The motor vehicle property tax in Connecticut

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Connecticut State Tax Panel Presentation

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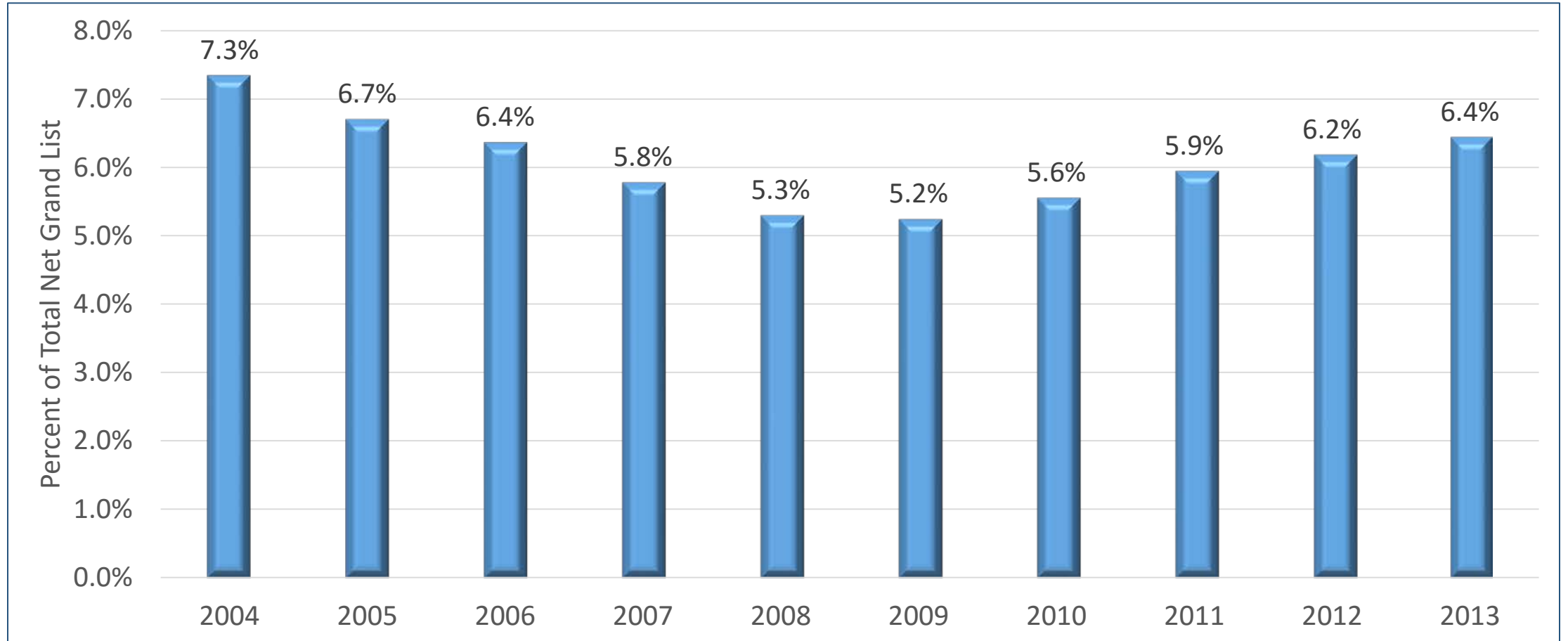
Presentation Outline

- Overview of the motor vehicle property tax
- Comparison with other states
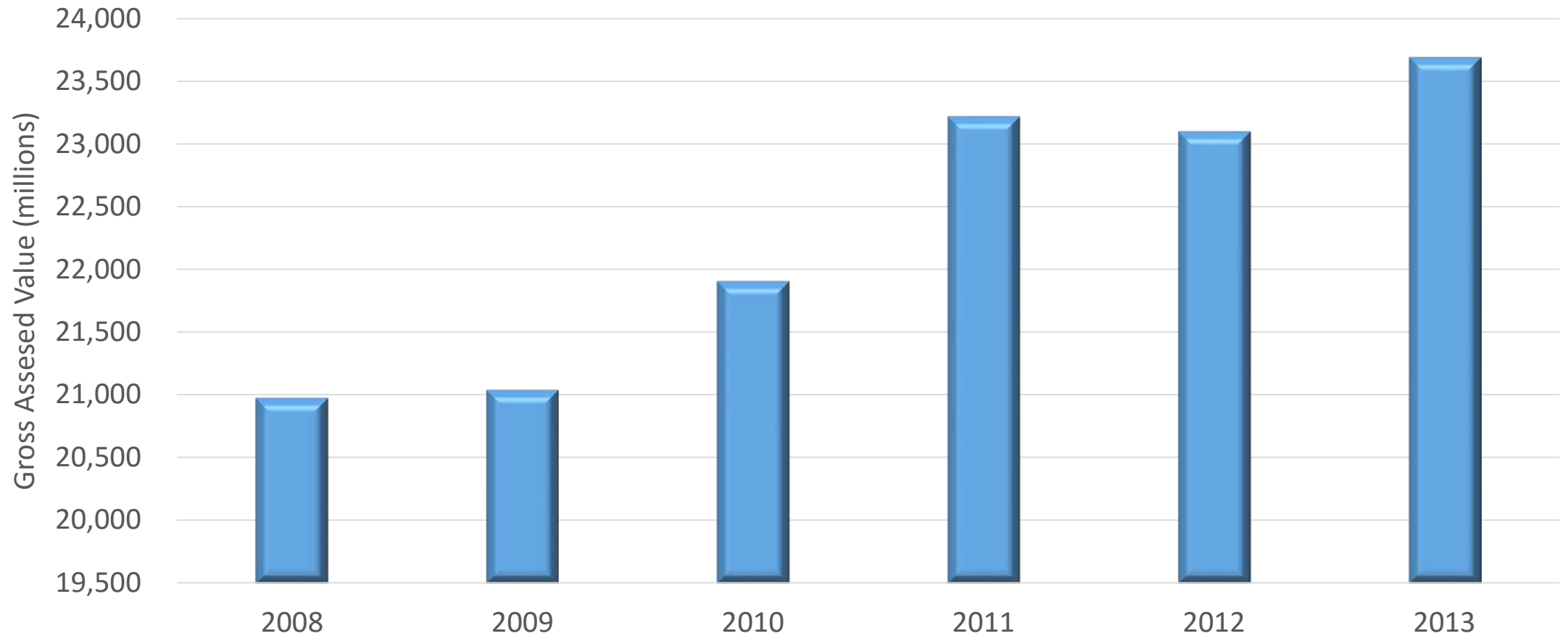- Administrative challenges
- Policy options

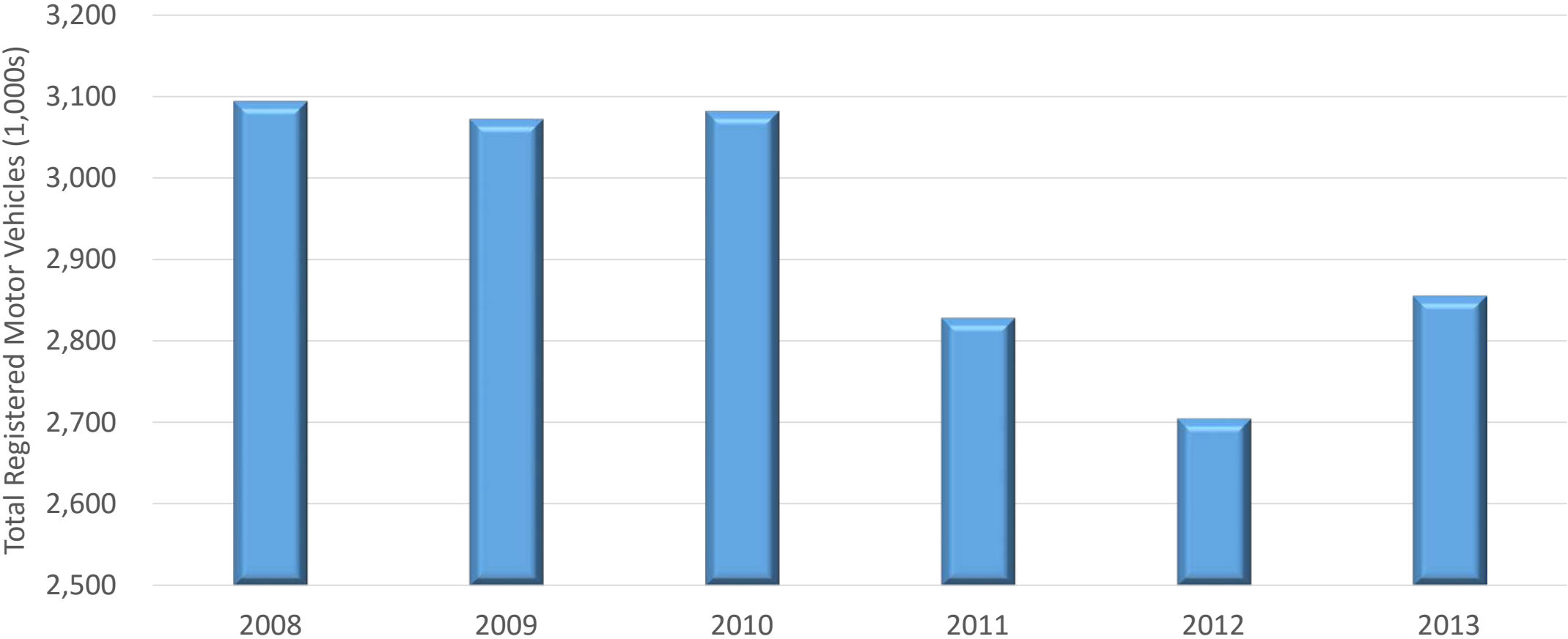Overview of the personal property tax

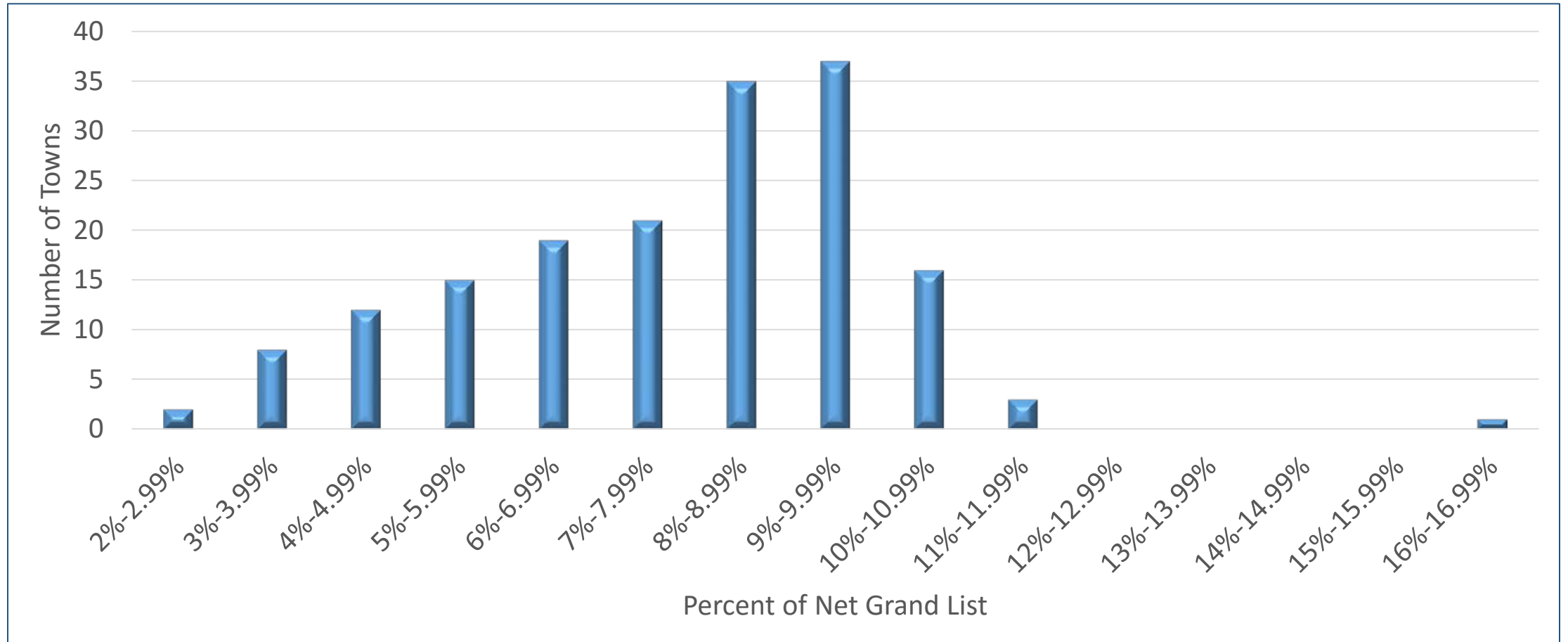# Net Motor Vehicle Assessed Value as a Percent of Total Net Grand List

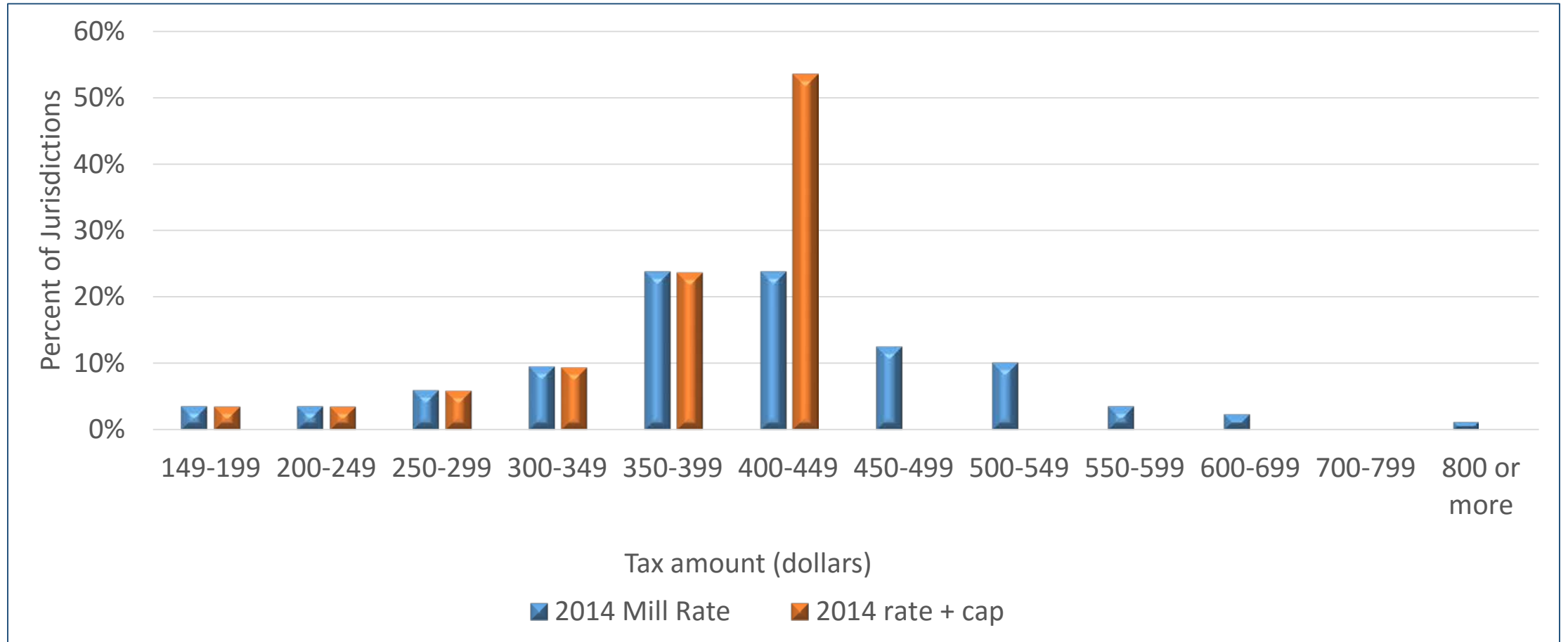# Gross Assessed Motor Vehicle Value

Total Registered Motor Vehicles

Net Motor Vehicle Assessments as a Percent of Total Net Grand List: 2013

Motor Vehicle Tax on $20,000 Vehicle: Illustration

Cities with the largest revenue loss under the cap

City	Estimated revenue loss ($millions)
Hartford	12.38
Waterbury	10.31
Bridgeport	4.39
New Britain	4.37
East Hartford	3.59
New Haven	3.58
Torrington	2.91
Hamden	2.76
West Hartford	2.60
Manchester	2.46
Total	49.35

Practices in Other States

Most common practices

- Ad valorem tax similar to Connecticut (13 states)
- Excise tax based on Manufacturer's Suggested Retail Price and age (12 states)
- Registration fee only (17 states)
- Local government option (Alaska)
- Tax only the equipment mounted on the vehicle (DC)
- Excise tax based on vehicle weight

# The excise tax approach: Indiana

- Passenger vehicles grouped into 17 price range categories based on Manufacturer's Suggested Retail Price
- Value within class determined by model year
- All vehicles in the same class and model year pay the same tax
- Local governments have the option to levy local surtax ($20 or $25)

Administrative challenges

Number of registered motor vehicles in towns
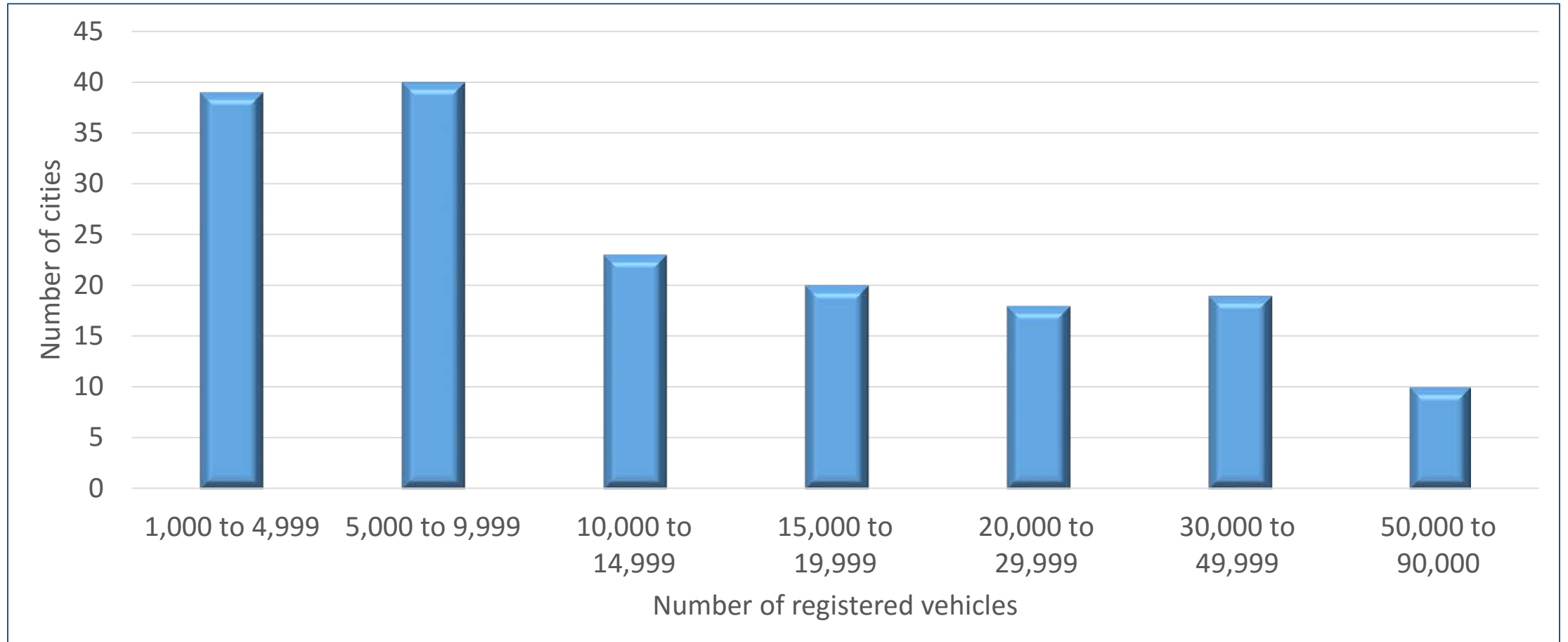
Challenges in administering the motor vehicle tax

- Valuing specialized equipment and vehicles

- Discovery and documentation of antique cars

- Processing vehicles sold or disposed of during the year
  - About 17% of vehicle fleet sold each year
  - 487,000 used vehicle sales each year in Connecticut
  - About 360,000 eligible for prorating of motor vehicle tax

- Processing vehicles relocated out of states
  - 2.7% of Connecticut households relocate out of state each year

Challenges in administering the motor vehicle tax

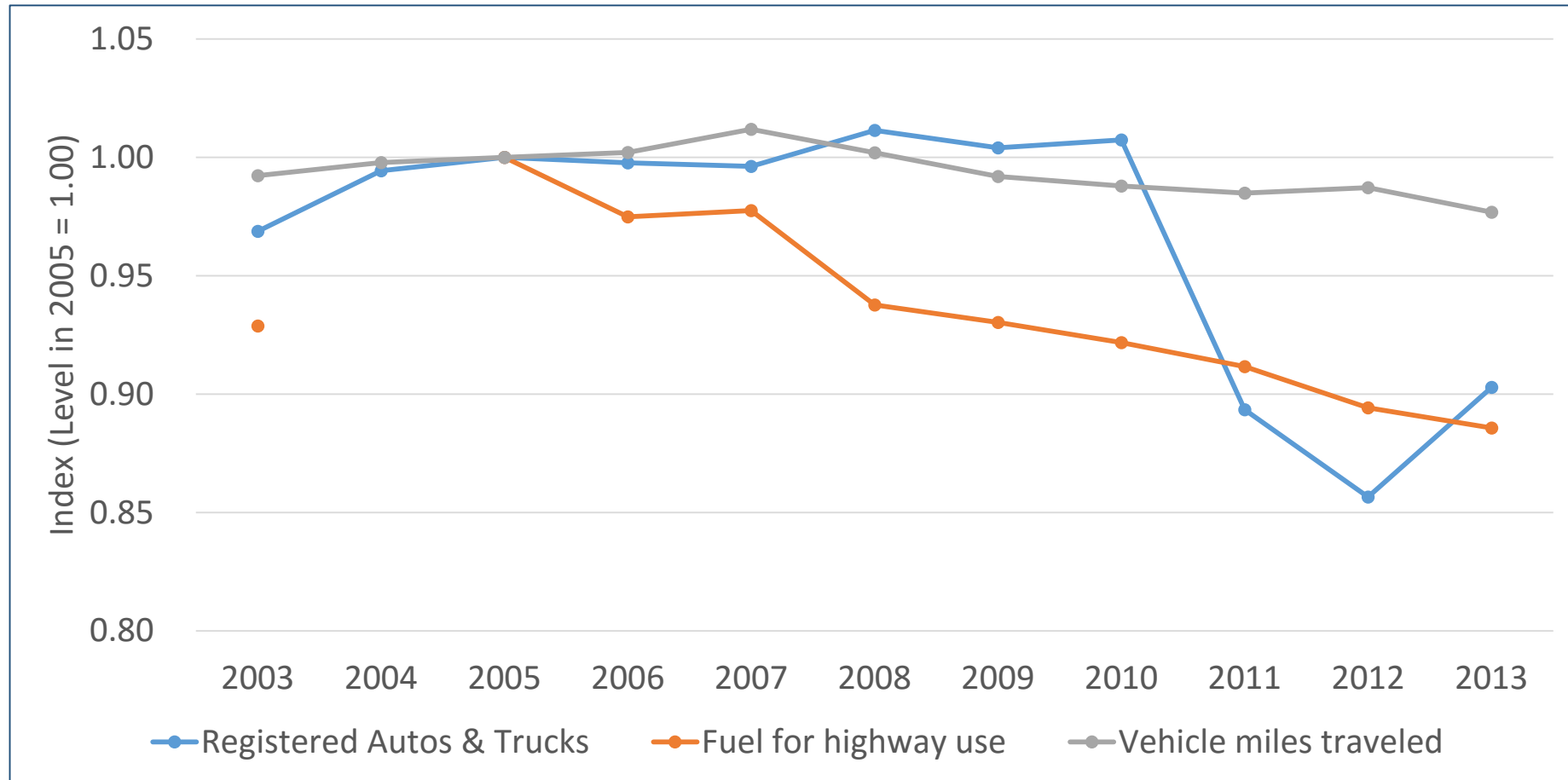- Registering vehicles out of state

Number of registered vehicles

A bar chart titled "Number of registered vehicles" with the y-axis labeled "Total Registered Motor Vehicles (1,000s)" ranging from 2,500 to 3,200. The bars show:
- 2008: ~3,090
- 2009: ~3,070
- 2010: ~3,080
- 2011: ~2,830
- 2012: ~2,700
- 2013: ~2,855
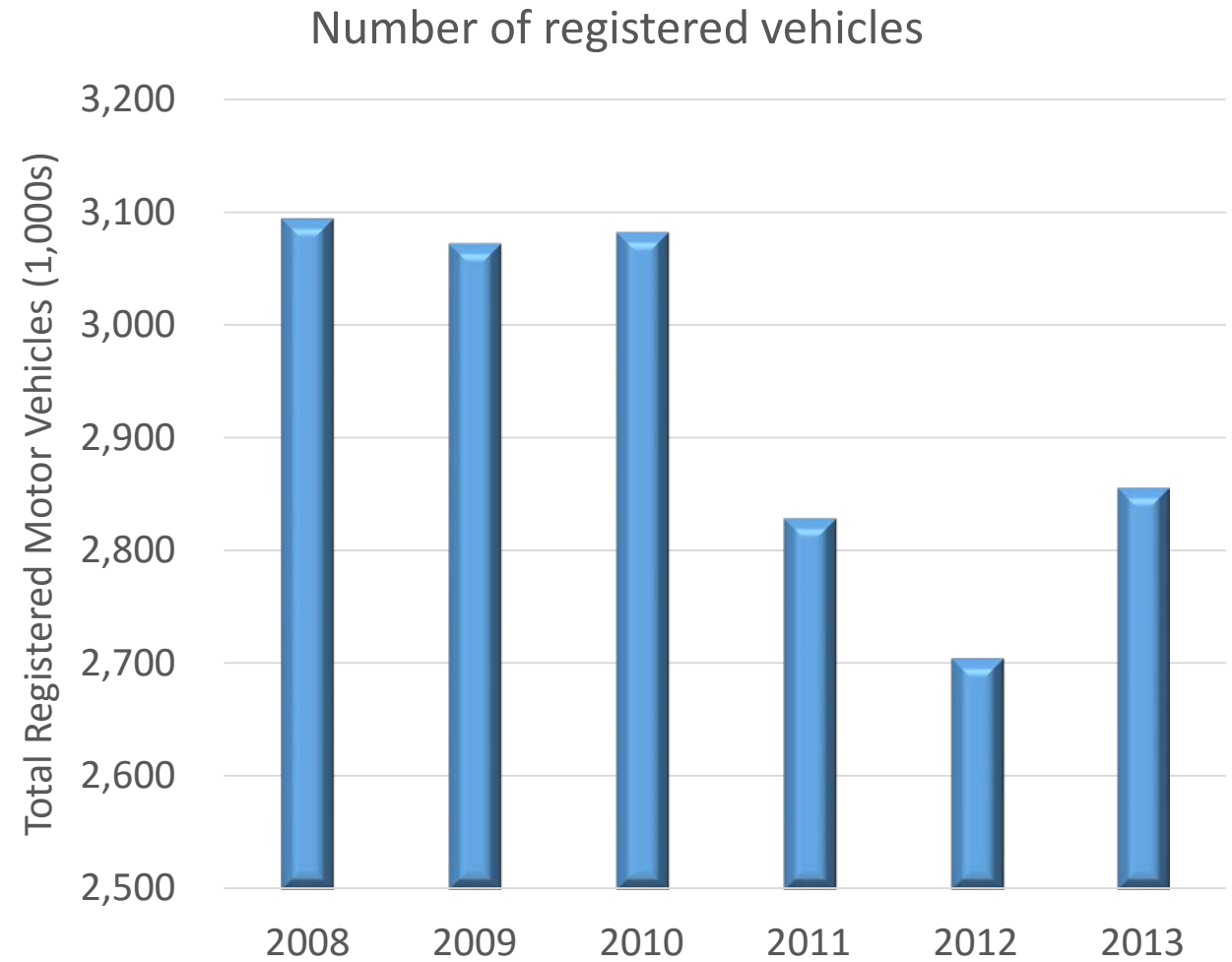
Connecticut Registered Motor Vehicles and Usage

Vehicle registrations per capita
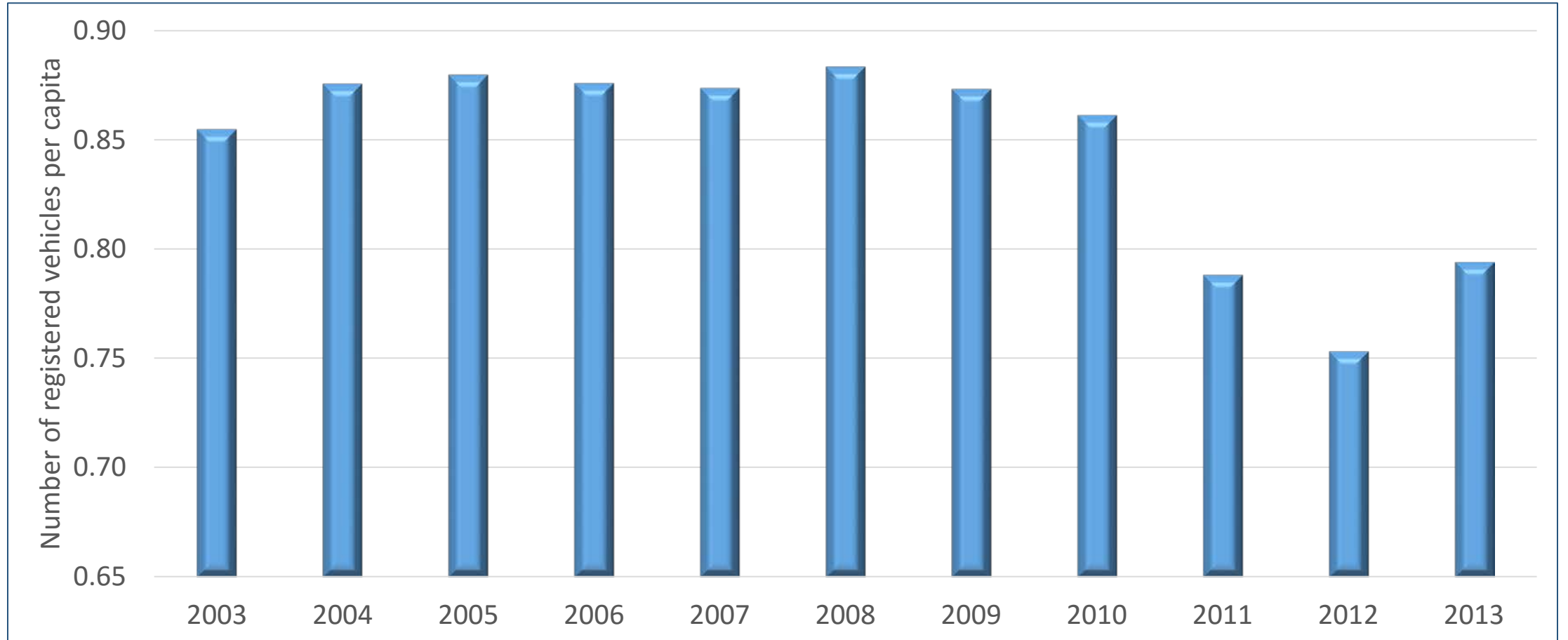
Assessed values and Mill rates
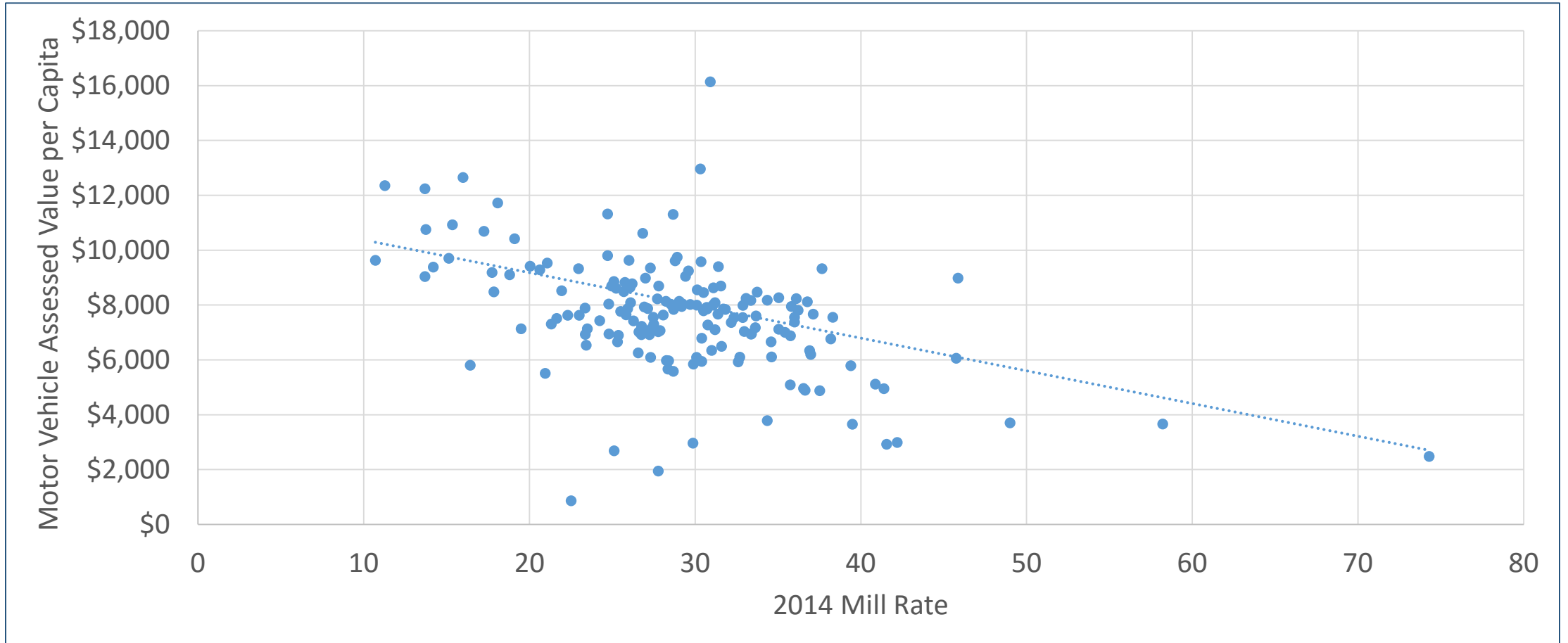
Assessed value and mill rates

- 10 cities with 2014 mill rates of 40 or higher
    - Number of vehicles per 100 population: 59.4

- Rest of the state
    - Number of vehicles per 100 population: 85.2

- Even if vehicle owners are not registering their vehicles in other states, they may be registering them in other Connecticut towns with lower mill rates

Policy Options

Options 0 and 1a

- 0: Status quo

- 1a: Retain current ad valorem tax, but impose revenue neutral single statewide rate
  - Required rate: 28.1 mills
- Impact
  - 73 towns would pay higher taxes (about 29% higher)
  - 96 towns would pay lower taxes (about 15% lower)
  - In 20% to 25% of towns, the change will be less than 5%

Options 1b

- Retain the current ad valorem tax, but impose a single statewide rate with an optional local rate
- Example
  - Statewide rate: 3 mills
  - Statewide cap on local mill rate: 26.5 mills
  - Overall cap on motor vehicle tax: 29.5 mills
  - State funds used to compensate towns forced to lower their mill rates
- Impact:
  - About half the towns would pay higher taxes (about 11% higher on average)
  - About half would pay lower taxes (about 6% lower on average)

Options 2a

- Replace the current ad valorem tax with an excise tax
    - Original base: A percentage of MSRP
    - Reduced by fixed percentage each year
    - Administered through vehicle registration system

- Impact:
    - Rate uniform across the state
    - Reduced administrative costs for towns
    - Because the rate is uniform, actual tax obligations of some owners will increase

Options 2b

- Replace the current ad valorem tax with an excise tax and allow local governments to set the tax rate
  - Original base: A percentage of MSRP
  - Reduced by fixed percentage each year

- Impact:
  - Maintains local autonomy
  - Reduced administrative costs for towns
  - Preserves extreme differences in tax obligations currently seen

Options 3

- Replace the current system with an excise tax based on vehicle weight

- Impact:
  - Substantial revenue loss

Option 4: Replace the 30% assessment exemption with a fixed dollar exemption

Current system (with 25 mills)

- Vehicle A
  - Market value — $60,000
  - Taxable value — $42,000
  - Tax due — $1,050
  - Value of exemption — $450

- Vehicle B
  - Market value — $6,000
  - Taxable value — $4,200
  - Tax due — $105
  - Value of exemption — $45

Fixed dollar exemption ($3,600)

- Vehicle A
  - Taxable value — $56,400
  - Tax due — $1,410
  - Value of exemption — $90

- Vehicle B
  - Taxable value — $2,400
  - Tax due — $60
  - Value of the exemption — $90

Option 5: Repeal the motor vehicle tax

- Consistent with practices in 16 other states

- Impact:
  - $650 million revenue loss
  - 7% of local government revenue

Uniformity vs. revenue neutrality

- Essentially any approach that attempts to both **promote increased equity** and **remain revenue neutral** will create large numbers of taxpayers with higher tax obligations enroute to reducing the tax bills for other vehicle owners

Available actions

- Increase the taxes paid by some in order to achieve uniformity and equity statewide
- Continue the current course of capping the maximum tax rate (and therefore the amount of acceptable inequity) and either
  - Replace the lost revenue from state resources or
  - Provide local governments with an alternative revenue source under local control
- Abandon the tax on motor vehicles as a significant source of revenue and either
  - Replace the lost revenue from state resources or
  - Provide local governments with an alternative revenue source under local control
- Mandate equity in motor vehicle taxation, phased in over a sufficient time period to allow local governments to adjust to lower revenues, higher taxes on the remaining property tax base or a combination of both
- Address the administrative challenges and costs

Thank you!