Washington Research Council

POLICY brief

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MVET Off, Property Tax On, and Other Tax Consequences

B R I E F L Y

The Motor Vehicle Excise Tax was created in 1937 as a replacement for the property tax.

The drafters of I-695 included language repealing the property tax exemption for motor vehicles. The Department of Revenue, in an interpretation that appears unequivocal, has said that effective with passage of I-695, motor vehicles will once again be subject to the property tax. The average property tax rate statewide is about 1.36% of market value.

Initiative 695 repeals the property tax exemption for motor vehicles, travel trailers and campers. In assessing the impact of a repealed exemption, experts are forced to conclude that the initiative means what it says. What was exempt will be taxed if I-695 becomes law.

To understand the problem, it is helpful to consider a little tax history. The MVET was created in 1937 as a property tax replacement. The initial tax rate of 1.5% remained in place until 1959, when it was bumped to 2%. In 1969, a municipal 1.0% MVET was allowed for mass transit, and credited against the state tax. The state rate increased to 2.2% in 1977, with the additional increment earmarked to state ferry construction. Surtaxes adopted in 1982 raised the rate to 2.354%, and in 1987 an addition 0.1% was adopted for ferry operations.

In 1990, among a number of changes in MVET distributions and rates, the tax was rolled back to its present rate of 2.2%, and the Manufacturer's Suggested Retail Price assessment method replaced a dozen depreciation schedules. Most recently, with Referendum 49, a $30 per vehicle credit was approved and the depreciation schedule changed to begin depreciation in the second year of service.

According to the state revenue department, the repeal of the exemption makes motor vehicles subject to the personal property tax. In comments prepared for the Washington State Association of County Assessors September 20, 1999, Sandra Guilfoil, Assistant Director, Property Tax Division, said, "… the Department believes the more compelling legal argument, as matters now stand, is that the personal property tax on motor vehicles, and travel trailers and campers will be reinstated by operation of law. This is because I-695 (section 3) expressly repeals the two sections of current law that provide a property tax exemption for motor vehicles (RCW 82.44.130) and for travel trailers and campers (RCW 82.50.530). Without these exemptions, and in order to give meaning to all of the tax code, these items should be treated the same as all other property under existing law. RCW 84.36.005, which is not amended or referred to by I-695, provides that all property is subject to taxation unless it is exempted."

Certainly, as she notes, the Legislature may wish to clarify or make substantive changes to the law, or the courts may interpret it differently. Guilfoil does indicate that the matter is not altogether clear. Nonetheless, the department's reasoning cannot be faulted. As it stands, motor vehicles will be subject to assessment and taxation as personal property on passage of I-695.

Focus on

4 of 8 695

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Imposition of the tax, should the initiative pass, would be extraordinarily difficult. There is no assessment roll for motor vehicles, which would be taxed at true and fair value, not according to the assessment schedule currently used with the MVET.

Since property taxes are subject to a web of limitations, total revenues would not change much, although there would be an appreciable shift. Homeowners and businesses would benefit from a rate reduction as more of the tax base shifts to vehicle owners. Households (i.e., individuals and families) represent more than 80% of the MVET tax base. If the property tax value of motor vehicles is about the same as the current MVET base, state economists estimate the rate reduction could be about 7%. The general property tax statewide is about 1.36%, still well below the 2.2% MVET.

Other, non-MVET revenue impacts. There are other tax consequences of I-695 that have received little attention.

Travel Trailer and Camper Excise Taxes. Besides the MVET, the initiative repeals the travel trailer and camper excise tax, which is assessed at 1.1% of a vehicle's value. The revenue loss for 1999-2001 (18 months of collections) is estimated to be $1.1 million for the transportation fund, $1.7 million for counties, $1.7 million for cities, and $8 million for the general fund for schools – a total of $12.6 million. For 2001-2003, the revenue loss, allocated in the same proportions among the four funds, rises to $18.8 million.

Clean Air Excise Tax. The clean air excise tax of $2 per vehicle would be repealed. Currently the tax is placed in the state air pollution control account. Revenue losses would be $17 million in 1999-2001 and $23 million in 2001-03.

License Tab Fees. The $30 license tab fee increases the existing license registration fees. Currently, original fees for motor vehicles are $27.75 and renewal fees, $23.75. These fees were estimated to produce about $192 million for the 1999-01 biennium. Most of this money (83%) is deposited into the State Patrol highway account, with a small amount placed into the ferry operations account (4.5%) and the motor vehicle fund (12.5%). The increase in fees to $30 will raise an additional $31 million in 1999-01 and an additional $43 million in 2001-2003.

Focus on 695

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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

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