Overview of Tax Reform Changes Regarding Vehicles

What does this legislation do?

This legislation removes the sales tax on the purchase of automobiles and the annual ad valorem tax on the same automobiles, and replaces these taxes with a one-time vehicle tax which is calculated by multiplying the value of the motor vehicle times a vehicle tax rate of 7% (6.5% in 2013 and 6.75% in 2014). The funds collected from this tax are divided between the state and local governments, with the local governments guaranteed a base amount ($1 billion) plus 2% growth per year through 10 years.

What about vehicles purchased prior to March 1, 2013?

Motor vehicles titled prior to March 1, 2013 will continue to pay annual ad valorem taxes until they are sold or transferred; however, motor vehicles purchased between January 1, 2012 and March 1, 2013 will have the ability to "opt in" to the new vehicle tax system in 2013.

How will the vehicle tax be collected?

The vehicle tax is paid to the tag agent in the county in which the purchaser registers the vehicle and is paid at the time the purchaser applies for the title and registers the motor vehicle.

What changes are in store for the county tag offices?

The Department of Revenue (DOR) will have to update the GRATIS system to handle this new process. DOR has indicated to legislators that the new system will be available by the March 1, 2013 implementation deadline.

How is this going to impact county revenues?

The Special Committee on Tax Reform for Georgians worked closely with ACCG to develop an implementation plan that seeks to make this change at least revenue neutral for local governments collectively; however individual local governments may experience some revenue gain or loss. The implementation plan was based on the fiscal note prepared by Georgia State University.

The new vehicle tax will be applied to a broader tax base. Current law does not require sales tax to be collected on the casual (non-dealer) sales of automobiles. This bill requires all casual sales, unless they are made to an immediate family member, to pay the vehicle tax. It further requires anyone moving into Georgia to pay the vehicle tax.

The local revenues from the vehicle tax are general fund revenues and are not required to replace the revenue lost for sales tax purposes.

What mechanism is in place to make sure that local revenues are not negatively impacted?

The vehicle tax is based on a percentage of the fair market value (FMV) of the vehicle less the trade in value. The FMV percentage begins at 6.5% in 2013, increases to 6.75% in 2014 and levels out at 7% for 2015 and all future tax years. This percentage is then split between local and state government on a sliding scale that will be adjusted through 2022. The local share is much smaller during the initial implementation because the annual ad valorem tax will still be collected on vehicles that have already been purchased prior to the implementation date and will continue to be collected on these vehicles as long as they are retained by the owner. The following chart demonstrates how the local share will be adjusted annually.

Tax Year	FMV	State Vehicle Tax Share	Local Vehicle Tax Share
3/1/2013-12/31/13	6.5%	57%	43%
2014	6.75%	55%	45%
2015	7%	55%	45%
2016	7%	53.5%	46.5%
2017	7%	44%	56%
2018	7%	40%	60%
2019	7%	36%	64%
2020	7%	34%	66%
2021	7%	30%	70%
2022+	7%	28%	72%

There are also safeguards built into the bill so that the rate can be adjusted up or down depending on the overall revenues collected. Beginning in 2016 and continuing through 2022, the Department of Revenue Commissioner will calculate the local target collection amount (an amount calculated annually but capped at $1.2 billion) and the local current collection amount (the preceding years' total of both old system and new system ad valorem tax on motor vehicles). If the local collection amount is equal to or within 1% of the local target collection amount, then rates remain unchanged. If the local collection amount exceeds 1% of the local target collection amount, then the local vehicle tax rate is reduced to a rate equivalent to the local target collection amount. In that event, the state rate increases by whatever amount is necessary so that the correct combined rate stays the same for that year. If the local collection amount is more than 1% less than the local target collection amount, then the local vehicle tax rate is increased to a rate equivalent to the local target collection amount. In that event, the state rate decreases by whatever amount is necessary so that the correct combined rate stays the same for that year.

Further look-backs and adjustments take place in 2015, 2018 and 2022. These mirror the local adjustment calculations except they are made regarding state collection amounts and state target collection amounts. Regardless of the actual result of these calculations, the combined rate of state and local vehicle tax can never exceed 9%.

How can we find out more?

ACCG will produce a more comprehensive written report at the end of the legislative session. ACCG will also provide a comprehensive overview of this legislation at the 2012 Annual Meeting and will cover this legislation at the Spring District Meetings in June 2012. In addition, ACCG will work with the Georgia Association of Tax Officials (GATO) to implement these changes at the local level. If you have any immediate questions please contact Clint Muller or Joe Scheuer at ACCG.