Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	La Suer	Analyst:	Kristina E. North	Bill Number:	AB 2597
Related Bills:	See Prior Analysis	Telephone:	845-6978	Amended Date:	April 26, 2004
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Vehicle License Fees, Prepayment

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ______________________.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended ______________________.

____ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ______________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED FEBRUARY 20, 2004, STILL APPLIES.

X OTHER - See comments below.

SUMMARY

This bill would allow prepayment of the vehicle license fee (VLF).

SUMMARY OF AMENDMENTS

The April 26, 2004, amendments replaced the previous VLF prepayment proposal with a new prepayment method and added legislative intent and allocation language.

The April 26, 2004, amendments would allow a consumer to prepay the first three years of the VLF for a qualified vehicle after the initial registration of the vehicle. Once made, the election to prepay the VLF would be irrevocable. The consumer would receive a discount equal to 15% of the total amount of VLF that otherwise would have been required. "Qualified vehicle" would be defined as a new vehicle, subject to the VLF, and that is purchased or leased by the consumer.

The new prepayment language resolves the implementation considerations discussed in the department's previous analysis. The legislative intent and allocation language do not impact the department, and are not discussed in this analysis. A new revenue estimate is included below. The remainder of the department's analysis of the bill as introduced February 20, 2004, still applies.

POSITION

Pending.

Board Position:			Legislative Director	Date
_______ S	_______ NA	_______ NP	Brian Putler	4/30/04
_______ SA	_______ O	_______ NAR		
_______ N	_______ OUA	X PENDING		

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, this bill would have the following revenue impact.

Estimated Revenue Impact of AB 2597 As Amended April 26, 2004 for Purchases or Leases Made on or After January 1, 2005 [$ In Millions - rounded]		
2004/2005	2005/2006	2006/2007
-$.4	-$5.2	-$1.4

Revenue losses diminish to a level of $1.4 million due to the accelerated timing of deductions under the bill.

<u>Tax Revenue Discussion</u>

The revenue impact of this bill would be determined based on the amount of prepaid VLFs deducted on tax returns under this bill compared to VLFs deducted under current law, and the marginal tax rates of taxpayers deducting VLFs. The revenue impact of this bill is contingent on the number of qualified vehicles registered in California, and their sales prices.

Current projections by the Department of Motor Vehicles (DMV) indicate the following potential number of qualified vehicle registrations and the average VLF per vehicle, by vehicle type.

Vehicle Type	Number of Qualified Vehicles in 2005/2006	Average VLF Per Vehicle in 2003
Autos	1,755,000	$147
Trucks	407,000	$148
Trailers	25,500	$85
Motorcycles	75,000	$59

It is assumed that a higher percentage of taxpayers will prepay the first three years of VLF since taxpayers could include the prepayment in finance contracts. It was assumed that one in eight (12.5%) vehicle registrations would be prepaid and that three-quarters (75%) of these vehicle registrations derive a tax deduction benefit. In accelerated deductions, this would total $65 million for the first full fiscal year of qualified vehicle registrations. To derive the $65 million required the following steps:

1. Multiplying the number of vehicles for each vehicle type by 12.5%.

   [1,755,000 x 12.5% = 219,375]
   [407,000 x 12.5% = 50,875]
   [25,500 x 12.5% = 3,188]
   [75,000 x 12.5% = 9,375]

2. Multiplying the average VLF for each vehicle type by three to derive the three-year total and then by 85% to reflect the proposed 15% discount.

   [$147 x 3 x .85 = $375]
   [$148 x 3 x .85 = $377]
   [$ 85 x 3 x .85 = $217]
   [$ 59 x 3 x .85 = $150]

3. Multiplying the number of vehicles derived in the first step by the deductible VLF prepayment derived in the second step.

   [219,375 x $375 = $ 82.2 million]
   [50,875 x $377 = $ 19.2 million]
   [3,188 x $217 = $ 0.7 million]
   [9,375 x $150 x $ 1.4 million]
   $103.5 million

4. This bill would result in the acceleration of VLF deductions in the initial year of prepayment, followed by two years of reduced deductions. The amount of decreased deductions in the two subsequent years would be approximately one third of prepayments. In 2005/06 and in 2006/07, the reduction is one-third of the prepayment in 2004/05, or $17 million in each year. [$51.5 million x 33% = $17 million]

5. Multiplying the $103.5 million calculated in the third step, less the offset of $17 million, by 75% to derive the tax deduction benefit of $65 million.

   [$103.5 million -$17 million = $86.5 million x 75% = $64.9 million]

Reducing the $65 million by the projected amount of VLF deductions for the $22 million for the same vehicles under current law would generate a net accelerated deduction of $43 million. [$65 million - $22 million = $43 million.] Applying an average tax rate of 8% derives a $3.4 million revenue effect for one full year. [$43 million x 8% = $3.4 million]

It is assumed that DMV implementation would be completed by January 1, 2005, for vehicle registrations due on that date and thereafter. It is assumed that few taxpayers would adjust their estimated tax payments for this accelerated deduction. Therefore, the revenue impact for 2004/2005 is projected to be a minor loss of less than $500,000. For 2005/2006, the revenue loss is a combination of $1.8 million of the remaining losses from 2005, plus the $3.4 million losses for the first full fiscal year impact for a total revenue loss of $5.2 million. For 2006/2007, revenue losses diminish to a level of $1.4 million because of the timing of the accelerated deductions proposed by this bill compared to deductions under current law.

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