

# Motor Vehicle Excise Tax Phase-Out 2017-H 6267

Staff Presentation to the House Finance  
Committee  
June 6, 2017

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# Introduction

- Objective
  - End ability for municipalities to tax motor vehicles over a fixed period of time and reimburse them for the lost tax revenue

# Introduction

- History – Current Law
- Principles
- Considerations
- 2017-H 6267
- Governor's Plan – Article 11
- Alternate Proposals

# Motor Vehicle Excise - History

- General Laws authorize municipalities to administer and collect an excise tax on motor vehicles
- Phase-out plan adopted in 1998 to begin with FY 2000 tax bills
  - Altered numerous times then frozen in 2002
  - Exemptions grew in 2005 and 2006 to \$6,000 using new lottery revenue
  - Rolled back in 2010 Session to \$500 including immediate reduction in aid

# Motor Vehicle Excise: Exemption Change History

Session	1998	2000	2002	2005	2006	2010	2011
FY 2000	1,500	1,500	1,500	1,500	1,500	1,500	1,500
FY 2001	2,500	2,500	2,500	2,500	2,500	2,500	2,500
FY 2002	3,500	3,500	3,500	3,500	3,500	3,500	3,500
FY 2003	8,000	<b>5,000</b>	<b>4,500</b>	4,500	4,500	4,500	4,500
FY 2004	10,000	6,900	4,500	4,500	4,500	4,500	4,500
FY 2005	15,000	9,400	4,500	4,500	4,500	4,500	4,500
FY 2006	Full	13,000	4,500	<b>5,000</b>	5,000	5,000	5,000
FY 2007	Full	Full	4,500	5,000	<b>6,000</b>	6,000	6,000
FY 2008	Full	Full	4,500	5,000	6,000	6,000	6,000
FY 2009	Full	Full	4,500	5,000	6,000	6,000	6,000
FY 2010*	Full	Full	4,500	5,000	6,000	<b>6,000*</b>	6,000
FY 2011	Full	Full	4,500	5,000	6,000	500	<b>500</b>
FY 2012	Full	Full	4,500	5,000	6,000	500	500

\*Current year budget reduction; paid 88% of total due

# Motor Vehicle Excise - History

- 1998 Plan froze rates at FY 1998 levels
  - Authorized inflation adjustments to account for lost growth
    - 2003 change ended adjustments
    - 2008 change reduced reimbursement to 98% to align with collection rates
- 2010 change allowed rates to be lowered but kept ceiling
  - Only Providence lowered rates

# Current Law

- State reimburses municipalities a portion of the mandated \$500 exemption subject to appropriation
  - Has been \$10.0 million per year
    - Falls short of full value of mandated exemption
- Current exemptions vary widely by community
  - Many changed over the years
  - Locals look at all levy options

# Current Law

## Range of Rates & Exemptions

Communities	Exemption	Avg.	Low	High
16	< \$1,000	\$30.52	\$13.08	\$53.30
6	≥\$1,000 < \$2,000	\$33.85	\$9.75	\$ 48.65
6	\$2,000	\$35.91	\$17.35	\$60.00
4	\$3,000	\$21.87	\$16.05	\$30.66
7	\$6,000	\$20.06	\$13.90	\$30.20



# Current Law

- Vehicle Value Commission annually sets valuation
  - Uses 100% of NADA values
  - Locals assess where not applicable
- Local practice on use of assessments varies
  - Some use “aging” methodology on older vehicles
  - Some use assessment ratios to lower all

# Property Tax Levy – by Category

Fiscal Year	Residential	Comm./ Industrial	Tangible	Motor Vehicle	Total	Levy Per Capita
2010	\$1,363.6	\$445.8	\$125.6	\$101.7	\$ 2,036.8	\$1,935
<b>% total</b>	<b>66.9%</b>	<b>21.9%</b>	<b>6.2%</b>	<b>5.0%</b>	<b>100%</b>	
2011	\$1,367.1	\$469.8	\$132.9	\$162.8	\$2,132.5	\$2,026
2012	\$1,390.1	\$482.6	\$136.1	\$199.8	\$2,208.6	\$2,098
2013	\$1,412.3	\$489.9	\$141.3	\$209.7	\$2,253.2	\$2,138
2014	\$1,450.0	\$487.0	\$152.2	\$211.4	\$2,300.6	\$2,186
2015	\$1,462.3	\$494.1	\$172.8	\$210.5	\$2,339.8	\$2,225
2016	\$1,480.9	\$513.5	\$178.8	\$215.9	\$2,389.1	\$2,268
2017	\$1,516.6	\$518.6	\$184.9	\$220.6	\$2,440.7	\$2,316
<b>% total</b>	<b>62.1%</b>	<b>21.2%</b>	<b>7.6%</b>	<b>9.0%</b>	<b>100.0%</b>	

\*Levy totals in millions

# Property Tax Levy - Increase

Fiscal Year	Residential	Comm./ Industrial	Tangible	Motor Vehicle	Total	Levy Per Capita
2011	0.26%	5.37%	5.76%	59.98%	4.70%	4.70%
2012	1.68%	2.73%	2.69%	22.75%	3.56%	3.55%
2013	1.60%	1.51%	3.58%	4.98%	2.02%	1.91%
2014	2.67%	-0.59%	7.71%	0.76%	2.10%	2.25%
2015	0.85%	1.45%	13.54%	-0.40%	1.70%	1.78%
2016	1.27%	3.94%	3.44%	2.56%	2.11%	1.93%
2017	2.41%	0.98%	3.44%	2.19%	2.16%	2.12%
<b>Average</b>						
<b>11-17</b>	<b>1.53%</b>	<b>2.20%</b>	<b>5.74%</b>	<b>13.26%</b>	<b>2.62%</b>	<b>2.61%</b>
<b>13-17</b>	<b>1.76%</b>	<b>1.46%</b>	<b>6.34%</b>	<b>2.02%</b>	<b>2.02%</b>	<b>2.00%</b>

# Current Law-Tax Cap

## Local Property Tax Cap

Fiscal Year	Maximum Levy Increase
2013 and after	4.00%
2012	4.25%
2011	4.50%
2010	4.75%
2009	5.00%
2008	5.25%

# Current Law – Tax Cap

Fiscal Year	Max. Increase	Requests to Exceed	Approved	Actual
2016	4.00%	0	0	0
2015	4.00%	2	2	3*
2014	4.00%	0	0	0
2013	4.00%	1	1	1
2012	4.25%	3	3	2
2011	4.50%	17	17	14
2010	4.75%	7	7	4
2009	5.00%	9	8	9

*\*2014 Assembly allowed a Woonsocket stabilization agreement which resulted in a total levy greater than 4.0%*

# Principles

- Offer immediate relief to all taxed
- Mitigate regressive nature of tax during phase-out period
- Improve comparisons with other states
- Decrease variation within RI
- Work w/ municipalities' variations
  - Provide technical assistance
  - Minimize disruption to upcoming tax cycle
  - Consider impacts of standardizing practices

# Considerations

- Rates
- Timing
- Value
  - Current practices at local level
  - Exemptions
  - Use of aging methodology
  - Local exemptions
- Total Levy
- Local Aid

# Considerations

- Timing
  - Local taxes are levied on prior calendar year assessments
    - FY 2017 budgets adopted in 2016 use assessments as of December 31, 2016
  - State laws having impacts on assessments or levies are usually prospective



# Considerations

- Value
  - 100% NADA retail appears to overvalue
    - Timing of valuation vs actual value
    - Taxpayers experience “sticker shock” on values
  - Any change that reduces values used impacts local revenue if rate cannot be adjusted or aid not provided

# Considerations

- Some locals reduce value through certain “aging” practices
  - Generally affects cars older than 5 years
  - Guidance never updated & not uniform
  - Standardizing methodologies will cause levy changes for some municipalities
  - Increased exemptions do not reach certain cars in communities that use aging

# Considerations

- Local Exemptions
  - Many communities offer local exemptions by ordinance
    - Some applicable to car tax
    - Not all applied the same way
  - Variations complicate efforts to standardize practices

# Considerations

- Local Aid
  - State distributes \$10 million
    - Does not fully cover full \$500 exemption because of prior treatment of inflation adjustments
  - Adding more money to current distribution does not get to taxpayers directly without law change

# 2017-H 6267: Summary

- Two-step plan
  - FY 2018 is transition year with immediate relief to taxpayers
    - May be abatement, credit or refund on tax bill
  - FY 2019 – FY 2023
    - Five year phased reduction in tax with multiple levers used
    - Reduces rate and exemption variation among communities during reduction period

# H-6267: Value Reduction

- Gradually lower the starting point for a car's value by imposing a discount to retail value during the phase out
- Impacts all car tax payers

% of Retail Value	
<b>FY 2017</b>	<b>100%</b>
FY 2018	95%
FY 2019	90%
FY 2020	85%
FY 2021	80%
FY 2022	75%
FY 2023	70%
FY 2024	N/A

# 2017-H 6267: Exemption Floor

- Increase the minimum exemption that must be applied to all cars
- Those w/higher exemptions must maintain them during the phase out

Exemption Floor	
<b>FY 2017</b>	<b>\$500</b>
FY 2018	\$1,000
FY 2019	\$2,000
FY 2020	\$3,000
FY 2021	\$4,000
FY 2022	\$5,000
FY 2023	\$6,000
FY 2024	N/A

# 2017-H 6267: Rate Cap

- Gradually lower the rate that can be levied during the phase out
- Those with lower rates must maintain them during the phase out

Rate Cap	
<b>FY 2017</b>	<b>N/A</b>
FY 2018	\$60
FY 2019	\$50
FY 2020	\$35
FY 2021	\$35
FY 2022	\$30
FY 2023	\$20
FY 2024	N/A



# 2017-H 6267: Old Cars

- Set presumptive value of \$500 for cars more than 15 years old
- Drops almost 150k cars from tax rolls
- Over half of statewide levy is from 5 years old or less

No Tax After Age	
<b>FY 2017</b>	<b>25</b>
FY 2018	15
FY 2019	15
FY 2020	15
FY 2021	15
FY 2022	15
FY 2023	15
FY 2024	N/A

# 2017-H 6267: Transition Year

- FY 2018
  - Fix current \$10 million reimbursement in statute as base for new program
  - Require locals to maintain current practice and rates
  - Increase exemption floor to \$1,000
  - Stop taxing cars more than 15 years old
  - Use 95% of retail value

# 2017-H 6267: Summary

	% of Retail Value	Rate Cap	Exemption Floor	No Tax after Age
<b>FY 2017</b>	<b>100%</b>	<b>N/A</b>	<b>\$500</b>	<b>25</b>
FY 2018	95%	\$60	\$1,000	15
FY 2019	90%	\$50	\$2,000	15
FY 2020	85%	\$35	\$3,000	15
FY 2021	80%	\$35	\$4,000	15
FY 2022	75%	\$30	\$5,000	15
FY 2023	70%	\$20	\$6,000	15
FY 2024	No Tax Levied			

# 2017-H 6267: Impact

	Total Levy*	Forgone Levy*	Taxed Cars Count	Cars Dropped from Tax Roll
<b>FY 2017</b>	<b>\$221</b>	<b>\$ -</b>	<b>747,000</b>	<b>-</b>
FY 2018	\$195	(\$26)	594,000	153,000
FY 2019	\$170	(\$51)	582,000	165,000
FY 2020	\$137	(\$84)	543,000	204,000
FY 2021	\$105	(\$116)	483,000	264,000
FY 2022	\$75	(\$146)	409,000	338,000
FY 2023	\$43	(\$178)	340,000	407,000
<b>FY 2024</b>	<b>\$ -</b>	<b>(\$221)</b>	<b>-</b>	<b>747,000</b>

\*in millions – FY 2017 base

# 2017-H 6267: Other

Issue	Solution
Total Levy	Exclude total MV levy from calculation to avoid increases to levy in excess of 4%.
Local Practice	Require locals to maintain current practices and calculations to avoid any gaming of aid. Empower DOR to determine compliance and make recommendations for possible changes half way through phase out.
Aid	Reimburse for difference in levy using new rules and <b>FY 2018 base year</b> . There will be a permanent distribution of old money; then new money on top.
Future Growth	Once tax is phased out, reimbursement is tied to growth in sales tax.

# Governor's Article 11

- Article 11 limits the assessment values to 70% of NADA values beginning January 1, 2018
- Sets floor on exemption at FY 2017 level
  - Communities may increase it, but additional exemptions not reimbursed
- Assessment practices can be altered but not exceed 100%

# Governor's Article 11

- Projected \$58 million cost based on assessments for FY 2015
  - FY 2017 data review suggests \$63 million
  - Article does not include reimbursement methodology
- Current detailed data not available at the time of proposal formulation

# Governor's Article 11

## Budget Estimates: January 2017

Current Law*		Governor's Proposal	
Fiscal Year	Cost	Cost	Change to Current
2018	\$10.0	\$10.0	\$ -
2019	\$10.0	\$68.0	\$58.0
2020	\$10.0	\$69.5	\$59.5
2021	\$10.0	\$70.9	\$60.9
2022	\$10.0	\$72.4	\$62.4

\*Subject to appropriation



# Alternate Proposals

- **2017-H 5138** - increases minimum exemption for electric vehicles to \$2,000
- **2017-H 5163** - uses trade in value and then phases out over 5-year period through reductions in the trade in value effective FY 2019 – state reimburses loss

# Alternate Proposals

- **2015-H 5250** – uses trade in value, no state reimbursement
- **2015-H 5559** – flat fee on vehicles 15 years and older, no state reimbursement
- **2015-H 5785** – Repeal tax and replace with user fees and vehicle landing fee

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