



## State Fiscal Note for Bill Number: 2021-H-5495

**Date of State Budget Office Approval:** Thursday, April 15, 2021

**Date Requested:** Friday, February 26, 2021

**Date Due:** Monday, March 8, 2021

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2021	n/a	FY 2021	n/a
FY 2022	n/a	FY 2022	See Below
FY 2023	n/a	FY 2023	See Below

<i>Explanation by State Budget Office:</i>	<p>This bill would amend Rhode Island General Laws (R.I. Gen. Laws) Chapter 44-34 titled "Excise on Motor Vehicles and Trailers" by amending the appeal process for a taxpayer on the value of a vehicle subject to taxation. The amended appeal process is described in R.I. Gen. Laws Section 44-34-8 titled "Appeal procedure."</p> <p>As contained in the bill, the appeals procedure would allow any taxpayer to appeal the valuation of a vehicle that was originally made by the Rhode Island Vehicle Valuation Commission (VVC), to the city or town's board of assessment. The bill explicitly prohibits the city or town's board of assessment to increase the appealed vehicle valuation.</p> <p>Under current law, any taxpayer aggrieved by a valuation of a vehicle may appeal that valuation to their local tax assessor within 45 days of the notice of valuation. If the valuation of the vehicle was made by the VVC, the local tax assessor forwards the appeal to the commission within 10 days. The commission is then set to review the appeal and transmit a decision to the tax assessor within 20 days of receipt of the appeal.</p>
<i>Comments on Sources of Funds:</i>	<p>All motor vehicle excise taxes are local revenues. State aid associated with the motor vehicle phase-out is paid from general revenues.</p>
<i>Summary of Facts and Assumptions:</i>	<p>The effective date of the bill is upon passage. The Department of Revenue, Office of Revenue Analysis (ORA) assumed an implementation date of July 1, 2021.</p> <p>The Rhode Island Vehicle Value Commission is established and authorized under R.I. Gen. Laws Section 44-34-11 titled, "Rhode Island vehicle value commission." The commission's official function is to establish presumptive values of vehicles and trailers subject to the excise tax. The commission consists of seven volunteer members, five of which are local tax officials named by the governor. Each commission member serves for a term of three years.</p> <p>Between September 30 and not later than December 31 of each year, the commission shall by rule adopt a methodology for determining the presumptive value of vehicles and trailers subject to the motor vehicle and trailer excise tax. The commission is required to consider the average retail price of similar vehicles of the same make, model, type, and year of manufacture as reported by motor vehicle dealers or by official used car guides, such as that of the National Automobile Dealers Association for New England.</p>

*Prepared by:*

Paul Dion / 4015748943 / paul.dion@revenue.ri.gov

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R.I. Gen. Laws Section 44-34-11(c)(iii)(A) states that the presumptive value of vehicles and trailers subject to the excise tax shall not exceed the yearly percentage of clean retail value for those vehicles reported by the National Automobile Dealers Association (NADA) Official Used Car Guide New England Edition. The percentage of clean retail value described is the percentage from the adopted motor vehicle excise tax phase-out which runs from FY 2018 – FY 2023. Each year the percentage of allowed NADA clean retail value to be used as the basis for excise tax calculation is lowered. For FY 2021 the percentage is 80% of the NADA clean retail value. For FY22 the percentage of allowed NADA clean retail value is 75% and for FY 2023 the allowed percentage NADA clean retail value is 70%.

By statute the Vehicle Value Commission adopts rules governing its organization and the conduct of its business. The latest methodology adopted by the commission for determining the presumptive value of motor vehicles subject to excise tax on December 31, 2020 states that for the vast majority of registered vehicles in the state with model years between 2014 and up to and including 2020, the value shall be based upon 100% of their clean retail value as reported by NADA for New England. Pursuant to R.I. Gen. Laws §44-34.1-1, titled “Excise Tax Phase Out” all presumptive values are adjusted by the applicable ratio of assessment as prescribed in law and above.

For FY 2020 it is reported that the Rhode Island vehicle value commission heard 13 taxpayer appeals. This consisted of 10 denials, two appeals were granted both of which increased the vehicle’s value, and one was sent back to the local assessor as it was not a value established by the commission. For FY 2021 it is reported that the commission heard the appeals of six taxpayers. Of the six, five were denied while one was sent back to the local assessor as it was not a commission established vehicle value.

It should be noted that local boards of assessment are not held to the same rules, regulations and standards by statute as the VVC. Under the proposed plan, local boards of assessment could determine appealed vehicle values in many different manners across the state.

Under the motor vehicle and trailer excise tax phase-out plan contained in current law, there is an excise tax bill “hold harmless” provision. Under this provision, a motor vehicle which is registered for the same number of days or less in the same municipality, may not be charged more excise taxes in a subsequent year. It should be noted that if the taxpayer were to appeal the value of their vehicle and receive an abatement on their current excise tax bill, subsequent tax year bills would also be affected as they would not pay more the following year by law. If many taxpayers were to appeal their vehicle values successfully, the excise taxes collected by municipalities could decrease. This could impact the amount of state aid awarded to each municipality. The motor vehicle phase-out state aid is calculated by taking the difference between the reviewed certified tax levy and the baseline excise tax levy as was determined for municipalities in FY 2018.

The Department of Revenue’s Division of Municipal Finance (DMF) queried local



assessors to determine an average volume of current property tax appeals submitted to the local board of assessment as well as the percent of the appeals that were abated. DMF took into consideration the 16 municipal responses that contained accompanying data. Of the 16 municipal responses, the total real estate value summed to \$60.475 billion and the total amount of approved abatements summed to \$35.258 million. The two values were compared to get an average abatement ratio of 0.0583 percent (i.e.,  $\$35,258,162 / \$60,475,761,000$ ) of the amount of total taxable value that was abated after going before the board of assessment. DMF then summed the net motor vehicle (MV) values for the same municipalities for a total of \$1.567 billion. DMF scaled the abatement factor from real estate to motor vehicles. The ratio of real estate values to motor vehicle values was calculated to be 38.58225 (i.e.,  $\$60,475,761,000 / \$1,567,450,497$ ). This ratio was multiplied by the calculated abatement percentage of real estate value of 0.0583% to arrive at an estimated abatement percent of MV values of 2.2494% (i.e.,  $0.0583 * 38.58225$ ).

ORA forecasts that the total MV excise tax levy for FY 2022 using the current law MV phase-out parameters will be \$94.644 million while the FY 2023 MV excise tax levy is forecasted to be \$58.609 million. Multiplying the estimated 2.2494% MV abatement percent by the forecasted MV excise tax levies yields estimated decreases in municipal MV excise tax levies of \$2,128,923 in FY 2022 (i.e.,  $\$94,644,229 * 0.022494$ ) and \$1,318,342 in FY 2023 (i.e.,  $\$58,608,718 * 0.022494$ ). ORA and DMF estimate that municipal revenues will decrease by those amounts for FY 2022 and FY 2023. Due to the hold harmless provision, it is estimated that the certified tax levies for FY 2023 will also decrease by a similar amount, thereby increasing the amount of state aid needed "to make municipalities whole" to their FY 2018 baseline motor vehicle excise tax levy. ORA and DMF estimate that FY 2023 state aid will increase by the same amount motor vehicle excise tax levies are estimated to decrease in FY 2022.

It should be noted that the estimated revenue impacts above do not incorporate any changes in taxpayer behavior in response to the proposed local board of reviews appeals procedure. It is possible that many more taxpayers will appeal their motor vehicle value if it is perceived to be easier to go before the local board of assessment or if the local board of assessment adopts a different appeals policy.

The Governor's FY 2022 Recommended Budget projects a closing surplus of \$265,441,847 in FY 2021 and \$4,425,716 in FY 2022. Passage of this bill would have no impact on the FY 2021 or FY 2022 closing surpluses, but it would increase the FY 2023 projected budget deficit of \$374.4 million.

*Summary of Fiscal  
Impact:*

FY 2021: Not applicable due to the bill's assumed implementation date of July 1, 2021.

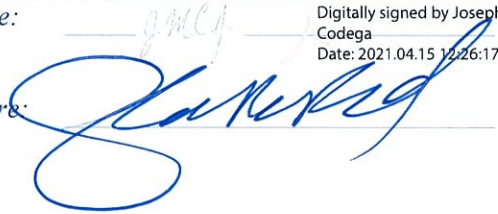
FY 2022: A local revenue loss of \$2,128,923 is forecast.

FY 2023: A local revenue loss of \$1,318,342 is forecast. An increase in general revenue expenditures of \$2,128,923 is forecast due to the estimated increase in local state aid.

*Budget Office Signature:*

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*Fiscal Advisor Signature:*



*Prepared by:*

Paul Dion / 4015748943 / paul.dion@revenue.ri.gov

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