,310,752)

The fiscal impact for FY 1999-00 would actually be slightly less than the above number to account for the lag in tax payments. Because TEC Data Systems wholesale values may not be identical to N.A.D.A. trade-in values, a range in property tax losses is given as the fiscal estimate. The range is plus or minus 5%.

Administrative Expense

The second potential cost associated with this legislation is the administrative conversion cost. Under current law county assessors and tax collectors can use any reasonable method, usually a request for proposal and bid process, to select a motor vehicle appraisal company. The only state requirement is that the values represent “fair market value” which is commonly defined as retail. By requiring all counties to use a vendor that none of them now use could create conversion costs. For example, ninety counties have proprietary software that will have to be replaced or supplemented. Moreover, given the consideration listed below, the counties may well be required to both purchase N.A.D.A. information and retain the existing system to value the vehicles not covered in the N.A.D.A. guide (See Technical Considerations).

The appeals portion of the bill only lengthens the amount of time a taxpayer has to contest the motor vehicle appraisal. The only potential administrative cost would be if more people appealed their vehicle value because of added time. Then there would be additional administrative costs. If the county losses those appeals there would also be a property tax loss. However, assuming the counties are generally valuing vehicles appropriately, this portion of the bill should have no significant fiscal impact on the counties.

Because this is a local tax matter, the bill has no general fund impact, outright, except and to the extent that local government's resulting revenue losses might create pressures at the state level to appropriate funds to offset these losses.

TECHNICAL CONSIDERATIONS: There are two technical issues associated with the bill.

First, the legislation locks all 100 county assessors into a single vendor and eliminates a county's ability to chose among competing vendors and appraisal products.

Second, a significant number of motor vehicles are not listed in the NADA Official Used Car Guide, trade-in edition. For example, this publication does not address new car values. While values for many other vehicles, such as motorcycles and recreational vehicles can be found in other N.A.D.A. publications, they are not in the official guide. As the bill is currently written, the default when an N.A.D.A. Official Used Car Guide value is not available is the existing system. The existing system uses retail values.

By requiring only the N.A.D.A. Official Used Car Guide, the bill effective creates a two-level value structure. New cars and unusual motor vehicles will be valued at the higher retail level, while used cars will be valued at the lower trade-in level.

FISCAL RESEARCH DIVISION 733-4910

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DATE: Friday, May 21, 1999



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