

# Fiscal Note

**BILL #** SB 1148

**TITLE:** vehicle sale price; VLT

**SPONSOR:** Ugenti-Rita

**STATUS:** Senate Engrossed

**PREPARED BY:** Jordan Johnston

## Description

SB 1148 would modify the assessment of the Vehicle License Tax (VLT) to be based on the actual sale price of a vehicle or the manufacturer's base retail price (MBRP), whichever is less. The bill would apply the new assessment to only new vehicles purchased after the effective date of the bill.

## Estimated Impact

The short-run impact of the bill through the next 1-3 years is expected to differ from the long-run impact. Due to the current disruptions in inventory, a vehicle's price is currently above the MBRP. In the long run, we expect that the actual price will fall below the MBRP in line with long-standing industry practice.

As a result, we estimate that the bill will not impact VLT revenues in the next 1-3 years. We estimate that in the short run, new vehicles will have their VLT assessment based on MBRP. This assessment would conform to the current VLT formula, and would therefore not impact revenues over the next 1-3 years.

In the long run, we estimate that the bill would reduce annual VLT revenues by \$(12.5) million. Given the VLT formula, the impact would be distributed as follows: \$(5.6) million reduction to the Highway User Revenue Fund (HURF), \$(3.1) million reduction to county general funds, \$(0.7) million reduction to counties for transportation related purposes, and \$(3.1) million reduction to incorporated cities and towns.

As more vehicles qualify for the bill's provisions, this reduction will grow in future years. We estimate that if all VLT payments were based on sales prices under typical market conditions, VLT revenues would be reduced by \$(69.9) million annually.

ADOT did not estimate the impact of the bill on VLT collections (they did provide, however, a rule of thumb for a 5% reduction in VLT collections). ADOT also had an estimate for their administrative costs of \$787,700 in the first year, but that projection was based on applying the calculation to vehicles bought before and after the effective date. We believe that estimate may be high in the short run as few vehicles would require a VLT assessment that differs from the current formula. We have asked ADOT if they have a revised estimate.

## Analysis

VLT is an ad valorem tax levied on registered vehicles in the state. The tax is levied per \$100 of a vehicle's assessed value. Currently, for the first 12 months of the vehicle's life, the assessed value is 60% of MSRP. For each subsequent year, the assessed value is 16.25% less than the previous year. The rate per \$100 assessed value is \$2.80 for new vehicles and \$2.89 for renewals.

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Under the bill, customers who register their new vehicles purchased in the state after the effective date of the bill would pay their VLT based on the original retail sales price of the vehicle or MBRP, whichever is less. For each subsequent year, the assessed value would be 16.25% less than the previous year, as under current law.

Current law stipulates that VLT payments be based on MBRP, which differs slightly from manufacturer's suggested retail price (MSRP). MSRP includes options, add-ons and delivery charges while MBRP is the factory list price of a given vehicle make and model given the year the vehicle was produced. We have found the difference between MBRP and MSRP in the aggregate to be minimal. In many instances, organizations and studies use these two terms interchangeably. For the purposes of estimating an impact, we have compared average MSRP to the average sales price of new vehicles.

In 2021, Cox Automotive conducted a study on U.S. vehicle sales prices. The study shows that the average transaction price for vehicles in 2019 was \$38,058. The research also shows that the average sales price in 2019 was \$2,286 below MSRP, or a (5.7)% sales price reduction relative to MSRP. We used this estimated (5.7)% gap for our long-run estimate.

However, the gap between the MSRP and the final transaction price has reversed in recent months. Edmunds.com reported in February 2022 that approximately 82% of consumers are currently paying above MSRP for new vehicles. In the month of January 2022, consumers paid on average \$728 above the average MSRP of \$44,989. This represents a 1.6% increase of actual sales price above MSRP. Additional research suggests this trend of sales price exceeding MSRP will continue for the next 1-3 years. In such instances, ADOT would assess the VLT based on MBRP, which is the current policy. Hence, in the short term, we estimate the bill will have no fiscal impact.

Because the bill requires the tax to be based on the original sales price of the new vehicle if the sales price is lower than MBRP, ADOT would need to determine the original sales price of such new vehicles before the VLT can be assessed on the customer. For a similar bill, SB 1019, ADOT estimates the administrative costs would be about \$687,000 annually plus at least \$100,000 of one-time programming costs. ADOT has not yet provided an administrative cost estimate for this bill; but since the estimate was based on additional time for each vehicle transaction, we believe the annual cost will be less in the short run as fewer cars will initially be subject to the change, while gradually increasing to reach ADOT's estimate.

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