OHIO LEGISLATIVE SERVICE COMMISSION

Jean J. Botomogno

Fiscal Note & Local Impact Statement

Bill: H.B. 216 of the 132nd G.A.

Status: As Introduced

Sponsor: Reps. Hambley and Brinkman

Local Impact Statement Procedure Required: Yes

Subject: Sales and use tax trade-in deduction for purchases of used cars

State Fiscal Highlights

STATE FUND	FY 2018	FY 2019	FUTURE YEARS
General Revenue Fund			
Revenues	Potential loss of several millions of dollars	Loss of up to $80 million	Loss of up to $80 million
Local Government and Public Library Funds (counties, municipalities, townships, and public libraries)			
Revenues	Potential loss of several millions of dollars	Loss of up to $3 million	Loss of up to $3 million
Counties and transit authorities			
Revenues	Potential loss of several millions of dollars	Loss of up to $20 million	Loss of up to $20 million

Note: The state fiscal year is July 1 through June 30. For example, FY 2018 is July 1, 2017 – June 30, 2018.

- Authorizing a sales tax trade-in deduction for the purchase of used motor vehicles reduces the sales and use tax base, and thus decreases state sales tax revenue and revenue from local county permissive and transit authority sales taxes.
- The state sales tax revenue loss would be shared by the state General Revenue Fund (GRF, 96.68%), the Local Government Fund (LGF, 1.66%), and the Public Library Fund (PLF, 1.66%). Funds deposited into the LGF and PLF are distributed to counties, municipalities, townships, and public libraries according to statutory formulas and decisions by county budget commissions.

Detailed Fiscal Analysis

The bill authorizes a sales and use tax trade-in deduction for the purchase of a used motor vehicle from a licensed dealer. Under current law, for sales and use tax purposes, the taxable "price" of a new motor vehicle purchased from a licensed dealer is reduced by the value of a traded-in motor vehicle. The Department of Taxation estimates the exemption in current law would reduce GRF sales tax revenue by $214.4 million in FY 2018 and $217.6 million in FY 2019. The bill applies the same treatment to the purchase of a used motor vehicle, beginning with the first full month that begins after the bill's effective date. Thus under the bill, the value of the vehicle traded in may be deducted from the taxable base of the used motor vehicle. This expansion of the trade-in deduction may increase the state's fiscal cost by up to $83 million on an annual basis, depending on changes to retail vehicle markets.

Receipts from the state sales and use tax are deposited into the GRF. Under permanent law, a portion of GRF tax receipts is subsequently transferred to the LGF and the PLF, with each local fund receiving 1.66% of GRF tax revenue. Thus, the GRF revenue loss from the bill is estimated at up to $80 million and the LGF and PLF losses would total up to $3 million. Local permissive county and transit authority sales taxes share the same tax base as the state sales tax. Thus, the bill would also reduce permissive county and transit authority sales tax revenue. The revenue loss to those local governments is estimated at up to $20 million per year.

The estimates are based on data from several sources, including the Ohio Bureau of Motor Vehicles (BMV), the National Automobile Dealers Association (NADA), the National Independent Automobile Dealers Association (NIADA), CNW Marketing Research, Manheim's 2017 Used Car Market Report, and Edmunds 2017 Used Vehicle Market Report. NADA and NIADA publish data on, respectively, new car franchise dealerships and independent dealers. CNW Marketing Research provided information on consumer research on automobile purchases.[1] Manheim provides details on the used vehicle marketplace and on a wide range of other motor vehicle transactions, including auctions, rental, leasing, and automobile salvage. Finally, Edmunds publishes certain information on the used vehicle market place.

About 1.7 million used motor vehicle titles were issued in FY 2016 according to the Ohio BMV. That total includes titles issued as a result of private party sales, which are transactions excluded from the trade-in deduction in the bill. Based on nationwide data, about 70% of used cars sold are retailed by franchise and independent dealers, or about 1.1 million of all used motor vehicles titled in Ohio.[2] Data from NADA's most recent annual report suggest that 22% of used cars sold by franchise dealers were

[1] CNW Marketing Research ceased publication in 2015.

[2] Other downward adjustments were made to arrive at the 1.1 million estimate, to exclude titled boats and outboard motors that were purchased with trade-ins. Current law allows for trade-in deduction in the purchase of boats and outboard motors (R.C. 5739.01(H)(3)).

sourced from vehicles traded in. However, no data is available to LSC about a corresponding figure on the sourcing of used cars sold by independent dealers. This Fiscal Note assumes a trade-in percentage for independent dealers similar to that for franchise dealers, though their sourcing of trade-ins could potentially be different. Average trade-in values credited to buyers of used cars were estimated at $8,280 and $3,635 for franchise dealers and independent dealers, respectively, from data from Edmunds and Manheim.[3] Finally, another downward adjustment was made to account for entities that may not be paying sales tax on used car purchases.

The estimates are subject to some uncertainty. Except for information from the BMV which is Ohio-specific, the remainder is nationwide data that may not be representative of Ohio new and used vehicle markets. Therefore, the fiscal revenue loss from the bill may prove to be different than estimated above, and would depend on changes to the supply and the demand in both new and used motor vehicle markets. For example, used vehicle sales and trade-in values are greatly affected by the sale of new autos and light trucks, new vehicle leasing rates, off-lease volumes (which feed the supply of used vehicles), and sales of new vehicles to rental companies (which also end up in the used vehicle market after one or two years).

Price and substitution effects

The bill may decrease prices of used vehicles by a percentage equal to the combined state and local sales tax rates, assuming the benefits of the bill fully accrue to customers. A share of those savings will result in added consumer purchases, including additional purchases of automobiles. Also, lower prices enhance consumer "real" income or purchasing power. A portion of this additional income from the sales tax credit may also increase demand for vehicles resulting in more auto sales and added auto sales tax revenues. Nevertheless, any estimate of sales tax revenue gain would be small compared to the fiscal loss estimated above. Thus, LSC economists believe the bill will result in a significant revenue loss to the GRF and counties and transit authorities.

HB0216IN.docx/ts

[3] Used vehicle average retail prices and trade-in values have historically trended upward.