

LEGISLATIVE FISCAL NOTE

BILL NUMBER: PCS for House Bill 504
SHORT TITLE: Leased Vehicle Trade-in Allowance
SPONSOR(S): Representative George Robinson (original sponsor)
FISCAL IMPACT: Expenditures: Increase () Decrease ()
Revenues: Increase () Decrease (X)
No Impact ()
No Estimate Available ()

FUND AFFECTED: General Fund () Highway Fund () Local Govt. ()
Other Funds (X) Highway Trust Fund

BILL SUMMARY: The bill allows lessors to deduct the value of a trade-in vehicle owned by the lessee from the capitalization costs on which monthly lease payments for a new vehicle are calculated. The 3% highway use tax is collected monthly on the gross receipts from leased vehicles up to a maximum of \$1000 for large commercial vehicles and \$1500 for all other vehicles. Use tax collections are deposited in the Highway Trust Fund.

Under current law, when an owner trades in his vehicle and starts a lease, monthly lease payments are calculated based on the market value of the leased vehicle minus residual value after three years, with pro-rated add-ons for interest, insurance and property taxes. The 3% highway use tax is collected on the gross receipts of monthly lease payments, and it is collected on the residual value of the vehicle when it is sold at the end of the three-year lease.

The impact on highway use tax collections of allowing a trade-in on a lease would reduce the cost basis on which monthly lease payments are calculated, thereby reducing monthly payments and the amount of 3% highway use collected on those payments.

EFFECTIVE DATE: October 1, 1995

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED: Department of Transportation

FISCAL IMPACT

FY94 FY95 FY96 FY97
FY98

REVENUES - Highway Trust Fund
Highway Trust Fund revenues would decline by \$1.0 - \$1.5 million each fiscal year (full fiscal year basis).

EXPENDITURES: None

POSITIONS: None

ASSUMPTIONS AND METHODOLOGY: According to the North Carolina branch of the Automobile Dealers Association, the average term of a vehicle lease is 3 years, the average value of a leased vehicle is \$26,000, and the average value of a trade-in is \$9000.

An example of the difference in highway use tax collections on a \$26,000 vehicle over a three-year lease (36 monthly payments) with and without a trade-in allowance is provided here. Average monthly payment amounts were provided by the North Carolina Automobile Dealers Association. Not included in the Total Use Tax column is the tax collected on the residual value of the vehicle when it is sold at the end of the three-year lease.

	Monthly payment	Monthly Use Tax	Total Use Tax
No trade-in	\$617	\$19	\$684
With trade-in	\$345	\$10	\$360

In this typical example, the difference in monthly payments is \$9, an annual difference of \$108 and a difference of \$324 over the three-year life of the lease.

The \$1- \$1.5 million estimate of revenue loss was derived in the following manner:

1. A 1991 DOT sample of title transactions showed that 10% were lease vehicles.
2. That 10% was applied to the 407,064 new cars and trucks sold in North Carolina in 1994 to generate the number of new leases in the state in one year (40,706).
3. The North Carolina Automobile Dealers Association estimates that 25% of new leases have trade-ins, therefore of the 40,706 new leases each year, 10,176 have trade-ins.
4. Allowing a \$9,000 trade-in allowance on a \$26,000 vehicle would reduce annual payments on a single leased vehicle by \$108. Multiplying 10,176 by \$108 equals \$1,099,008.

A range of \$1.0 - \$1.5 million is given because recent data show that revenues from leased vehicles is growing. FY1993-94 collections were \$10 million. FY1994-95 collections through March are already \$9 million. The estimate assumes that a range of 10% to 15% of new vehicles sold each year will be leased.

SOURCES OF DATA: North Carolina Automobile Dealers Association, Department of Transportation

TECHNICAL CONSIDERATIONS:
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