

Motor Vehicle Tax Reform (HB 386)

Beginning March 1, 2013, the taxation of motor vehicles in Georgia will undergo substantial reform. After this date, state and local sales tax will no longer be charged on the purchase of a vehicle. Annual ad valorem tax will also be eliminated on vehicles that have transferred ownership, except in the case of a transfer to an immediate family member where a title tax is not paid. The sales tax and annual ad valorem tax will be replaced with a one-time state and local title ad valorem tax paid every time the ownership of a vehicle is transferred, except in the case of a transfer to an immediate family member. The new title tax will be collected by county tax commissioners and dispersed to the state, counties, school districts and cities based upon the formulas prescribed by law. The following questions and answers should help provide an overview of the changes to come regarding HB 386.

1. How are vehicles valued for title tax purposes?

The average of the retail and wholesale value listed in the current motor vehicle ad valorem assessment manual utilized by the Department of Revenue minus the value of any vehicle traded-in to a dealer.

2. Can the vehicle value be appealed?

Yes, the value can be appealed in the same manner as values for ad valorem tax purposes are appealed.

3. What is the tax rate?

The tax rate is 6.5% in FY 2013, 6.75% in FY 2014 and 7% in all future years unless the state revenue target is not met. If the state revenue target is not met then the tax rate could be adjusted up to 9%.

4. What is the local share of the title tax?

Local governments will receive 43% of the revenue in 2013, 45% in 2014, 45% in 2015, 46.5% in 2016, 56% in 2017, 60% in 2018, 64% in 2019, 66% in 2020, 70% in 2021 and 72% in 2022 and all subsequent years. Beginning in 2016 the local share is subject to modification based upon total local vehicle revenues collected relative to the local revenue target amount. The Department of Revenue is responsible for calculating any required adjustments to the local share of the title tax and notifying the tax commissioners of the change.

5. How is the local target amount determined to ensure local governments collectively receive an amount of revenue greater than what they currently are receiving from sales tax and ad valorem tax on vehicles?

The local target amount is a \$1 billion base amount (This amount exceeds the amount of total local sales taxes and ad valorem taxes on vehicles generated statewide in 2011) added

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to the product of 2% of the base amount multiplied by the number of years since 2012 with a maximum amount of \$1.2 billion. A comparison of the target amount to actual revenues collected begins in 2016 and is calculated annually through 2022.

6. Where is the tax paid?

The title tax must be paid to the tax commissioner in the county where the vehicle is registered. Vehicle dealers may collect the tax from the purchaser and submit the tax along with the title application to the tax commissioner of the county where the vehicle is to be registered. Dealers will no longer be able to process titles in the county where the dealership resides if the purchaser is registering the vehicle in another county.

7. How are the revenues dispersed by the tax commissioner to the state and local governments?

Within 30 days following the end of each calendar month, the tax commissioner will send the Department of Revenue the state's portion of the tax minus a 1% administrative fee deducted from the state's share of the revenue. The remaining local revenues, after deducting the normal commission for collecting ad valorem taxes, will be distributed first to the county, school district and each city in an amount equal to the difference between the vehicle ad valorem taxes each entity received for that month in 2012 minus the vehicle ad valorem taxes each entity received for the current year. After the difference in ad valorem tax revenues has been dispersed, the remaining local revenues will be divided between the local governments based upon their proportionate share of local sales tax. The school district will receive 1/3 of the remaining proceeds unless they have an ELOST in which case they will receive 2/3 of the remaining revenue. In counties without an ELOST, 2/3 of the remaining revenue will be divided between the county and its cities based upon the proportionate share of shared county and city local sales taxes. If the county has less than a 2% local sales tax, then 1/3 if the local sales tax rate is 1% or 2/3 if the local sales tax rate is 0% shall be divided between the county and its cities based upon resident population.

8. Are the local title tax revenues required to be used for the legally mandated purposes of the local sales tax it replaces?

No, these revenues are deposited in the local governments general fund and do not have to be used for the purposes of the local sales taxes (e.g. capital project and tax relief). In effect, this change allows the local governments to convert a portion of their local sales tax revenues to a unrestricted general operating revenue.

9. Can the owner of a vehicle purchased prior to March 1, 2013 avoid payment of future ad valorem taxes on their vehicle?

If the vehicle was purchased between January 1, 2012 and March 1 2013, the owner can choose to pay the difference if the title tax owed is greater than the amount of state and local sales tax and ad valorem tax previously paid between January 1, 2012 and March 1, 2013. This option must be exercised before January 1, 2014.

10. Will the vehicle title tax impact TSPLOST revenues?

No. TSPLOST is not subject to the sales tax exemption and it will be collected in addition to the title tax.

11. Can a vehicle be transferred to an immediate family member without having to pay the title tax?

Yes, a vehicle can be transferred to a spouse, parent, child, sibling, grandparent or grandchild without triggering the title tax. However, if the title tax is not paid, the annual ad valorem tax will continue to apply to the vehicle.

12. How will the tax commissioner determine if the person receiving transfer is an immediate family member?

The transferor and transferee will have to complete an affidavit affirming that they are immediate family members. Anyone who falsely attests shall be subject to a state penalty up to \$2,500 and a local penalty up to \$2,500

13. If a person receives a vehicle from an immediate family member through an inheritance are they subject to paying the vehicle title tax?

If the title tax has not previously been paid then they can opt to continue to pay the annual ad valorem tax or pay the title tax and avoid future ad valorem taxes. If the title tax has been previously paid then they will be required to pay a state title tax in an amount equal to one-quarter of 1% of the vehicles fair market value and a local title tax in an amount equal to one-quarter of 1% of the vehicles fair market value.

14. Is someone moving into the state required to pay a title tax on their vehicle(s)?

Yes, 50 % of the title tax must be paid within 30 days of moving to the state and the remaining 50 % must be paid within the next 12 months.

15. What happens to someone that fails to register their vehicle and pay the title tax?

They will be required to pay a penalty of 10% of the amount of the title tax owed plus an additional 1% per month for every month late.

16. Are vehicles purchased in another state by a Georgia resident subject to the vehicle title tax?

Yes

17. Are vehicles on a multi-year lease subject to the title tax?

Yes, the company leasing the vehicle will have to pay the title tax.

18. Are companies that rent or lease vehicles for short durations (less than 31 days) subject to the title tax?

Yes, however, if the sales taxes paid on the vehicle in the immediate preceding calendar year is \$400 or greater, then the rate of the local title tax is .75% of the fair market value and the state title tax is .75% of the fair market value

19. Are trailers subject to the title tax?

The law is not clear. We are waiting on guidance from the Department of Revenue.

20. Are salvage vehicles subject to the title tax?

No, salvage vehicles are only required to pay a state title tax equal to 1% of the fair market value of the motor vehicle.

21. Are donated vehicles subject to the title tax?

If a vehicle is donated to a 501 (c)(3) charity for the purpose of being transferred to another person, then that charity shall only pay a state title tax equal to 1% of the fair market value of the motor vehicle.

22. Does the title tax apply when a title is corrected, replaced or reissued to the same owner?

No

23. Will a person that has eliminated the annual vehicle ad valorem tax by paying the title tax be subject to the title processing fee and annual registration fees?

Yes

24. Are vehicles owned by veterans exempt from the title tax?

Yes, vehicles owned by veterans that were previously exempt from ad valorem tax are also exempt from the title tax.

25. Since the title tax is a one-time ad valorem tax, will it be an allowable itemized deduction on your income tax?

No, to be deductible as a 'personal property tax', one of the conditions is that the tax is charged on a yearly basis. The new title tax is a one-time tax that does not meet this test. Please consult IRS Publication 17 or a tax adviser.