

BILL SUMMARY
1st Session of the 59th Legislature

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| Bill No.: | HB1389 |
| Version: | Introduced |
| Request Number: | 5377 |
| Author: | Bashore |
| Date: | 2/13/2023 |
| Impact: | FY24: \$9,359,768 decrease in motor vehicle collections FY25: \$14,039,652 decrease in motor vehicle collections Administrative Cost: \$93,500 |

Research Analysis

HB1389, as introduced, modifies the formula for determining motor vehicle excise tax on vehicle purchases. The tax will be levied on the value of the vehicle, which is determined by the actual sales price of the vehicle minus any discounts or trade-in credits.

Currently, the tax is levied on the sales price without regards to any discounts or trade-in credits.

The measure also requires the Oklahoma Tax Commission to file a report with the Governor, Speaker, President Pro Tempore and House and Senate appropriation chairs stating the fiscal impact of the motor vehicle excise tax over the previous three fiscal years and future projections of motor vehicle excise tax collections.

Prepared By: Quyen Do

Fiscal Analysis

HB1389, as introduced, modifies the calculation of motor vehicle excise tax. HB1389 proposes that the tax be calculated using the value of the vehicle after discounts or credits are applied for a trade-in. This measure is expected to decrease state revenues by \$9,359,768 in fiscal year 2024 and \$14,039,652 in fiscal year 2025. There exists an additional administrative cost of \$93,500, increasing state appropriations by the \$93,500.

As provided by Service Oklahoma:

Research by R.L. Polk indicates that six years is the average length of time drivers keep a new vehicle. Over a six-year period studies show that a new car generally loses approximately 60% of its original value. Service Oklahoma records indicate that new motor vehicle dealers sold 115,186 new cars in FY 22, Kelley Blue Book estimates the average price of a new car was \$48,861¹ in November of 2022. Application of a 60% value reduction to the average purchase price of \$48,861 equates to the average value of a six-year-old vehicle of \$19,544. Research demonstrates that generally the trade-in value of a vehicle is reduced by about 20% by the dealer yielding an average trade-in vehicle allowance of \$15,636.

Research conducted for this fiscal impact analysis indicated that the **43% of new cars**² sold had a single trade-in vehicle associated with the transaction and **22% of used cars** had a trade-in associated with the transaction.

The proposal provides for a November 1, 2023 effective date and assuming similar vehicle transactions in FY 24 and FY 25 as occurred in FY 22, an estimated decrease of \$9,359,767.73 in motor vehicle sales tax collections is projected for FY 24 [$\$14,039,651.60 / 12 \times 8 \text{ months} = \$9,359,767.73$] progressing to the full estimated decrease of \$14,039,651.60 in motor vehicle sales tax revenues for FY 25.

Prepared By: Zachary Penrod, House Fiscal Staff

Other Considerations

None.

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