

# Fiscal Note

**BILL #** SB 1636

**TITLE:** use tax; service vehicles; inventory

**SPONSOR:** Pace

**STATUS:** Senate Engrossed

**PREPARED BY:** Molly Murphy

## Description

Under current law, the state levies a general use tax of 5.0% on motor vehicles that are removed from a dealer's inventory and used in their business operations. If such vehicle is returned to the dealer's active sales inventory within 1 year, the use tax is prorated such that one thirty-ninth of the tax is applied to the vehicle's value on a monthly basis. However, if the vehicle is returned to active sales inventory after 1 year, the dealer is required to pay use tax on 100% of their cost of the vehicle.

The bill would exempt use tax on service vehicles that are removed from dealers' inventory if such vehicles are continuously available for sale.

## Estimated Impact

The bill would result in an undetermined General Fund revenue loss. Under current law, a service vehicle (such as a temporary "loaner" or courtesy vehicle) that is removed from a motor vehicle dealer's inventory is subject to use tax, as described above. Since SB 1636 would exempt such vehicles from the use tax, the bill would reduce General Fund use tax collections. Due to a lack of data, we are not able to determine the magnitude of such loss.

The Department of Revenue (DOR) has not yet provided an estimate of the bill's impact.

## Analysis

Motor vehicle dealers regularly use vehicles from their active sales inventory in their daily business operations. If such vehicles are registered and titled in the dealer's name (what the industry refers to as "hard plated" vehicles), then they are subject to use tax. ("Hard plated" vehicles are used in the dealer's business as work or service vehicles. This is different from vehicles with "dealer plates," which are used as test vehicles by potential buyers, and for which use tax does not apply.)

As noted above, under current law, a "hard plated" vehicle is subject to either a prorated use tax of one thirty-ninth of its value paid monthly or a full (non-prorated) payment of use tax on 100% of the vehicle's cost. Under the bill, "hard plated" vehicles used as service vehicles and being continuously available for sale would be exempt from the use tax. We do not have the required information, however, to estimate the General Fund revenue loss of the proposed use tax exemption.

## Local Government Impact

As with the General Fund impact, we are not able to determine the impact of the bill on local governments.

3/1/22

