OFFICE OF LEGISLATIVE RESEARCH
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ResearchReport

States That Eliminated Their Motor Vehicle Property Tax

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Issue

Identify states that repealed their motor vehicle property tax and provide an overview of (1) how they structured the repeal and (2) any replacement funding for the local taxing authorities.

Summary

We identified two states that have repealed their motor vehicle property tax: Rhode Island and Georgia. Virginia also passed legislation adopting a schedule to mostly phase out its motor vehicle property tax, but it was never fully implemented. West Virginia did not repeal the tax but instead recently established a tax credit that, starting with the 2024 tax year, will fully reimburse many taxpayers for the motor vehicle property taxes they paid.

The three states that repealed (or attempted to repeal) their taxes did so gradually, either by (1) adjusting tax calculation factors (e.g., tax rates, assessment ratios, and exemptions) by an increasing amount over a course of years or (2) taking effect only for taxpayers that perform a triggering action (i.e., apply for a vehicle title). And all three addressed local governments' revenue losses but took different approaches:

- Rhode Island reimburses revenue losses from general appropriations and adjusts reimbursements based on sales tax revenues (a prior repeal adjusted them based on the Consumer Price Index);
- Georgia replaced its state and local annual (i.e., property) tax and sales tax with a one-time per owner tax, which is divided between the state and localities;

- Virginia initially intended to fully reimburse localities but scaled back the program, instead annually providing localities with a pre-determined amount and requiring each locality to adjust relief to their taxpayers accordingly.

Rhode Island

Rhode Island law previously authorized cities, towns, and fire districts to annually levy a motor vehicle property tax, which it refers to as an "excise tax." The Rhode Island legislature passed two separate laws to phase out this tax, one in 1998 (which was amended multiple times and effectively stopped in 2010) and one in 2017, which is currently in effect. Both phase-outs provided reimbursement to the taxing localities for the revenue, or a portion of it, forgone due to the phase-out.

Exemption	*a reduction in a property's assessed value on which taxes are owed; they are not credits against the total amount owed*
Tax rate cap	*the maximum property tax rate a local taxing authority may impose, generally set by the state (e.g., in Connecticut, 32.46 mills on vehicles) (CGS § 12-71e(a))*

1998 Phase-Out

In 1998, the Rhode Island legislature passed a law to phase out the motor vehicle excise tax over six years (beginning with FY 00 until it would be fully eliminated by FY 06) and fully reimburse local governments for their foregone revenue from state general revenues (R.I. P.L. 1998, ch 31, art. 28). The law's phase-out schedule gradually reduced the tax by:

1. providing exemptions (reductions to a motor vehicle's taxable value) that increased annually from $1,500 to $15,000, after which the tax was scheduled to be eliminated entirely, and

2. freezing tax rates at the 1998 levels.

This phase-out schedule was never fully implemented. The legislature modified the schedule and reimbursement many times, including by extending the phase-out by one year (in 2000); setting the exemption amount at a flat $4,500, rather than increasing it each year, thus pausing the phase-out (in 2002), and reinstating the exemption increases but tying them to certain video lottery terminal income (in 2005). Then, in 2010, the legislature effectively ended the phase-out by permanently reducing the minimum exemption amount to $500, to be reimbursed by the state in an amount subject to appropriations. It allowed municipalities to provide higher exemption amounts but would not reimburse them for those amounts.

The following resources provide additional information on the 1998 phase-out:

- House Fiscal Advisory Staff, "2022 Rhode Island Local Aid" (beginning on p. 20)
- WPRI, *Here's why Rhode Islanders are still paying the car tax* (Oct. 4, 2016)
- Former representative Joanne Giannini, *Time to Tell the Car Tax to Hit the Road* (May 20, 2015)

2017 Phase-Out

In 2017, Rhode Island passed a new law to gradually eliminate the motor vehicle excise tax beginning with FY 18 and fully eliminate it by FY 24. A provision in the 2022 state budget then accelerated the phase-out by one year, eliminating the tax beginning FY 23 (R.I. Gen. Laws § 44-34-1.5 and R.I. P.L. 2022, ch. 231, art. 6, § 12).

As shown in Table 1, these laws phased-out the tax by gradually:

1. increasing the minimum exemption amounts localities were required to provide,
2. decreasing the percentage of a vehicle's value that was taxable, and
3. decreasing the motor vehicle tax rate cap.

Table 1: Rhode Island Motor Vehicle Property Tax Phase-Out Schedule[1]

Fiscal Year	*Minimum Exemption[2]*	*Percentage of Value Taxable[3]*	*Tax Rate Cap[4] (per $1,000 of value)*
2018	$1,000	95%	$60
2019	2,000	90%	50
2020	3,000	85%	35
2021	4,000	80%	35
2022	5,000	75%	30
2023[5]	No tax	No tax	No tax

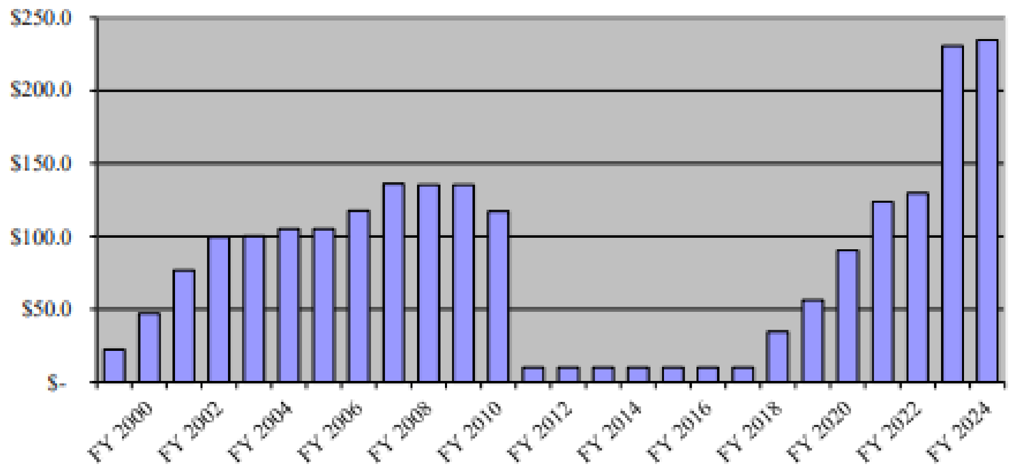
[1]This schedule is applicable to municipalities except East Providence, which follows a different fiscal year. In 2023, after the phase-out was complete, R.I. P.L. 2023 ch 203 & 204 repealed the laws on which this table is based.
[2]R.I. Gen. Laws § 44-34.1-1(c)(1)
[3]R.I. Gen. Laws § 44-34-11l (c)(1)(iii)
[4]R.I. Gen. Laws § 44-34.1-1(c)(5)
[5]R.I. P.L. 2017, ch. 302, art. 11, § 2, established phase-out amounts for FY 2023 but R.I. P.L. 2022, ch. 231, art. 6, § 12, repealed the tax a year early

Cap on Property Tax Increases. Rhode Island additionally has a property tax cap (separate from the one set specifically for motor vehicles during the 2017 phase-out) that the legislature sets in statute. The cap sets the maximum percent by which any town or city may generally increase its tax levy above the prior fiscal year. This law was also amended to account for the eliminated motor vehicle tax (i.e., to prevent towns from shifting the forgone motor vehicle tax levy to other classes of property tax). Additional information can be found in annual reports on RI's Division of Municipal Finance webpage *Property Tax Cap*.

State Reimbursement to Local Governments

Both phase-outs established a formula to reimburse local taxing entities for the resulting revenue loss. As shown in Figure 1, total reimbursement to towns, cities, and fire districts fluctuated over the course of the two phase-out schedules and the years during which the program was effectively suspended (FYs 11-17).

Figure 1: State Reimbursement to Local Taxing Authorities for FYs 99 Through 24 (in Millions)



Source: House Fiscal Advisory Staff's *Rhode Island Local Aid* (2023), p. 24

Original Phase-Out Reimbursement. The 1998 law held cities, towns, and fire districts harmless by fully reimbursing their revenue loss using funds (1) from the state's general fund during the phase-out period and (2) upon elimination of the tax, from state sales tax. Reimbursement was initially based on 1998 rates (the year the tax rate was frozen), generally adjusted for inflation (according to the Consumer Price Index), and the assumption that local entities would collect 100% of taxes owed (R.I. P.L. 1998, ch 31, art. 28). Reimbursement rates over the years were adjusted to reflect the various changes to the phase-out, as well as budget appropriations. Upon freezing the phase-out in 2010 (at a $500 minimum exemption), the legislature made reimbursements subject to appropriations and distributed a total of $10 million to local taxing authorities annually from FYs 11 through 17.

Current Phase-Out Reimbursement. According to the House Fiscal Advisory Staff, beginning with FY 18 and throughout the phase-out, the legislature appropriated amounts to fully reimburse localities (cities, towns, and fire districts) for their foregone motor vehicle tax revenue ("Rhode Island Local Aid (2022)," p. 25). For these years, reimbursement amounts were calculated as the difference between:

1. a "FY 18 baseline," which is the amount the locality would have levied on motor vehicles assessed in FY 18 using the FY 17 calculation method (i.e., as if the phase-out's requirements, such as the capped tax rate, were not in effect) and

2. the actual amount levied on motor vehicles that fiscal year under the phase-out's applicable tax rates, taxable assessed values, and minimum exemptions (RI Gen. Laws § 44-34.1-2(b)(5) & (c)(13), prior to amendment by R.I. P.L. 2023 ch 203 & 204).

For FY 24, the legislature set in statute the specific reimbursement amount for each city, town, and fire district. Beginning with FY 25, it appears reimbursement amounts are tied to the amount each locality received in the year after the phase-out (FY 24) and sales tax revenue (R.I. Gen. Laws § 44-34.1-2, amended in part and repealed in part by R.I. P.L. 2023 ch 203 & 204, § 2(b) & (c)). As sales tax revenue grows (or decreases), the state reimbursement to each municipalities grows (or decreases) proportionately (Rhode Island Legislature, "Article 11: Relating to Taxation — Excise on Motor Vehicles and Trailers," p. 4).

The following resources provide additional information on the current phase-out and reimbursement to localities:

- Rhode Island Senate, "FY 2024 Budget as Enacted" (see pp, 78-79 and 385-386)
- Rhode Island House Fiscal Advisory Staff, "Rhode Island Local Aid (2023)" (see pp. 20-26)

Georgia

In Georgia, the state previously levied a motor vehicle property tax (referred to as an "annual ad valorem tax") and allowed counties, school boards, and cities to do the same. For vehicles titled on or after March 1, 2013, the state transitioned to a "title ad valorem tax" (TAVT). It is a one-time (per owner) tax, generally due when a vehicle's ownership transfers or when a vehicle is registered in Georgia for the first time. For these vehicles, the TAVT replaces the annual property tax as well as a sales tax, which both the state and local governments also imposed (Ga. Code Ann. § Sec. 48-5C-1). Vehicles purchased before that date continue to be subject to the annual property tax, generally until their titles are transferred.

Under TAVT, the state sets the tax rate, generally at 7% of the vehicle's fair market value (but 3% for new state residents and 1% for 1963 to 1989 model year vehicles). Commercial trucks operating in interstate commerce are exempt from TAVT but are subject to an alternative ad valorem tax.

Revenue to the State and Local Governments

Counties collect TAVT payments at the time a taxpayer applies for a title and retain a 1% administration fee. The remaining revenue is divided between the state and localities according to a schedule set in statute, with an increasing portion going to localities over time. (According to the Association of County Commissioners of Georgia publication below, the localities' initially smaller portion was due to their presumably still collecting a larger, but annually diminishing, amount of annual ad valorem tax revenue from vehicles with titles that had not yet been transferred.) Beginning with FY 20, the split is fixed at 35% going to the state and 65% going to local governments.

The following resources provide additional information on Georgia's motor vehicle tax:

- Georgia Fiscal Research Center, "A Summary of Major State and Local Government Taxes" (2022), pp. 51-53
- Association of County Commissioners of Georgia, "Title Ad Valorem Tax," describing TAVT soon after it was initially enacted

Virginia

In 1998, the Virginia legislature adopted the Personal Property Tax Relief Act (codified as Va Code § 58.1-3523 et seq.). This act set a five-year phased approach to eliminating taxes on $20,000 of each non-commercial vehicle's value, beginning with 12.5% relief in 1998 and reaching 100% in 2002. During the first year (tax year 1999), taxpayers were billed for the entire tax levy and received a refund check from the state equal to the act's exemption amount. In subsequent years, the reduction was reflected in taxpayers' bills and the state reimbursed the taxing locality.

This schedule was never fully implemented, and the relief was frozen at 70%. According to the Virginia Municipal League's 2005 *Personal Property Tax Relief Guide & Model Ordinance*, fully reimbursing localities cost more than the state had anticipated:

> *[P]rogram costs soared beyond original estimates as new car values increased substantially faster than inflation, 'holding' periods for vehicles shortened as a result of unprecedented dealer incentives, vehicle ownership per household grew and more people moved into the state. It soon became clear that [the program] when fully implemented would cost at least double what had been projected* (p. 3).

The legislature froze total reimbursements at $950 million and, beginning tax year 2006, each locality's share is based on the share it received in tax year 2005. Each locality receiving a state reimbursement must reduce its rate on the first $20,000 of vehicles' values so that the sum of local tax revenue and state reimbursement to the locality approximates what the locality would have received before the car tax rebate became law (Weldon Cooper Center for Public Service, *Virginia Local Tax Rates, 2018*, p. 82). As a result, the amount of relief a taxpayer receives on a particular vehicle could fluctuate from year to year, depending on the number and value of other cars in the same locality.

The Fairfax County webpage *Vehicle Tax Subsidy* provides additional information on the act, its history, and reimbursement rates.

West Virginia

Although West Virginia's property tax on motor vehicles remains intact, the tax credit generally accomplishes the same policy goal of the states that have repealed or attempted a repeal of motor vehicle property tax (i.e., eliminating the tax's impact on taxpayers while holding municipalities harmless).

In West Virginia, counties, boards of education, county commissions, municipalities, and the state levy property taxes on personal property, including motor vehicles. While these taxes remain in effect, the state legislature adopted a law (HB 2526 (2023)) that creates a fully refundable tax credit for property taxes paid on most motor vehicles, starting with the 2024 tax year. (Tax credits directly reduce the amount of tax owed; credits are called "refundable" when taxpayers may receive a refund if the credit's value exceeds the amount they owe.) The credit amount equals 100% of the motor vehicle property taxes paid during the applicable tax year and may be applied against the personal income and corporation business taxes.

The following resources provide additional information on West Virginia's motor vehicle tax credit:

- West Virginia Tax Division webpage *2023 Income Tax Rate Cut and Property Tax Rebate* and "TSD 454, Motor Vehicle Property Tax Adjustment Credit"
- The Mountain Statesman article "West Virginia assessor explains HB 2526 and the Motor Vehicle Property Tax Adjustment Credit," (Jul. 19, 2023)

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