



DEPARTMENT OF AUDITS AND ACCOUNTS

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February 18, 2021

Honorable Shaw Blackmon
State Representative
401-K State Capitol
Atlanta, Georgia 30334

SUBJECT: Revised Fiscal Note
House Bill (LC 43 1746)

Dear Representative Blackmon:

The original fiscal note for LC 43 1746, dated January 15, 2021, has been revised and replaced. This revised fiscal note excludes commercial leases from the calculated changes and incorporates other changes based on the availability of additional information.

The bill modifies the current Title Ad Valorem Tax (TAVT) under O.C.G.A §48-5C-1 by modifying the base on which the TAVT is levied in the case of leased vehicles. Under current law, TAVT for leased vehicles is levied on the amount of base payments plus any down payments and is due to the Department of Revenue at the initiation of the lease. The bill reduces the TAVT base for leased vehicles by the value of all itemized interest and financing charges. It does not affect commercial leases. As the legislation does not specify an effective date, the estimate assumes the provision would become effective for lease agreements finalized on or after July 1, 2021.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue by \$3.4 million in FY 2022, with slightly larger revenue declines in subsequent years (see Table 1). Local revenue would drop by \$6.3 million and reach \$7.3 million by FY 2026. Details of the analysis are provided in the attached appendix.

Table 1. Projected State and Local Revenue Effects of LC 43 1746

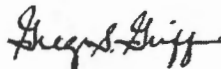
(\$ millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
State Revenue Effect	(\$3.4)	(\$3.5)	(\$3.7)	(\$3.8)	(\$3.9)
Local Revenue Effect	(\$6.3)	(\$6.5)	(\$6.8)	(\$7.1)	(\$7.3)

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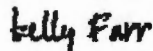
Impact on State Expenditures

The Department of Revenue (DOR) will be able to implement the changes required by the bill with existing resources.

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

The estimate is developed using data from the Department of Revenue (DOR) and several other sources discussed below. The steps to producing this estimate are as follows:

1. Estimated average monthly rent payment for leased vehicles.

To produce this estimate, we rely on the following assumptions –

- Average new leased vehicle transaction price = \$34,106 in 2020. This figure is based on new vehicle transaction prices computed from the monthly TAVT report produced by DOR. Using these data, the average transaction price for both purchased and leased vehicles is \$38,378. This is adjusted downward to reflect evidence that lease payments are 94% of the average of loan and lease payments combined according to information reported by CNBC.com.
- The average residual value of a leased vehicle is 50% based on information from Edmunds.com.
- The average leasing period is 36 months based on data from the Q2 2020 Experian State of the Automotive Finance Market.
- The average money factor is 0.001765 based on information from Edmunds.com.
- The average down payment on a leased vehicle transaction is estimated to equal 11% of the transaction price or \$3,973. The estimated down payment value is based on information reported by CNBC.com and multiplied by 94% to reflect a slightly lower down payment value for leases compared to all vehicles.

Using these assumptions, we compute an average total lease payment of \$512 per month. This total figure consists of the following three components:

- a base payment of \$391, computed as the adjusted capital cost (i.e. purchase price less down payment amount) – less the residual value (i.e. the full value of the vehicle before down payment multiplied by the residual value rate) then divided by the total number of monthly payments in the lease
- a rent or finance charge payment of \$89, computed as the sum of the adjusted capitalized value and the residual value multiplied by the money factor
- and a tax payment estimate of \$32 computed as the sum of the base payment amount and the rent payment multiplied by the TAVT rate

This total figure compares to the national average monthly lease payment of \$467 reported Experian in the Q2 2020 State of the Automotive Finance Market report and to the value of \$487 reported on the CNBC website. Although, the figures of \$467 or \$487 are less than our computed average payment for Georgia, they represent a national average. Additional information reported by Autowise.com and based on information from Experian, Kelley Blue Book, Edmunds, and J.D. Power state that average auto loan payments in Georgia are the third highest in the nation. Therefore, we do not adjust the computed total lease payment from our estimated value. Based on the current assumptions, this estimate seems in line with the above information, regarding the U.S. average and Georgia.

The rental payment of \$89 per month equates to 17% of the computed total monthly lease payment described above. This figure generates a monthly revenue loss in CY 2020 equal to \$5.85 per leased vehicle if these charges are not subject to TAVT.

2. Using the available Department of Revenue data, we estimate the following:
 - A baseline of approximately 57,000 vehicles will be leased in 2021
 - This baseline is adjusted downward by 18.5% to account for commercial leases which are not affected by this legislation. The 18.5% adjustment factor is based on a report by Deloitte: Fleet leasing and management in North America which reports that in 2016 commercial leases represented 18.5% of the total leasing market.
 - After this adjustment the estimate assumes approximately 46,000 retail leases in 2020 and 49,000 by 2024.
 - The estimate assumes that both the number of vehicles purchased and their average price increase at a rate of 2% annually over the revenue window based on information published by Kelley Blue Book.

3. The monthly rental payment of \$89 is applied to the baseline of leased vehicles to construct the final estimate using the applicable TAVT rate for each year. This estimate is then adjusted to reflect the revenue loss over fiscal years. Note that although, the state and local shares continue at 35% and 65%, respectively over the entire revenue window, the overall TAVT rate reverts to its original rate of 7% for transactions occurring on or after July 1, 2023. Prior to this period, the combined state and local TAVT rate is 6.6%.