

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 450 (First Edition)

SHORT TITLE: Make Car Tax Progressive

SPONSOR(S): Rep. Edwards, et al.

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
REVENUES					
Highway Trust Fund	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000
EXPENDITURES					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Transportation – Division of Motor Vehicles					
EFFECTIVE DATE: July 1, 1999					

BILL SUMMARY: The bill removes the \$1,500 limit on the highway use tax paid on Class C motor vehicles.

ASSUMPTIONS AND METHODOLOGY: In 1997-98, the Division of Motor Vehicles reported that owners of 3,051 vehicles paid the maximum highway use tax of \$1,500 (corresponding to a vehicle value of \$50,000 or more). Since DMV did not collect data on the sales price of those vehicles valued at \$50,000 or more, a statistical method must be used to estimate vehicle values.

The table on page two shows the distribution of vehicles by tax bracket for 1997-98, as provided by DMV (Table 1). It is assumed that the distribution of the 3,051 vehicles with unknown values (Table 2) would decline at a constant rate from 894, in the last tax bracket for which data are available [\$1,500], down to zero. In order to accomplish this result, the number of vehicles in each tax bracket has to decline by 22.65%. This is the only number that gives a constant rate of decline and accounts for all 3,051 vehicles. This assumed distribution phases out at a vehicle value of \$140,000. (See chart.) While there are vehicles whose value is greater than \$140,000, the results would not be affected significantly.

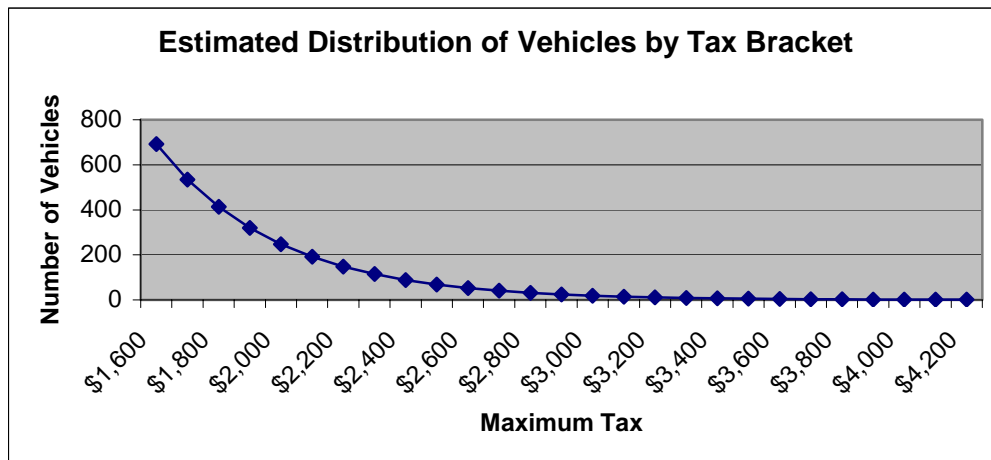
Because the number of vehicles in each tax bracket decreases as the tax brackets increase, the average tax paid is something less than the midpoint of the bracket. That is, in each bracket it is assumed that most of the vehicles are clustered toward the lower end. It is assumed that in each bracket the average vehicle will have a tax due of \$30 more than the minimum of the bracket, e.g. it is assumed that vehicles in the \$1500 to \$1600 bracket will have a tax due of \$1530. With only 3,051 vehicles involved, changing this assumption by \$10 would have an impact of only about \$30,000, or less than three percent of the estimated total fiscal impact.

Using this methodology, the average value of the vehicles that are now taxed at the \$1,500 maximum is \$62,296. The owners of these vehicles would have paid additional highway use tax averaging \$369 in 1997-98 if this law were in effect. The total revenue increase to the Highway Trust Fund is approximately \$1.1 million per year.

Table 1
Number of Vehicles by Tax Bracket
(reported by DMV, 1997-98)

Maximum Tax	Maximum Value	Number of vehicles
\$100	\$3,333	806,945
\$200	\$6,667	326,370
\$300	\$10,000	186,210
\$400	\$13,333	158,587
\$500	\$16,667	130,364
\$600	\$20,000	90,609
\$700	\$23,333	53,945
\$800	\$26,667	34,103
\$900	\$30,000	18,420
\$1,000	\$33,333	13,245
\$1,100	\$36,667	5,886
\$1,200	\$40,000	3,227
\$1,300	\$43,333	2,341
\$1,400	\$46,667	1,498
\$1,500	\$50,000	894

Distribution of Vehicles by Tax Bracket Assuming Cap is Removed



It should be noted that other types of vehicles will be affected by this bill, and not only automobiles. (see Table 2). The following information was obtained from a DMV 1997-98 listing of vehicles' body style, make, and series:

Table 2

Vehicles Exceeding \$50,000 in Value (\$1,500 tax)

Cars	
4 Door	784
Convertible	156
Roadster	115
Coupe	95
2 Door	80
Station Wagon	<u>74</u>
Sub Total	1,304
House Car/RV	644
Truck	414
Bus	374
Trailer	127
Multi-Purpose Vehicle	51
Ambulance	45
Hearse	35
Wrecker	22
Camping Trailer	16
Van	8
Limousine	6
Utility Trailer	3
Cattle/Horse Trailer	1
Special Mobile Equipment	<u>1</u>
Total	3,051

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DATE: Wednesday, March 31, 1999



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