Fiscal Note

BILL # HB 2648

TITLE: motor vehicle manufacturers; TPT; exemption

SPONSOR: Martinez

STATUS: As Introduced

PREPARED BY: Jordan Johnston

Description

The bill would expand the motor vehicle Transaction Privilege Tax (TPT) exemption to a non-resident who purchases a vehicle here from a motor vehicle dealer and drives it to their home state after obtaining a 30-day registration permit ("drive-outs"), rather than just non-residents who have vehicles delivered out of state ("ship-outs"). This new 30-day permit is limited to 250 per motor vehicle dealer annually. This new exemption would be repealed on December 31, 2027. The bill requires an annual report from the Arizona Department of Transportation (ADOT).

Estimated Impact

We estimate the bill could result in an approximate General Fund revenue loss between $(5.1) million and $(15.2) million annually starting in FY 2025 until the exemption expires in the middle of FY 2028. This analysis is based on non-residents whose home state has a lower sales tax rate than Arizona. We may also lose revenue from non-resident drive-outs from states with a higher sales tax than Arizona, but we lack data to make that estimate.

We have requested the Arizona Department of Revenue's (ADOR) and ADOT's estimated impact of this legislation and are awaiting a response.

Analysis

Under A.R.S. 42-5061A14, motor vehicles sales to Arizona non-residents are exempt from TPT if the dealer delivers the motor vehicle out of the state ("ship-outs"). This deduction applies to both state and local TPT.

Under this bill, non-residents would be exempt from Arizona TPT if they purchase directly from a motor vehicle dealer and drive the vehicle to their home state with the 30-day permit. In this case, the non-resident will pay their home state's sales tax when they register there. However, the non-resident purchaser will still have to pay the Arizona municipal TPT rate if the municipality decides not to exempt itself from the TPT rate, as permitted by the bill.

In terms of drive-outs, non-residents from 21 states currently have the option to receive a partial deduction of their vehicle's sales tax (deduction code 531). In essence, if a state has a reciprocal agreement with Arizona, their residents can purchase a vehicle here and pay their home-state rate to Arizona if that tax rate is lower than Arizona's. For example, if non-resident's home-state rate is 4%, they can choose to pay the 4% rate to Arizona. The non-resident would not have to pay any sales tax to their home state once they register their vehicle there. Arizona, however, only collects the 4%, not the full 5% that is charged to residents of our state.

A total of 9 states do not have a reciprocity agreement with Arizona and are currently eligible for a full Arizona sales tax exemption. The remaining 20 states have a higher tax rate and would be required to pay Arizona sales tax if the non-resident is a drive-out.

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ADOR reports that the state incurred $13.5 million in FY 2023 foregone General Fund revenue losses from deduction code 531. This amount represents the difference between Arizona's 5% resident rate and the home-state rate that the non-resident will instead pay to Arizona. We assume that the difference is 2% (i.e., the average non-resident's home state rate that they pay here in Arizona is 3%). Based on the $13.5 million estimate, we can derive that the total dollar value of non-resident vehicle sales is $675 million (for individuals with a lower home-state rate). At an estimated cost of $33,750 per vehicle sold, this would equate to 20,000 vehicles sold to non-residents.

Currently, that $675 million in non-resident drive-out vehicle sales is generating $20.3 million in actual Arizona General Fund sales tax collections and $13.5 million in foregone revenue. With HB 2648, we would lose a share of the current $20.3 million in collections as some non-residents would opt to pay no Arizona sales tax.

Some non-residents may continue to pay their home state rate to Arizona. In doing so, they can fold the sales tax into their vehicle loan. If they do not pay any Arizona tax at the time of purchase, they will pay their home state rate when they register there (after which the loan terms have already been agreed upon).

We do not have a means of reliably determining how many non-residents would opt to continue to pay Arizona for the sales tax versus getting a full Arizona exemption. As a result, we have used a broad range of 25% to 75% of the non-residents opting for the full exemption. With $20.3 million in current non-resident sales tax collections, this would translate into a loss of $(5.1) million to $(15.2) million to the General Fund.

Non-residents with a Higher Home-State Rate than Arizona

The bill would likely generate additional revenue losses from non-resident drive-out vehicle purchases from the 20 states that have a higher sales tax rate than Arizona. Non-residents from these states currently pay the Arizona sales tax. When they register their vehicle in their home state, they will pay their state's full sales tax rate. But they will receive a credit against this amount for the amount paid to Arizona. For example, if their home state rate is 7%, they will effectively be paying 5% to Arizona and 2% to their home state.

Some of these individuals may prefer to pay the full 7% to their home state so that it receives the full benefit of the revenue. As noted above, others may prefer to pay the 5% to Arizona so that they can at least roll that amount into their vehicle loan.

We do not, however, currently have a methodology for deriving the total dollar value of vehicle sales to these non-residents with higher home state rates.

Secondary Economic Impacts

Bill proponents have suggested that out-of-state visitors would generate sales tax collections during their visit on expenses such as lodging and restaurants that would help offset the loss of sales tax from vehicle sales. In evaluating the magnitude of this dynamic impact, we compared the sales tax loss from the vehicle purchase to the sales tax gain from lodging and other factors. The average non-resident vehicle purchase would generate $1,000 in sales tax collections ($33,750 x 3% assuming some reciprocal transactions = $1,000). The visitor would have to spend $20,000 on lodging, restaurant, and other retail sales to totally offset the $1,000 loss of the sales tax on the vehicle, which seems highly unlikely ($20,000 x 5% for the standard Arizona TPT = $1,000).

Local Government Impact

The bill may have an impact on municipal TPT collections if municipalities decide to opt into the 30-day registration TPT exemption. We are unable to predict which municipalities will make that choice.

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