



## Department of Audits and Accounts

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March 17, 2014

Honorable Mickey Channell, Chairman  
House Ways and Means Committee  
State Capitol, Room 133  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill 729 Substitute  
(LC 28 7220S)

Dear Chairman Channell:

The Georgia State University Fiscal Research Center provided the following narrative on the revenue impact of this bill:

This legislation modifies several pieces of the current Title Fee Ad Valorem Tax (TAVT). The impact of each modification and the total for all modifications to State revenues are shown in Table 1. The impacts on local revenues are shown in Table 2. All estimates shown in Table 1 and Table 2 assume an effective date of July 1, 2014.

Section 1 of this bill modifies the current law by requiring that the value of trade-in vehicles involved in used car sale transactions be based upon the average of the current fair market value and the current wholesale value of the trade-in motor vehicle listed in the current motor vehicle ad valorem assessment manual utilized by the state revenue commissioner.

There have been many reported instances of abuse involving the valuation of trade-ins used in a used vehicle transaction. The result of this abuse is to significantly reduce, and in some cases, eliminate the TAVT liability. Although current law does not stipulate a pricing guide for trade-ins used in used car transactions, the original revenue estimate of HB 259 prepared during the 2012 legislative session assumed that vehicles used as trade-ins for used car transactions would be valued according to the standard assessment manual used by the state revenue commissioner. Therefore, this provision provides no change in the baseline forecast of TAVT revenues and consequently has no effect on State or local revenues compared to baseline estimates included in Fiscal Year 2015 revenue estimates.

Section 1 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 motor vehicle ad valorem assessment manual utilized by the state revenue commissioner. The modification codifies the assumptions made in the original TAVT estimate. As such, this modification is already contained in the TAVT baseline.

Section 1 of this bill allows leasing companies to use previously leased vehicles that are being turned in at the end of a lease as a trade-in in a new purchase transaction for a vehicle to be leased to the same or a new lessee. The effect of this modification is to reduce the base on which the TAVT is levied by the amount of the trade-in. Under current law, the TAVT is levied on the full value of the leased vehicle with no trade-in allowance provided.

Based on data provided by the Department of Revenue (DOR) on monthly TAVT receipts, leasing makes up about 12 percent of all new car sales in 2013. According to industry data for a typical 3 year lease, the average residual value of a leased vehicle is 50 percent of its original value. While no data was available to indicate the number of leased transactions that are returned to the dealer at the end of a lease, the estimate assumes 50 percent. If more leases are turned in, than the resulting revenue loss will be higher than projected. This provision is expected to result in a State revenue loss of \$10 million and a local revenue loss of \$9 million for Fiscal Year 2015. The State revenue effect declines slightly in later years because the state TAVT rate declines over time. The local revenue effect increases throughout the FY2015-2019 period.

| Table 1: Impact on State Revenues                       |  |      |      |      |      |                        |
|---|--|------|------|------|------|------------------------|
|   | \$ in Millions/State Fiscal Years        |      |      |      |      | Total<br>2015-<br>2019 |
|   | 2015                                     | 2016 | 2017 | 2018 | 2019 |                        |
| <b>Revenue</b>  |  |      |      |      |      |                        |
| Modify valuation for trade-ins in used car transactions | Technical Correction – No Revenue Effect |      |      |      |      |                        |
| Valuation for Kit cars                                  | No Revenue Effect                        |      |      |      |      |                        |
| Allow trade-ins against TAVT for leases                 | -10                                      | -11  | -10  | -9   | -8   | -47                    |
| State Total - All Provisions                            | -10                                      | -11  | -10  | -9   | -8   | -47                    |

| Table 2: Impact on Local Revenues                       |                                   |      |      |      |      |  |
|---|-----------------------------------|------|------|------|------|--|
|   | \$ in Millions/State Fiscal Years |      |      |      |      | Total                                    |
|   | 2015                              | 2016 | 2017 | 2018 | 2019 | 2015-2019                                |
| <b>Revenue</b>  |                                   |      |      |      |      |  |
| Modify valuation for trade-ins in used car transactions |                                   |      |      |      |      | Technical Correction – No Revenue Effect |
| Valuation for Kit cars                                  |                                   |      |      |      |      | No Revenue Effect                        |
| Allow trade-ins against TAVT for leases                 | -9                                | -9   | -10  | -12  | -13  | -53                                      |
| Local Total - All Provisions                            | -9                                | -9   | -10  | -12  | -13  | -53                                      |

Because individual amounts shown in Tables 1 and 2 have been rounded to the nearest \$1 million, the amounts shown in each row may not add to the total for the applicable.

Sincerely,

s/Greg S. Griffin  
State Auditor

s/Teresa A. MacCartney, Director  
Office of Planning and Budget

GSG/TAM/ek/cb