

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MOTOR VEHICLE, Replace Vehicle Weight Tax with Ad Valorem Tax

BILL NUMBER: HB 1587, HD-1

INTRODUCED BY: House Committee on Transportation

EXECUTIVE SUMMARY: Replaces the vehicle weight tax with one based on the value of the vehicle. An ad valorem tax would be more complex to administer because the taxable value of a vehicle, as defined in the bill, declines over a ten-year period. A tax on vehicle weight is more stable because vehicle weight is not supposed to change over the life of the vehicle.

SYNOPSIS: Amends HRS section 249-33 to replace the vehicle weight tax with a tax at the rate of \$___ per \$1,000 of assessed value of the vehicle.

Defines “assessed value” as 30% of the manufacturer's suggested retail price, reduced for depreciation over a ten-year period; provided that in no event shall the assessed value of a vehicle be less than \$100.

Makes conforming amendments.

EFFECTIVE DATE: July 1, 2050.

STAFF COMMENTS: This measure proposes to replace the vehicle weight tax with a tax based on value.

The vehicle weight tax was adopted by Act 195, SLH 1977. At that time, the Conference Report accompanying the bill described the policy rationale:

Additional revenues to the state highway fund are required in order to pay for the increasing costs of operation and maintenance of the present system and future construction. Failure to provide such revenues would adversely affect the present highway system and would inevitably lead to indebtedness in excess of the state debt ceiling.

The fuel tax, which is the primary source of revenues for state highway fund, is an inadequate and unstable source of revenues. It not only unfairly penalizes those citizens with low incomes who must drive long distances, but it fails to address the problems of fuel conservation. An increase in the federal fuel tax and the possibility of another oil embargo could seriously affect the revenue producing capability of the state fuel tax by promoting or compelling a reduction in fuel consumption which, in turn, would result in reduced revenues for the state highway fund.

Rather than viewing the impending highway fund deficit as simply a revenue problem, the legislature finds that a more comprehensive and long-term solution must include the

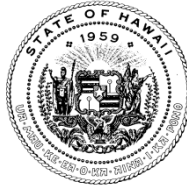
consideration of fuel conservation both as a goal and as it affects fuel tax revenues, tax equity, and the relationship between the numbers and sizes of vehicles, and our capacity to accommodate these vehicles .in terms of our limited land area, highway capacity, and funding ability. Your Committee agrees that a tax on a vehicle by weight would provide both a disincentive which would promote energy conservation and new revenues for the state highway fund.

Conf. Comm. Rep. No. 28 (1977).

The conventional wisdom behind a weight tax is that heavier vehicles tend to cause more wear and tear on highways and bridges than lighter vehicles. A weight tax is also seen as a way of getting more revenue out of electric vehicles and hybrids, which obviously use less gasoline fuel (the fuel tax goes to the highway fund, just like the vehicle weight tax now does) but which tend to be heavier vehicles.

An ad valorem tax would be more complex to administer because the value of a vehicle according to the bill declines over a ten-year period. Vehicle weight does not change over the life of the vehicle. It is also questionable whether an ad valorem tax would provide a stable revenue source that the Department of Transportation is asking for.

Digested 2/13/2017



Testimony by:
FORD N. FUCHIGAMI
DIRECTOR

Deputy Directors
JADE T. BUTAY
ROSS M. HIGASHI
EDWIN H. SNIFFEN
DARRELL T. YOUNG

IN REPLY REFER TO:

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

February 28, 2017
11:00 a.m.
State Capitol, Room 308

**H.B. 1587
RELATING TO TAXATION**



House Committee on Finance

The Department of Transportation (DOT) **supports** the intent of H.B. 1587 which proposes to replace the state weight tax with a tax based on the assessed value of a vehicle and provides the following comments.

- The weight tax has historically been charged for the use and impact to roads based on the fact that heavier vehicles cause more wear and tear to our roads.
- This bill will eliminate the state motor vehicle weight tax which is a major revenue source for the State Highway Fund, accounting for 28.6 % of the \$277.85 million of the total revenues for fiscal year 2016. The elimination of this source of revenues for the State Highway Fund may have a detrimental impact to the Department's ability to construct, operate and maintain the State Highway System.
- The state motor vehicle weight tax is a major source of pledged revenues for the Highway Revenue Bonds. The elimination of this revenue source will require disclosure and may negatively impact the Highways Revenue Bond ratings
- To ensure that there is no financial impact to the highways program, the fees should be set up to be revenue neutral and provide at least the revenue amount currently collected by the weight tax.
- An average vehicle weighing 3,500 pounds currently pays \$61.25 for state weight tax annually. DOT recommends that a minimum amount of \$60 be established regardless of assessed value.
- The highways financial plan relies on the state motor vehicle weight tax to support the continued operations and maintenance of the State Highway System. Appropriations from the State Highway Fund are used for the construction, operations and maintenance of the State Highway System.
- It is unclear what the revenue impact of this bill will be to the State Highway Fund.
- The implementation and collection of the tax based on the assessed value of a vehicle must be coordinated with the county DMVs and/or DoTAX. The effective date of July 1, 2018 may not be doable.

Thank you for the opportunity to provide testimony.



LATE

Brian Kitagawa, President
Dave Rolf, Executive Director

HADA testimony with COMMENTS on
HB 1587
RELATING TO TAXATION

Presented to the House Committee on Finance
at the public hearing to be held
11:00 a.m. Tuesday, February 28, 2017
in Conference Room 308, Hawaii State Capitol
by the Members of the Hawaii Automobile Dealers Association
Hawaii's franchised new car dealers

Chair Luke, Vice Chair Cullen, and Members of the Committee:

I am David Rolf, representing the members of the Hawaii Automobile Dealers Association, Hawaii's franchised new car dealers, with COMMENTS on HB 1587 – a bill which proposes to replace the state vehicle weight tax with a tax based on the assessed value of a vehicle. The association supports the measured and considered transition to ad valorem taxes on motor vehicles, instead of taxes based on vehicle weights, so as to facilitate a smoother, trouble-free registration and ownership transfer of vehicles through online, electronic vehicle registration and eventually electric lien and title transfer.

The State Vehicle Weight Tax is shown on the following table:

- **State weight tax:**
 - 0 to 4,000 lbs.: 1.75 cents per lbs.
 - 4,001 to 7,000 lbs.: 2 cents per lbs.
 - 7,001 to 10,000 lbs.: 2.25 cents per lbs.
 - Over 10,001 lbs.: \$300 flat rate.

The Average Weight for a Vehicle by Category is:

Vehicle Class	Curb Weight in Pounds
Compact car	2,979 pounds
Midsize car	3,497 pounds
Large car	4,366 pounds
Compact truck or SUV	3,470 pounds
Midsize truck or SUV	4,259 pounds
Large truck or SUV	5,411 pounds

A 4,000-pound vehicle, currently taxed at \$.02 (2 cents) per pound produces a **State Vehicle Weight Tax of \$80.**

How are vehicle weights obtained for tax purposes?

Generally, vehicle weights are obtained through data provided by IHS Automotive to the state computer's motor vehicle registration programming. When the state computer programmer positions were not filled, as has been the case recently, many vehicle weights were unavailable in the system due to lack of input into the COBOL software –a 1960s legacy software program. In the interim, new car dealers were allowed to self-certify the weights for new cars, based upon the information on the manufacturer's certificate of origin, the so-called birth certificate for the vehicle.

“Peak fleet time” caused a backlog in car registrations, due to the lack of vehicle weights

The recent shutdown of the online new car registration system, due to the lack of programmed weights for the vehicles, was a problem exacerbated during “peak fleet” registration times, when rental car companies sought to register thousands and thousands of their new 2017 models, but the online system was not functional.

“Ad valorem” calculations, however, pose their own challenges

If ad valorem became the State's method of calculating vehicle taxes and if the counties continued using weight tax calculations, the registration process would become increasingly complicated.

Using this bill's ad valorem procedures for the assessed value calculation:

A 2013 vehicle with a Manufacturer's Suggested Retail Price of \$31,325, would, in 2018, be depreciated at 10% per year (5 years, 50%) and thus valued at \$15,662.50 for tax purposes.

The bill requires that 30% of the valuation be used for the calculation, producing a value of \$4,698.

To arrive at the same value-neutral figure as the weight tax (\$80 on this typical vehicle), a tax rate of \$17.06 per thousand dollars of assessed value would need to be used.

However, since the bill stipulates that in no case will the amount of tax be less than \$100, then, a \$21.28 per thousand dollars of assessed value would be needed.

Vehicle tax would be 600% higher than Honolulu's real property tax rate on assessed value

Interestingly, this amount of \$21.28 per thousand dollars of assessed vehicle value, would be 600% higher than the Honolulu property tax rate of \$3.50 per thousand dollars of assessed valuation on a residential property.

Comparing a proposed gas tax increase to the proposed ad valorem tax (minimum tax).

Another bill this year proposes a gas tax increase from 16 cents a gallon to 26 cents a gallon. That 10-cent increase per gallon on 500 gallons (average use) would be \$50 additional cost to motorists. The minimum \$100 ad valorem tax would be, in the above example, \$20 more than the \$80 wt. tax.

A small number of other states use an ad valorem calculation based on the original Manufacturers Suggested Retail Price (MSRP) of the vehicle at the time a vehicle was put into service, and depreciated for its years in service. So, the MSRP information apparently would be available in a usable program.

Online registration for used cars, still not put into operation

The legislature passed SB 233 in 2015, which took effect July 1, 2015 of that year, but so far no progress has been made at the City and County of Honolulu in transitioning to online registration of used cars through an efficient electronic vehicle registration system. The July 1, 2018 effective date for implementation of an ad valorem method of taxation may thus be problematic.

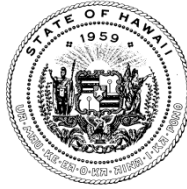
It is hoped, however, that Bill 64 (2016) CD 1 currently moving in the Honolulu City Council will put online registration of used vehicles in place by July 1, 2017, using, of course, the current system that relies on weight calculations to determine State and County taxes.

Thank you for the opportunity to comment on this proposal to implement an ad valorem tax on motor vehicles. Our association would welcome any procedure that will make motor vehicle fees fair and equitable, and allow for efficient processing of motor vehicle registrations and ownership transfers.

Respectfully submitted,

David H. Rolf

For the members of the Hawaii Automobile Dealers Association



Testimony by:
FORD N. FUCHIGAMI
DIRECTOR

Deputy Directors
JADE T. BUTAY
ROSS M. HIGASHI
EDWIN H. SNIFFEN
DARRELL T. YOUNG

IN REPLY REFER TO:

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

February 28, 2017
11:00 a.m.
State Capitol, Room 308

H.B. 1587
RELATING TO TAXATION

House Committee on Finance

The Department of Transportation (DOT) **supports** the intent of H.B. 1587 which proposes to replace the state weight tax with a tax based on the assessed value of a vehicle and provides the following comments.

- The weight tax has historically been charged for the use and impact to roads based on the fact that heavier vehicles cause more wear and tear to our roads.
- This bill will eliminate the state motor vehicle weight tax which is a major revenue source for the State Highway Fund, accounting for 28.6 % of the \$277.85 million of the total revenues for fiscal year 2016. The elimination of this source of revenues for the State Highway Fund may have a detrimental impact to the Department's ability to construct, operate and maintain the State Highway System.
- The state motor vehicle weight tax is a major source of pledged revenues for the Highway Revenue Bonds. The elimination of this revenue source will require disclosure and may negatively impact the Highways Revenue Bond ratings
- To ensure that there is no financial impact to the highways program, the fees should be set up to be revenue neutral and provide at least the revenue amount currently collected by the weight tax.
- An average vehicle weighing 3,500 pounds currently pays \$61.25 for state weight tax annually. DOT recommends that a minimum amount of \$60 be established regardless of assessed value.
- The highways financial plan relies on the state motor vehicle weight tax to support the continued operations and maintenance of the State Highway System. Appropriations from the State Highway Fund are used for the construction, operations and maintenance of the State Highway System.
- It is unclear what the revenue impact of this bill will be to the State Highway Fund.
- The implementation and collection of the tax based on the assessed value of a vehicle must be coordinated with the county DMVs and/or DoTAX. The effective date of July 1, 2018 may not be doable.

Thank you for the opportunity to provide testimony.