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SB 20-067

FISCAL NOTE

Drafting Number: LLS 20-0167
Prime Sponsors: Sen. Crowder

Date: January 30, 2020
Bill Status: Senate Finance
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Bill Topic: VEHICLE SPECIFIC OWNERSHIP TAX ACTUAL PRICE

- Summary of Fiscal Impact:
- State Revenue
- State Expenditure
- State Transfer
- TABOR Refund
- Local Government
- Statutory Public Entity

This bill allows the actual sale price to be used to calculate the Specific Ownership Tax rather than a percentage of the MSRP or another estimate of the price of a vehicle. This will increase state school finance expenditures and reduce local government revenue starting in FY 2020-21.

Appropriation Summary: For FY 2020-21, the bill requires an appropriation of \$8,550 to the Department of Revenue.

Fiscal Note Status: This fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under SB 20-067

Table with 4 columns: Category, FY 2020-21, FY 2021-22, FY 2022-23. Rows include Revenue, Expenditures (General Fund, Cash Funds, Total), Transfers, and TABOR Refund.

Summary of Legislation

Current law uses a fraction of the Manufacturers Suggested Retail Price (MSRP) as the taxable value when calculating the Specific Ownership Tax (SOT). This bill allows the actual purchase price to be used to calculate the SOT.

Background

When Colorado citizens register their vehicles, they pay the SOT in place of property taxes. The SOT is calculated based on the taxable value and the SOT rate. Once the taxable value is established it does not change for the life of the vehicle even upon transfer of ownership and is used annually for the calculation fo the SOT. The taxable value of the property is determined by the type of vehicle as described in Table 2.

**Table 2
Taxable Value by Motor Vehicle Class**

Class	Description	Taxable Value
A	Truck, truck tractor, trailer, or semitrailer classified as an interstate commercial carrier and used to transport persons or property over public highways	< 16,000 lbs. = 75% of MSRP > 16,001 lbs. = actual purchase price
B	Truck, truck tractor, trailer, or semitrailer classified for personal use and not used to transport persons or property over public highways	< 16,000 lbs. = 75% of MSRP > 16,001 lbs. = actual purchase price
C	Motor vehicles not included in Class A or Class B (largely passenger vehicles)	85% of MSRP
D	Utility trailer, camper trailer, multipurpose trailer, and trailer coach	85% of MSRP
F	Special mobile machinery not used for agricultural purposes and self propelled construction equipment	85% of MSRP if available or 100% of its original retail delivered price

Source: Sections 42-3-106 and 107, C.R.S.

The SOT rate is determined by the age of the vehicle. The rates decline as the vehicle ages until reaching a flat SOT rate in the tenth model year as shown in Table 3.

**Table 3
Tax Rates by Model Year**

Year	Class A-B	Class C	Class D	Class F
1	2.10%	2.10%	2.10%	2.10%
2	1.50%	1.50%	1.50%	1.50%
3	1.20%	1.20%	1.20%	1.25%
4	0.90%	0.90%	0.90%	1.00%
5	0.45% or \$10*	0.45%	0.45%	0.75%
6-9	0.45% or \$10*	0.45%	0.45%	0.50% or \$5*
10+	\$3	\$3	0.45% or \$3*	0.50% or \$5*

Source: Section 42-3-107, C.R.S.

*Whichever is greater

SOT revenue is collected by counties and distributed by the county treasurer to the county and other local governments, including cities, school districts, and special districts based on the proportion of the property taxes levied in the prior year.

More information on the SOT can be found in this Legislative Council Staff Issue Brief here: <http://leg.colorado.gov/publications/specific-ownership-tax-0>

Assumptions

According to the Department of Revenue (DOR), out of 7.7 million vehicles registered in 2019, about 1.6 million vehicles were sold and a new title was created. For these vehicles, the actual purchase price was 15.6 percent lower than the taxable value. Using the actual purchase price as the taxable value would have reduced the SOT for these sold vehicles by about \$36.6 million had the bill been in place for vehicles sold in 2019.

Based on this estimate for vehicles sold in 2019, the bill will reduce SOT collections as shown in Table 4. These estimates assume that the SOT rate falls for vehicles sold during the previous year as the vehicles age. The FY 2020-21 estimate is a six-month impact because the bill takes effect for vehicles sold after January 1, 2021.

Table 4
Change in SOT Revenue Under SB 20-67

	FY 2020-21	FY 2021-22	FY 2022-23
Local School SOT Revenue	(\$3,276,026)	(\$8,892,069)	(\$13,104,102)
Other Local Government Revenue	(\$15,013,770)	(\$40,751,663)	(\$60,055,082)
Total Change in SOT Revenue	(\$18,289,796)	(\$49,643,732)	(\$73,159,184)

State Expenditures

Starting in FY 2020-21, the bill potentially increases state expenditures for school finance by \$3,276,026 as described below. In addition, one-time programming costs of \$8,550 are required to update the Driver License, Record, Identification and Vehicle Enterprise Solutions (DRIVES) system in FY 2020-21.

School finance impact. Based on the share of SOT revenue that goes to school districts and is part of the local share for school finance, the decrease in SOT revenue may increase required state aid by \$3,276,026 in FY 2020-21, \$8,892,069 in FY 2021-22, and \$13,104,102 in FY 2022-23 with ongoing impacts in future fiscal years. If the Budget Stabilization Factor remains unchanged, the SOT decrease will be offset by higher state aid.

Department of Revenue. In FY 2020-21 only, the DOR will need to modify the DRIVES system to calculate the SOT on the actual purchase price rather than the MSRP, and retain the actual purchase price of each vehicle to calculate the SOT in future years. Programming costs are calculated at 38 hours at a rate of \$225 per hour.

Local Government

Local government SOT revenue will be decreased by an estimated \$18.3 million in FY 2020-21, \$49.6 million in FY 2021-22, and \$73.2 million in FY 2022-23. This revenue goes to local governments and school districts, with unique impacts described below.

Municipalities, counties, and special districts. SOT revenue to municipalities, counties, and special districts will be decreased by about \$15.0 million in FY 2020-21, \$40.8 million in FY 2021-22, and \$60.1 million in FY 2022-23.

School districts. The SOT revenue that is part of the local share for school finance will be reduced by about \$3.3 million in FY 2020-21, \$8.9 million in FY 2021-22, and \$13.1 million in FY 2022-23. However, the state's share of funding may be increased, offsetting the decrease in SOT revenue.

Technical Note

There are two concepts in the bill that are not defined. Depending on how these terms are defined and how they are administered, the bill's fiscal impact may be greater or smaller than estimated in this fiscal note.

Purchase price. The bill does not define "actual purchase price" for calculating SOT. Without further clarification, the SOT can be based on non-standard definitions. When calculating sales taxes, the purchase price is calculated by subtracting the trade-in value. If the purchase is not an arm's-length transaction, the purchase price may be artificially low and there is no authority in the bill allowing for the adjustment of an artificially low purchase price.

Used vehicles. The bill does not specify how the SOT is calculated for vehicles sold before January 1, 2021. It is not clear if the taxable value will remain constant for the life of the vehicle or if the actual purchase price applies when calculating the SOT for previously sold vehicles after January 1, 2021.

Effective Date

The bill takes effect August 5, 2020, if the General Assembly adjourns on May 6, 2020, as scheduled, and no referendum petition is filed. The new SOT calculation will apply to any vehicle sold after January 1, 2021.

State Appropriations

For FY 2020-21, the bill requires an appropriation of \$8,550 from the Colorado DRIVES Vehicle Services Account to the Department of Revenue.

State and Local Government Contacts

Counties	County Clerks	Information Technology
Revenue	School Districts	