ISSUE REVIEW

Iowa Legislative Fiscal Bureau

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State Capitol
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November 5, 1992

Motor Vehicle Use Tax Assessment Option

ISSUE

In SF 2393, the Second Extraordinary Session Bill, the General Assembly increased the sales and use taxes by one cent. The bill also directed that 20% of the motor vehicle use tax revenue be deposited in the General Accepted Accounting Principles (GAAP) Deficit Reduction Fund instead of the Road Use Tax Fund. This amount is estimated to be $31.6 million for FY 1993. Total revenues attributable to the vehicle use tax are estimated to be $156.0 million for FY 1993.

Motor vehicle use tax is 5% of the reported purchase price of a vehicle subject to registration. To the extent vehicle purchase price is under-reported to the county treasurer, there is an underpayment of tax to the General Fund and the Road Use Tax Fund.

AFFECTED AGENCIES

Department of Revenue and Finance (DRF)

Department of Transportation (DOT)

CODE AUTHORITY

Chapter 423, Code of Iowa

CURRENT SITUATION

The motor vehicle use tax is paid to the county treasurer, who remits the full amount less $1.00 for each transaction to the DRF. The county treasurer receives the tax owed from dealerships or from individual buyers who have purchased a vehicle from another individual.

Under-reporting of sales price from car dealerships is not considered to be a problem. Dealerships collect the motor vehicle use tax at the time the buyer makes the purchase and then remit it to the county treasurer when transferring the title. Thus, purchasers do not have the opportunity to under-report sales price.

Under-payment of use tax due to under-reporting of sales price in a transaction between two individuals may be a significant problem. There is little financial incentive for a county treasurer to be concerned with under-reporting of vehicle price since a county treasurer's office retains only $1.00 per registration to defray administrative costs. Clerks in the county treasurer's office who suspect under-reporting of a vehicle price may ask the purchaser to provide more information on a form which will then be reviewed by DRF staff for under-reporting. Additionally, clerks were recently given the option of entering a code into the State vehicle titling system if they feel a questionable purchase price was reported. This also should result in a review by the DRF. Both procedures are at the clerk's discretion.

The DOT indicated there were about 800,000 to 1,000,000 vehicle titles issued annually in Iowa. Nationally, of the 32.1 used million vehicles sold in 1990, 54% or 17.3 million vehicles are estimated to be transactions between private persons. Assuming the 54% national figure is applicable to Iowa, used vehicle titles stemming from private person transactions in Iowa number between 300,000 to 380,000.

ALTERNATIVES

One alternative may be to impose the motor vehicle use tax on the basis of the "book value" of vehicles instead of reported price. The State of Kentucky has such a system. Also, the Province of Ontario, Canada, recently implemented a book value based system of taxation.

In Kentucky, the tax on new vehicles is imposed on 90% of total factory advertised price with no trade-in allowance. For used vehicles, the tax is imposed on 100% of the value reported in the National Automobile Dealers Used Car Guide, published by the National Automobile Dealers Association. For used vehicles, Kentucky provides a trade-in allowance for vehicles previously registered and sold in Kentucky. Analysts in Kentucky have indicated that using a system similar to Iowa's would have reduced Kentucky revenues although a specific estimate was not available.

Beginning October 1, 1992, the Province of Ontario, Canada, began imposing the 8% sales tax on the higher amount of (1) the amount paid for the vehicle or (2) 100% of the value of vehicles as reported in the Canadian Red Book. The tax applies to both new and used vehicles. The Ministry of Revenue estimated that tax liability attributable to private sales would increase by as much as 60% or $33.0 million on 1.0 million transactions.

BUDGET IMPACT

Iowa specific estimates of the lost tax liability due to under-reporting of purchase price under the current system are currently not available. However, based on the information obtained in researching this topic, it is possible that Iowa may be losing some revenue due to under-reporting. If 100,000 (approximately one-third) of the private person transactions were under-reported by an average amount of $2,000, lost tax liability would total $10.0 million.

RECOMMENDATION

The Legislative Fiscal Committee may want to consider requesting the DRF and DOT to review titling data to determine if under-reporting results in significant revenue loss and to estimate the impact of using a book value based system of collection.

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