

Fiscal Note

BILL # HB 2447

TITLE: TPT; exemption; motor vehicle manufacturers

SPONSOR: Martinez

STATUS: As Introduced

PREPARED BY: Jordan Johnston

REVISED

Description

Under current law, motor vehicle sales to Arizona non-residents are exempt from Transaction Privilege Tax (TPT) if the dealer delivers the vehicle out of state. The bill would expand the exemption to a non-resident who purchases a vehicle here from an Arizona-based manufacturer and drives it home after obtaining a 10-day registration permit. The bill limits these permits to 500 in FY 2024 and further adjusts the cap upward by 10% in each succeeding year.

Our prior fiscal estimate assumed that Arizona vehicle manufacturers did not hold a dealer's license. As a result, our analysis assumed that the bill would create a substantial new TPT exemption. We have subsequently learned that the state's primary vehicle manufacturer in terms of sales already holds a dealer's license, which effectively eliminates the fiscal impact relative to current TPT collections.

Estimated Impact

We estimate the loss of current revenues to be minimal. The primary Arizona-based manufacturer currently delivers its vehicles to out-of-state purchasers. These type of sales are already exempt from TPT. As a result, expanding the exemption to out-of-state residents who drive the vehicle to their home state ("drive-outs") would not have a notable impact on current General Fund revenue collections.

If the Arizona-based manufacturer begins to permit these "drive-outs" without this bill, the state would incur a foregone revenue loss. (Foregone revenue is not currently in our tax base.) This foregone loss, however, would be limited by the 500 10-day registration cap. We estimate the foregone revenue would be between \$0 and \$2.6 million, depending on the number of 10-day registrations issued.

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

Analysis

Under A.R.S. 42-5061(A)(14), motor vehicles sales to Arizona non-residents are exempt from TPT if the dealer delivers the motor vehicle out of the state. This deduction applies to both state and local taxes. The exemption also applies to an Arizona manufacturer with a motor vehicle dealer's license that delivers the motor vehicle out of the state.

If a non-resident currently purchases a vehicle in Arizona and drives the vehicle home, they typically pay the Arizona TPT and are exempt from sales tax in their home state (there are several variations on this requirement that we have not detailed here). Under this bill, non-residents would be exempt from Arizona and local TPT if they purchase directly from the manufacturer and drive the vehicle home with the 10-day permit (and presumably pay their home state's sales tax when they register there).

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According to our research, there are 2 Arizona manufacturers that are currently selling passenger vehicles. The larger manufacturer has most of the production at this time.

This larger manufacturer delivers most of its vehicles out of state and does not collect TPT since there is already an exemption for these types of deliveries. In some circumstances, an individual could potentially drive the car from Arizona, but currently most purchases of these vehicles usually are initiated out of state and do not involve Arizona TPT.

Since few if any current sales are made to non-residents who drive the car from Arizona to another state, the creation of the new exemption for "drive-outs" would not have an impact on the state's revenue collections. In the absence of this bill, there would be a foregone revenue impact if the vehicle manufacturer changed its business practice and began to allow greater use of "drive-outs".

Depending on the number of special permits issued in this circumstance and the average sale price of the vehicles, this foregone revenue could range between \$0 and \$2.6 million.

Local Government Impact

By statute, the state is required to share a certain percentage of state TPT with counties and cities. Under the retail classification, counties and cities receive 16.2% and 10.0%, respectively, of state TPT. Since the bill is expected to have a minimal impact at the state level, there would not be a notable change in state-shared revenue. As with the state TPT exemption, the 500 10-day special registration "drive-outs" would be exempt from municipal TPT as well.

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