Washington Research Council

POLICY brief

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Growth of the MVET

BRIEFLY

The Motor Vehicle Excise Tax (MVET) is the state's fourth largest revenue source. The tax is among the nation's highest, and highly unpopular with taxpayers. Growing faster than most other revenue sources, the MVET has been designated to fund a host of state and local projects, from transit and transportation to public health and criminal justice

Focus on 695

1 of 8

About this series

Since qualifying for the ballot with the second highest signature count in state history, Initiative 695 has sent state and local officials scrambling to determine its potential effect. At the same time, a unique coalition of labor, business, social service and environmental interests has formed in opposition to the tax cut and limitation measure. Meanwhile, proponents of the initiative, led by a team of political amateurs, have reveled in the media attention.

I-695 backers like to describe the issue as a classic David vs. Goliath battle. This time, David is armed with a sling of one-liners and Goliath staggers under the weight of computer printouts showing the potential effects of MVET repeal. Although the little guy's quips beguile, the facts and data argue against the initiative.

On its face, I-695 is short and simple. It repeals the state's unpopular Motor Vehicle Excise Tax (MVET), replaces it with a $30 license tab fee, and makes any tax and fee increase by state and local government subject to voter approval.

The details matter, and the implications are daunting.

In this *Policy Brief*, the first in a series, we provide an overview of the MVET and its general role in state and local fiscal systems. Other briefs will explore in greater detail the effect of MVET repeal on transportation and transit, the importance of MVET funding to local governments, the voter approval requirement and the inability of state budget reserves to cover fully the lost revenues.

The Motor Vehicle Excise Tax. For the 1999-2001 biennium, the MVET is expected to raise $1.5 billion. Because the initiative would take effect January 1, 2000, the state would have six months of collections in the current fiscal year if the voters approve I-695. The biennial revenue loss would amount to about $1.2 billion, representing eighteen months of collections.

For the 2001-2003 biennium, state economists estimate the revenue loss at $1.8 billion.

The MVET is the state's fourth biggest tax source. For Fiscal Year (FY) 1998, the sales tax produced about $5 billion; the B&O tax, $1.9 billion; the state property tax, $1.2 billion; and the MVET, just under $0.8 billion. Gas taxes ranked fifth, at about $0.7 billion.

In part, the public prominence of the MVET in the state tax system is because it is a fast-growing tax. As motor vehicles have become more expensive, MVET revenues have climbed with them. Over the last seven years,

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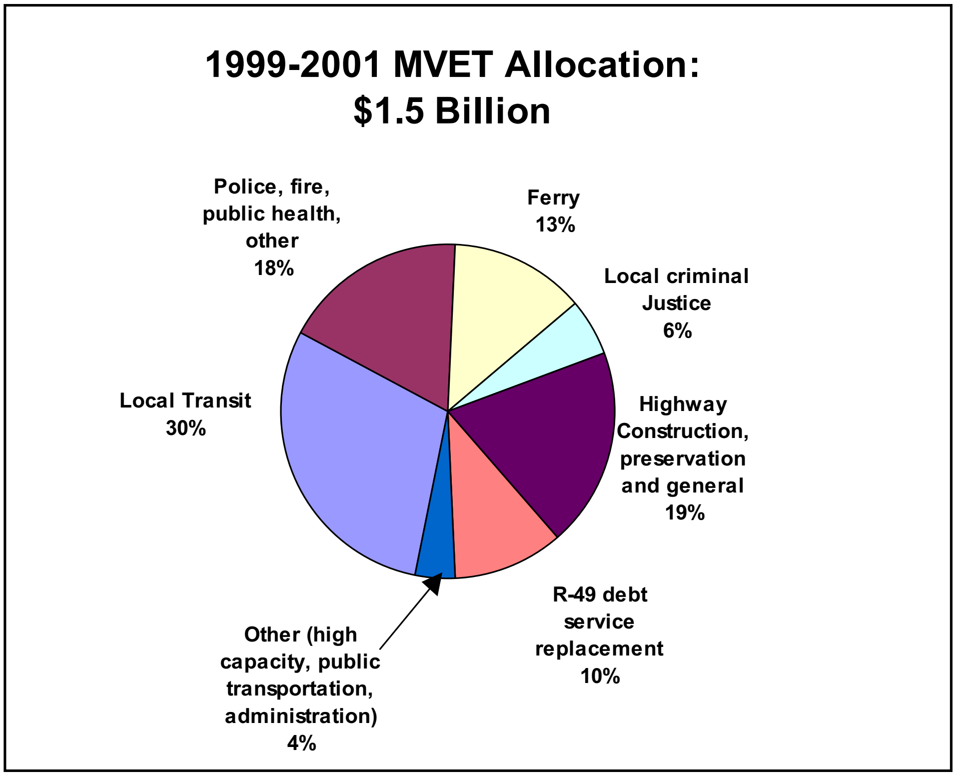
the MVET grew at a rate more than 10% faster than the retail sales tax.

The 2.2% MVET, applied against the value of motor vehicles according to a state schedule, is one of the highest in the nation.

Critics argue, with justification, that the “value” of the cars and trucks subject to the tax overstates the actual worth of the vehicle. The tax is assessed against the manufacturer’s suggested retail price (MSRP). Most purchasers of new cars and trucks pay less than the MSRP.

For new cars, the tax is 2.2% of MSRP. In the second year, the tax applies to 95% of MSRP; the third year, 89%, and the percentage drops each year until the 13th year, when it stabilizes at 10% of MSRP. For personal-use vehicles, a credit offsets the first $30 of MVET.



MVET Dedicated to Specific Projects. Over the years, the MVET has been earmarked for public health, city and county general government, transit, ferries, criminal justice, and highways. As a result of these earmarks, or fund dedications, MVET repeal will ripple through hundreds of state and local government programs.

Last year, voters adopted Referendum 49. In so doing, they transferred the general fund share of the MVET to transportation accounts, primarily to back a $1.9 billion bond issue for highways, and increased local government funding. Since R-49, none of the MVET remains in the state general fund.

The accompanying chart shows the anticipated distribution of $1.5 billion in MVET spending in the current (1999-2001) biennium. Transportation and transit combine for 77% of the total, with local government (police, fire, public health and other) making up the balance.

Focus on 695

contains eight Policy Briefs:

1. *Introduction & Growth of MVET*
2. *Surplus Won’t Cover Shortfall*
3. *Not Much Discretion in the $45 Billion Budget*
4. *MVET Off, Property Tax On & Other Tax Consequences*
5. *Let’s Vote on It*
6. *City and County Impacts Vary Widely*
7. *Transit and Transportation Would Take Major Hit*
8. *Summing It Up*

Each of these is available on-line at www.researchcouncil.org or contact the Research Council for copies by mail. To receive advance notice of our publications by e-mail send your e-mail address to wrc@researchcouncil.org