SB 18-077

Legislative Council Staff

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FISCAL NOTE

Drafting Number:	LLS 18-0445	**Date:**	January 31, 2018
Prime Sponsors:	Sen. Crowder	**Bill Status:**	Senate Finance
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Bill Topic: STATE SALES TAX EXEMPTION FOR USED MOTOR VEHICLES

Summary of Fiscal Impact:

- ☒ State Revenue
- ☒ State Expenditure
- ☐ State Transfer
- ☐ TABOR Refund
- ☒ Local Government
- ☐ Statutory Public Entity

This bill exempts the purchase of used motor vehicles from state sales and use tax, which will decrease state revenue and increase state expenditures on an ongoing basis.

Appropriation Summary: For FY 2018-19, this bill requires an appropriation of $783,621 to the Department of Revenue.

Fiscal Note Status: This fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under SB 18-077

		FY 2018-19	FY 2019-20
Revenue	General Fund	($36,000,000)	($74,800,000)
	Total	**($36,000,000)**	**($74,800,000)**
Expenditures	General Fund	$783,621	$1,608,059
	Centrally Appropriated	$275,048	$580,469
	Total	**$1,058,668**	**$2,188,528**
	Total FTE	**15.5 FTE**	**33.7 FTE**
Transfers		-	-

Summary of Legislation

Beginning January 1, 2019, this bill exempts the sale of used motor vehicles from state sales and use tax if sales or use tax has been paid on the vehicle previously. Leased vehicle sales do not qualify for this exemption. Local governments and special districts that collect sales tax are not required to adopt this exemption under this bill.

Background

Sales and use taxes on used motor vehicles are collected either by a used automotive dealership at the point of sale or, for private party sales, by the county during vehicle registration. Currently, there are approximately 5,875,500 registered vehicles in the state. The average age of all licensed motor vehicles is about 13 years.

State Revenue

This bill is expected to decrease General Fund revenue by approximately $36,000,000 in FY 2018-19, and by $74,800,000 in FY 2019-20. This decrease in revenue is based on the estimates of total used car sales in the state grown by 8 percent each year, based on historical trends in vehicle sales. First year revenue is prorated for the effective date. The number and average price of used vehicles varies depending on market conditions, which could be stronger or weaker than estimated in this fiscal note.

TABOR Refund

The bill decreases state revenue subject to TABOR. State revenue is not currently expected to exceed the TABOR limit in either year and no refund is required. Therefore, the bill is not expected to impact TABOR refunds in these years. However, refunds in future years when the state next collects a TABOR surplus will be reduced.

State Expenditures

State expenditures will increase by $1,058,668 and 15.5 FTE in FY 2018-19 and by $2,188,528 and 33.7 FTE in FY 2019-20 from the General Fund to cover administrative costs to the Department of Revenue for the implementation of this bill. These costs are shown in Table 2 and discussed below.

Table 2
Expenditures Under SB 18-077

Cost Components	FY 2018-19	FY 2019-20
Department of Revenue		
Personal Services	$687,745	$1,496,093
Operating Expenses and Capital Outlay Costs	$94,676	$111,966
Form Change Cost	$1,200	-
Centrally Appropriated Costs*	$275,048	$580,469
FTE – Personal Services	15.5 FTE	33.7 FTE
Total	**$1,058,668**	**$2,188,528**
Total FTE	**15.5 FTE**	**33.7 FTE**

** Centrally appropriated costs are not included in the bill's appropriation.*

The Department of Revenue does not currently associate sales tax information with a certain vehicle; sales tax information is associated with the vehicle owner and not the vehicle identification number. Therefore, verifying the eligibility of the exemption would require taxpayers to submit proof that sales tax had already been paid on a vehicle, which is paperwork the taxpayer does not likely possess on a used vehicle. This fiscal note assumes that used vehicle owners will not have proof of sales tax payment in most cases, and that auto dealers and county clerks will continue to charge sales tax on used vehicles where there is no proof of sales taxes previously paid. As a result, taxpayers will file for a refund, requiring additional personnel in the Department of Revenue to review and audit refund claims. The filing population is assumed to be 209,000, and approximately three returns can be processed per hour. This results in 15.5 FTE in FY 2018-19, and 33.7 FTE in FY 2019-20 and ongoing. First year personal services are prorated for the effective date and the General Fund paydate shift, and standard operating and capital outlay costs are included.

This bill also requires one tax form change by the Office of Research and Analysis in the Department of Revenue in FY 2018-19 only. The change requires $1,200 in programming costs, reappropriated to the Department of Personnel and Administration, which contracts out to make the changes.

Finally, the Department of Revenue will have an ongoing workload increase related to tax expenditure reporting requirements and training to authorized agents. In addition, rules, forms, manuals, and websites will require updates to reflect the change in the law. These impacts can be accomplished within existing appropriations.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance, supplemental employee retirement payments, and leased space are estimated to be $275,048 in FY 2018-19 and $580,469 in FY 2019-20.

Local Government Impact

Beginning in FY 2018-19, county clerks will be required to modify procedures and provide training related to sales tax collection during the registration process for used motor vehicles. This workload impact is expected to be minimal.

Technical Note

Administrative costs could be reduced considerably if the exemption only applies to vehicle purchases made after a future date. This would allow the Department of Revenue to track future sales taxes by vehicle identification number, thereby reducing verification costs, and potentially allowing the exemption to be applied at the point of registration or sale if the department is able to share information with county clerks and auto dealers, respectively.

Effective Date

The bill takes effect August 8, 2018, if the General Assembly adjourns on May 9, 2018, as scheduled, and no referendum petition is filed.

State Appropriations

For FY 2018-19, the bill requires an appropriation of $783,621 from the General Fund to the Department of Revenue. Of this amount, $1,200 will be reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Counties	Information Technology	Municipalities
Revenue	Special Districts	Regional Transportation District