

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 72 (Second Edition)

SHORT TITLE: Modify Vehicle Tax Refund & Tax Cap

SPONSOR(S):

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
REVENUES					
General Fund	* No General Fund Impact *				
Highway Trust Fund	(\$632,000)	(\$843,000)	(\$909,000)	(\$1,016,000)	(\$1,069,000)
Local Governments					
Property tax change	* See Assumptions and Methodology *				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Local Governments, NC Department of Revenue - Property Tax Division, Department of Transportation – Division of Motor Vehicles					
EFFECTIVE DATE: Section 1 (property tax) is effective when it becomes law. Section 2 (recreational vehicles) is effective when it becomes law and applies retroactively to certificates of title issued on or after October 1, 2001.					

BILL SUMMARY: Section 1 of the bill extends from 120 days to one year the time a taxpayer has to request a refund for property taxes paid on a motor vehicle for which the taxpayer has surrendered the vehicle's registration plate. Section 2 places a maximum highway use tax of \$1,500 on recreational vehicles that do not qualify for the existing \$1,000 maximum tax.

ASSUMPTIONS AND METHODOLOGY:

Property Tax Change

Under G.S. 105-330.6(c) if a motor vehicle owner either transfers the vehicle to a new owner or moves out of state and registers the vehicle in another jurisdiction and surrenders the vehicle plates to the Division of Motor Vehicles (DMV), the original owner can apply for a release from or refund of a prorated amount of the annual property tax on that vehicle. Current law gives the taxpayer 120 days after surrendering the plate to file for that release or refund. The bill extends that time period to one year.

Because there is no direct link between the DMV plate return data and local assessors, there is no way to determine how many taxpayers do not file for the refund and/or release once the plates are surrendered. In addition, it is not possible to determine what proportion, if any, of those taxpayers who did not apply would apply under the extended timeline. As such, no formal estimate is possible. However, both DMV and the General Assembly's Fiscal Research Division believe the number of taxpayers that will actually take advantage of the deadline extension will be insignificant.

Highway Use Tax Change

The internet RV Dealer Mall lists 66 RV dealerships across the state, but a representative of the North Carolina Recreational Vehicle Dealers says only nine dealerships account for 99.9% of the sales of RVs valued at more than \$50,000 in North Carolina (\$50,000 represents the maximum amount that could be taxed prior to October 1, 2001). Three of these nine dealerships have provided RV sales information from either year 2000 or 2001.

- A Marion dealer, purportedly the largest in the state, reported 42 sales with purchase prices over \$50,000 in the June through August 2001 period (15 other sales over \$50,000 were sold to out of state customers). The removal of the \$1,500 sales tax cap on this firm would have netted an additional \$55,408 in highway use tax in the quarter. If this were a representative sales quarter, then the annual tax gain to the state from the cap removal would be **\$221,632**.
- A Wilmington dealer reported that removal of the sales tax cap would have resulted in an additional \$64,000 in highway use tax collection from his sales in the first three quarters of 2001. On an annual basis, this would equal **\$85,333** in revenue gain. The dealer did not provide documentation of his RV sales.
- A Raleigh dealer reported six sales with purchase prices over \$50,000 in the period June 29 to September 28 2000. The total additional tax owed on these six vehicles due to the removal of the \$1,500 highway tax cap is \$5,962. If this is a representative sales quarter, then the total impact of removing the cap is a revenue gain of **\$23,848**.
- Sales data is not available for the other 6 major RV dealers. The average annual highway use tax paid for vehicles over \$50,000 for the three dealers above is \$110,000, but that number is skewed by the large volume of business at the Marion dealership. The Wilmington dealership is the midpoint of the three numbers and may have the most representative sales of the North Carolina RV dealers. The annual highway use tax receipts from six dealers (\$85,333 each) is **\$511,998**.
- The total revenue gained from removing the \$1,500 highway use tax cap on recreational vehicles is \$842,811. Passage of this bill for the nine months in FY 2001-02 will result in the loss of \$632,000 to the Highway Trust Fund.

Applying the growth rates projected by the Office of State Budget and Management for the highway use tax, the future revenue loss is as follows:

<u>Fiscal Year</u>	<u>Growth Rate</u>	<u>Revenue</u>
FY 2001-02		\$842,811
FY 2002-03	7.8%	\$908,550
FY 2003-04	5.8%	\$961,246
FY 2004-05	5.7%	\$1,016,037
FY 2005-06	5.2%	\$1,068,871

A representative of the North Carolina Recreational Vehicle Dealers provided the General Assembly's Fiscal Research Division with an unofficial opinion from the Attorney General's Office that states that recreational vehicles weighing more than 26,000 pounds should be taxed at the commercial vehicle rate of \$1000. The Division of Motor Vehicles has understood this to be the law all along and has always advised contract tag agents to collect the tax accordingly. Anyone that has paid more than \$1000 tax on an RV weighing more than 26,000 pounds can apply for a refund from DMV. With the knowledge that DMV is following the AG opinion and that the dealers provided information on vehicles that were taxed at the previous maximum of \$1500, then the revenue loss shown above is a legitimate estimate.

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Linda Struyk Millsaps & Richard Bostic

APPROVED BY: James D. Johnson

DATE: November 28, 2001



Signed Copy Located in the NCGA Principal Clerk's Offices