

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0087-01
Bill No.: HB 602
Subject: Motor Vehicles; Revenue Dept.; Taxation and Revenue - Sales and Use
Type: Original
Date: April 8, 2009

Bill Summary: Would allow quarterly payments of sales and use tax on vehicles and boats with a purchase price of more than \$15,000.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	(\$405,391)	(\$437,336)	(\$450,757)
Total Estimated Net Effect on General Revenue Fund	(\$405,391)	(\$437,336)	(\$450,757)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
School District Trust	(Unknown)	\$0	\$0
Conservation Commission	(Unknown)	\$0	\$0
Parks, and Soil and Water	(Unknown)	\$0	\$0
Road Bond	(Unknown)	\$0	\$0
State Road	(Unknown)	\$0	\$0
State Transportation	(Unknown)	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	(Unknown)	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	10	10	10
Total Estimated Net Effect on FTE	10	10	10

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government	(Unknown)	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** assume this proposal would allow the payment of sales or use tax in quarterly installments over the course of one year, beginning with the day the purchase is made, on a new or used motor vehicle or boat with a purchase price in excess of \$15,000. DOR would determine the days on which the quarterly payments would be made; if that motor vehicle or boat is sold or otherwise transferred, replaced due to theft, or is deemed a total casualty loss, any remaining sales tax that was not paid at the time of the purchase or registration of the motor vehicle or boat must be paid within thirty days of the sale, transfer, theft, or casualty loss. DOR officials assume that four equal quarterly payments would be required, and that updates would be needed to related policies and procedures, forms, and the DOR website.

ASSUMPTION (continued)

Motor Vehicles

The Division of Motor Vehicles would need to develop correspondence for applicants who are delinquent, and there would be a need to develop a new accounting system to record track customer information (name, address, vehicle info, etc.), date of payment, amount of payment, remaining amount, and generate default payment correspondence. The TRIPS system would need to be revised to capture quarterly payment request, individual payments, feed all payment information into the accounting system, and issue receipts.

DOR officials also assume that once an applicant defaults on a payment the accounting system would automatically enter the account into delinquent status, generate a delinquency notice, and the information and account would be transferred to the Division of Taxation, Delinquent Fee Section.

DOR officials reported that in FY 2008 there were 1,744,089 new and used motor vehicle titles issued. DOR does not record the actual purchase price of a vehicle and does not have information as to how many of applicants would wish to make quarterly sales tax payments. Assuming that 50% (872,045) of those vehicle purchases were more than \$15,000 and also assuming that 50% of those purchasers would wish to make quarterly payments, DOR would expect to key customer information for 436,023 applicants into the TRIPS system which would then issue receipts and transfer account information into the new accounting system.

Upon receipt of the initial payment, DOR assumes the revised TRIPS system would print a payment sheet with each subsequent payment amount and each due date which could be torn off and mailed to DOR with the payment. (Similar to a payment book.)

DOR officials assume applicants would mail subsequent payments to the Central Office and that each payment would need to be keyed into the revised TRIPS system. DOR would not mail a receipt unless an applicant is delinquent.

DOR officials estimated the need for funding in the amount of \$115,679 for supporting equipment and three FTE Revenue Licensing Technician I (one FTE Revenue Licensing Technician I can key 100 payments per day). DOR assumes that fifteen percent of the 436,023 applicants (65,403) would become delinquent and that correspondence related to the delinquency would cost \$30,282 in printing, envelopes, and postage.

ASSUMPTION (continued)

DOR officials assume there would be a 33% inquiry rate out of the 436,023 applicants resulting in 143,888 additional phone inquiries each year. This process would require \$38,843 for one FTE Telephone Information Officer I and supporting equipment (one FTE Telephone Information Officer I can take 100 phone calls per day).

Boats

DOR officials assume that boats would be handled in the same manner as motor vehicles. In FY 2008 there were 66,407 new and used boat titles issued. Assuming that 50% (33,204) of these vehicles were in excess of \$15,000 and assuming that 50% of those would wish to make quarterly payments, DOR would key customer information for 16,602 applicants into the TRIPS system which would issue receipts and transfer account information into the new accounting system.

DOR estimated the need for funding in the amount of \$38,560 for supporting equipment and one FTE Revenue Licensing Technician I (1 Rev Tech I can key 100 per day).

DOR officials assume that fifteen percent of the 16,602 applicants (2,490) would become delinquent and that correspondence related to the delinquency would cost \$1,153 in printing, envelopes, postage.

DOR officials assume there would be a 33% inquiry rate out of the 16,602 applicants resulting in 5,479 additional phone inquiries per year. This process would require \$38,843 for one FTE Telephone Information Officer I and supporting equipment (one Telephone Information Officer I can take 100 phone calls per day).

Taxation Impact

DOR officials assume this proposal would increase delinquent motor vehicle sales tax and fees correspondence as people do not meet their quarterly payment due dates. Additionally, this could slow motor vehicle sales tax refunds as DOR employees would be required to check quarterly payments before processing refunds, and offset any refund against payments not made.

ASSUMPTION (continued)

DOR officials estimated this process would require one FTE Revenue Processing Technician I for every 10,000 additional delinquent motor vehicle sales tax and fees; one FTE Revenue Processing Technician I to process motor vehicle refunds to meet the demand of the additional steps in refund processing; one FTE Tax Collection Technician I for every 15,000 inbound calls to the delinquent motor vehicle sales tax and fees line; and one FTE Tax Collection Technician I for every 15,000 outbound collection calls.

DOR officials submitted a total estimate of the cost to implement this proposal including ten additional FTE and the related equipment and expense costs totaling \$418,330 for FY 2010, \$449,141 for FY 2011, and \$462,618 for FY 2012. DOR officials stated that the number of additional employees requested was lower than the number that would be required based on the estimated number of transactions resulting from this proposal, since DOR officials expected to be able to develop a computer system to reduce the number of transactions processed manually.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense cost in accordance with OA budget guidelines.

Information Technology Impact

DOR officials provided this estimate of the IT cost to implement the proposal.

Officials from the **Office of Administration, Information Technology Services Division** (ITSD/DOR) estimated that this legislation could be implemented using three FTE existing CIT III for 9 months at a total cost of \$119,907. ITSD/DOPR officials assume the IT portion of this proposal could be implemented with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

Oversight assumes that this proposal could be implemented by ITSD/DOR with existing resources. If unanticipated costs are incurred or if multiple proposals are implemented which increase the ITSD/DOR workload, resources could be requested through the budget process.

ASSUMPTION (continued)

Oversight notes that this proposal would result in the delayed collection of sales and use taxes on vehicles since current provisions require payment of sales and use tax within thirty days of purchase and this proposal would spread those sales and use tax collections over four quarterly payments. Oversight assumes that after several quarters of operation, the collection of sales and use taxes on prior quarter vehicle purchases would offset the reduction in collection of sales and use taxes on current purchases. For fiscal note purposes, Oversight will indicate an unknown loss for the first fiscal year only for state funds that receive sales and use tax revenues on vehicle purchases and for local governments.

Oversight also notes that this proposal would allow a title and license to be issued for vehicles and boats before the sales tax was fully collected. These provisions could result in an increase in uncollectible sales and use taxes due to the delay in collecting those taxes; however, Oversight does not have any information as to the extent of those losses. For fiscal note purposes, Oversight assumes those losses would be negligible; losses will not be indicated in this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
<u>Cost - Department of Revenue</u>			
Personal Service	(\$202,390)	(\$250,154)	(\$257,659)
Fringe Benefits	(\$98,422)	(\$121,650)	(\$125,300)
Expense and Equipment	(\$104,579)	<u>(\$65,532)</u>	<u>(\$67,498)</u>
Total	<u>(\$405,391)</u>	<u>(\$437,336)</u>	<u>(\$450,457)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$405,391)</u>	<u>(\$437,336)</u>	<u>(\$450,757)</u>
Estimated Net FTE Effect on General Revenue Fund	10	10	10

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction</u> - sales and use tax	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
CONSERVATION COMMISSION FUND			
<u>Revenue reduction</u> - sales and use tax	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
PARKS, AND SOIL AND WATER FUND			
<u>Revenue reduction</u> - sales and use tax	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
ROAD BOND FUND			
<u>Revenue reduction</u> - sales and use tax	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON ROAD BOND FUND	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
STATE ROAD FUND			
<u>Revenue reduction</u> - sales and use tax	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON STATE ROAD FUND	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
STATE TRANSPORTATION FUND			
<u>Revenue reduction</u> - sales and use tax	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON STATE TRANSPORTATION FUND	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
LOCAL GOVERNMENTS			
<u>Revenue reduction</u> - sales and use tax	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Small Business</u>			

No direct fiscal impact to small businesses would be expected as a result of this proposal.

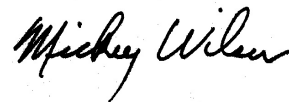
FISCAL DESCRIPTION

This proposal would allow purchasers of vehicles and boats with a purchase price of more than \$15,000 to make quarterly payments of sales and use tax.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue



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Director
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