

DEPARTMENT OF TAXATION 2017 Fiscal Impact Statement

1. **Patron** Rosalyn R. Dance

3. **Committee** Senate Finance

4. **Title** Motor Vehicle Sales and Use Tax and Retail
Sales and Use Tax; All-Terrain Vehicles

2. **Bill Number** SB 1186

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

The Department understands that the patron plans to introduce a substitute bill. This impact statement addresses the substitute bill.

This bill would exempt all-terrain vehicles, mopeds, and off-road motorcycles from the Retail Sales and Use Tax and subject such vehicles to the Motor Vehicle Sales and Use Tax at the current Retail Sales and Use Tax rate of 6 percent in the Northern Virginia and Hampton Roads regions and 5.3 percent in all other localities. The Motor Vehicle Sales and Use Tax would not be imposed if the applicant has owned the vehicle for more than 12 months or provides evidence that the Retail Sales and Use Tax was paid on such vehicle. The bill would distribute the revenues from the Motor Vehicle Sales and Use Tax on such vehicles in the same manner as the Retail Sales and Use Tax.

Generally, motor vehicles are subject to the Motor Vehicle Sales and Use Tax at a rate of 4.15 percent. Under current law, all-terrain vehicles, off-road motorcycles, and mopeds are not considered motor vehicles for purposes of the Retail Sales and Use Tax exemption for motor vehicles. Accordingly, sales of such vehicles are subject to the Retail Sales and Use Tax and exempt from the Motor Vehicle Sales and Use Tax.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** Yes.
ITEM(S): Page 1, Revenue Estimates

7. Fiscal Impact Estimates are: Preliminary. (See Line 8.)

7a. Expenditure Impact:

Department of Motor Vehicles

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2016-17	\$30,000	0	NGF
2017-18	\$40,000	0	NGF
2018-19	\$40,000	0	NGF
2019-20	\$40,000	0	NGF
2020-21	\$40,000	0	NGF
2021-22	\$40,000	0	NGF
2022-23	\$40,000	0	NGF

8. Fiscal implications:

Administrative Costs

Department of Taxation

The Department considers implementation of this bill as routine, and does not require additional funding.

Department of Motor Vehicles

The Department of Motor Vehicles would incur administrative costs of approximately \$30,000 in Fiscal Year 2017 for technology costs and \$40,000 in Fiscal Year 2018 and each Fiscal Year thereafter for ongoing expenses related to the collection of the Motor Vehicle Sales and Use Tax on all-terrain vehicles, off-road motorcycles, and mopeds. The bill does not authorize the Department of Motor Vehicles to recover its administrative costs from the tax revenues collected on such vehicles.

Revenue Impact

This bill would subject all-terrain vehicles, mopeds and off-road motorcycles to the Motor Vehicle Sales and Use Tax, instead of the Retail Sales and Use Tax. As the Motor Vehicle Sales and Use Tax is imposed when the owner applies for a title, this bill is estimated to increase revenues as vehicles purchased outside of Virginia and used vehicles purchased through private sales would be subject to the Motor Vehicle Sales and Use Tax when in most cases either no Retail Sales and Use Tax is either remitted or is due.

Based on industry data regarding sales of all-terrain vehicles and off-road motorcycles, the provisions of this bill related to all-terrain vehicles and off-road motorcycles is estimated to result in a net increase in total revenues of \$337,000 in Fiscal Year 2018, \$364,000 in Fiscal Year 2019, \$365,000 in Fiscal Year 2020, \$365,000 in Fiscal Year 2021, \$365,000 in Fiscal Year 2022, and \$365,000 in Fiscal Year 2023. The bill would distribute the Motor Vehicle Sales and Use Tax revenues on all-terrain vehicles, off-road motorcycles, and mopeds in the same manner as Retail Sales and Use Tax revenues. The following chart shows the net estimated revenue impact on the various funds:

SB 1186 Taxation of ATVs and Off-Road Motorcycles

Effective July 1, 2017 (all figures in dollars)

<u>Fund</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
GF-Unrestricted	\$134,000	\$146,000	\$147,000	\$146,000	\$147,000	\$147,000
GF-Restricted	\$66,000	\$72,000	\$72,000	\$72,000	\$72,000	\$73,000
Transportation*	\$48,000	\$52,000	\$52,000	\$52,000	\$52,000	\$52,000
Local Option	\$60,000	\$64,000	\$64,000	\$65,000	\$65,000	\$64,000
HMOF (GF transfer)	\$6,000	\$7,000	\$7,000	\$7,000	\$6,000	\$6,000
Regional Trans. Funds (0.7%)	\$23,000	\$23,000	\$23,000	\$23,000	\$23,000	\$23,000
Hampton Roads (TPO)	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000
Northern Virginia (NVTa)	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Total Revenues	\$337,000	\$364,000	\$365,000	\$365,000	\$365,000	\$365,000

*Includes 0.5% TTF, 0.175% HMOF, 0.050% IPROCF, and 0.075% Mass Transit Fund.

The bill would also exempt mopeds from the Retail Sales and Use Tax and subject such vehicles to the Motor Vehicle Sales and Use Tax at the Retail Sales and Use Tax rate. Less data is available for moped sales, but the moped market is estimated to account for 10 percent of the overall market for all-terrain vehicles, off-road motorcycles, and mopeds. If mopeds represent 10 percent of the total market, the increase in revenues resulting from this bill would be 10 percent higher.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Motor Vehicles

10. Technical amendment necessary: No.**11. Other comments:**Generally

Effective July 1, 2013, House Bill 2313 (2013 *Acts of Assembly*, Chapter 766), increased the state Retail Sales and Use Tax rate from 4 percent to 4.3 percent and imposed an additional state Retail Sales and Use Tax in the Northern Virginia and Hampton Roads

regions at the rate of 0.7 percent. The rate of the local option Retail Sales and Use Tax remained 1 percent. The total state and local Retail Sales and Use Tax rate is 6 percent in localities that fall within Northern Virginia and Hampton Roads regions and 5.3 percent in the rest of the Commonwealth.

The “Northern Virginia Region” is defined as the Counties of Arlington, Fairfax, Loudoun, and Prince William and the Cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park.

The “Hampton Roads Region” is defined as the Counties of Isle of Wight, James City, Southampton, and York and the Cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg.

Taxation of Motor Vehicles

Effective July 1, 2016, the Motor Vehicle Sales and Use Tax is imposed on motor vehicles at the rate of 4.15 percent of the sales price and is due at the time the owner applies to the Department of Motor Vehicles for, and obtains, a certificate of title.

Taxation of All-Terrain Vehicles, Mopeds, and Off-Road Motorcycles

Under current law, all-terrain vehicles, mopeds, and off-road motorcycles are subject to the Retail Sales and Use Tax and exempt from the Motor Vehicle Sales and Use Tax. Below are three scenarios for sales of such vehicles and the current application of the Retail Sales and Use Tax:

- A Virginia resident purchases an all-terrain vehicle from a Virginia dealer. The Virginia dealer would collect the Retail Sales and Use Tax on the sale. No Virginia Motor Vehicle Sales and Use Tax would be paid.
- An out-of-state resident purchases an all-terrain vehicle from a Virginia dealer. The Virginia dealer would collect the Retail Sales and Use Tax on the sale. No Virginia Motor Vehicle Sales and Use Tax would be paid, but the owner may be subject to the titling tax in his resident state.
- A Virginia resident goes to an out-of-state dealer and purchases an all-terrain vehicle. The out-of-state dealer would not collect the Virginia Retail Sales and Use Tax on the sale. No Virginia Motor Vehicle Sales and Use Tax would be paid.

Proposal

This bill would exempt all-terrain vehicles, mopeds, and off-road motorcycles from the Retail Sales and Use Tax and subject such vehicles to the Motor Vehicle Sales and Use Tax at the current Retail Sales and Use Tax rate of 6 percent in the Northern Virginia and Hampton Roads regions and 5.3 percent in all other localities. The tax would be due at the time the owner applies to the Department of Motor Vehicles for, and obtains, a certificate of title. The Motor Vehicle Sales and Use Tax would not be imposed if the applicant has owned the vehicle for more than 12 months or provides evidence that the Retail Sales and Use Tax was paid on such vehicle. The bill would distribute the

revenues from the Motor Vehicle Sales and Use Tax on such vehicles in the same manner as the Retail Sales and Use Tax.

Below are three scenarios for sales of such vehicles and the application of the Retail Sales and Use Tax under the proposed bill:

- A Virginia resident purchases an all-terrain vehicle from a Virginia dealer. The Virginia dealer would not collect the Retail Sales and Use Tax on the sale. The owner of the all-terrain vehicle would be required to pay the Motor Vehicle Sales and Use Tax at the time of titling.
- An out-of-state resident purchases an all-terrain vehicle from a Virginia dealer. The Virginia dealer would not collect the Retail Sales and Use Tax on the sale. No Virginia Motor Vehicle Sales and Use Tax would be paid, but the owner may be subject to the titling tax in his resident state.
- A Virginia resident purchases an all-terrain vehicle from an out-of-state dealer. The out-of-state dealer would not collect the Virginia Retail Sales and Use Tax on the sale. The owner of the all-terrain vehicle would be required to pay the Motor Vehicle Sales and Use Tax at the time of titling.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 1/23/2017 AM
DLAS File Name: SB1186F161