

BILL SUMMARY
1st Session of the 57th Legislature

Bill No.:	HB 2355
Version:	INT
Request Number:	7065
Author:	Rep. Chad Caldwell
Date:	2/27/2019
Impact:	Tax Commission:
	Net Revenue Decrease
	FY-20: \$53,322,263

Research Analysis

HB 2355 modifies the definition of "gross receipts", "gross proceeds" or "sales price" as used in to Oklahoma Sales Tax Code by removing the consideration of credit for any trade-in. The measure allows for the use of a trade-in to reduce the sales tax liability when purchasing a motor vehicle. The measure provides that trucks and truck-tractors for a laden weight or combined laden weight of fifty-five thousand (55,000) pounds or more, trailers and semitrailers registered to transport cargo and frac tanks is to be considered in lieu of all sales and use taxes.

Prepared By: Brad Wolgamott

Fiscal Analysis

Analysis provided by the Tax Commission:

For purposes of this impact, it is assumed that 1% of sales tax collections are attributable to credits for trade-ins. Multiplying 1% by the projected sales tax collections for FY 20 of \$2,613,093,000¹ results in an estimated decrease of \$26,130,930 in state sales tax collections for FY 20.

Please note that Oklahoma is a member of and in full compliance with the Streamlined Sales and Use Tax Agreement (SSUTA). In order to achieve the intended goal and to maintain Oklahoma's continued compliance with the Agreement an amendment to Section 1352(12)(a) of Title 68 could provide that gross receipts . . . means the total amount of consideration . . . without any deduction for . . . credit for any trade in *unless separately stated on the invoice, billing or similar document given to the purchaser*.

Research by R.L. Polk indicates that 6 years is the average length of time drivers keep a new vehicle. Over a six year period studies show that a new car generally loses approximately 60% of its original value². Oklahoma Tax Commission records indicate that new motor vehicle dealers sold 125,309 new cars with an average purchase price of \$35,561 in FY 18. Application of 60% value reduction to the average purchase price of \$35,561 equates to the average value of a six year old vehicle of \$14,224. Research demonstrates that generally the trade-in value of a vehicle is reduced about \$2,250 by the dealer yielding an average trade-in vehicle allowance of \$11,974.³ For purposes of this impact, it is estimated that 85% or 106,513 of new motor vehicle sales for FY 18 had a trade-in vehicle associated with the transaction. Assuming an average trade-in allowance for those vehicles of \$11,974 equates to a decrease of \$15,942,333 in associated state sales tax. $106,513 \times \$11,974 = \$1,275,386,662 \times 1.25\% = \$15,942,333$.

Section 3 proposes amendment to Section 2103 of Title 68 of the Oklahoma Statutes to exempt certain commercially registered vehicles from imposition of the 1.25% motor vehicle sales tax. The exemption would apply to the following vehicles which currently pay the \$10 excise tax.

- Commercial trucks and truck-tractors registered under Section 1133(A) of Title 47 for a weight of 55,000 pounds or more,
- Commercial trailers and semitrailers registered under Section 1133(C) of Title 47 to transport cargo over the highways of this state.
- Frac tanks registered under Section 1133(C) of Title 47.

OTC motor vehicle sales tax remittance records indicate that \$11,248,728 in motor vehicle sales tax was collected in the twelve month period of November 1, 2017 through October 31, 2018. Assuming similar transactions in FY 20 as those experienced in the above-referenced twelve month period, a decrease of \$11,249,000 in state sales tax revenues is estimated for FY 20.

Net Revenue Impact

FY 20: \$53,322,263 estimated decrease in state sales tax collections

¹ Oklahoma Tax Commission – Revenue Estimates and Forecasts issued February 14, 2019. The cited forecast does not include sales tax attributable to sales of motor vehicles.

² *Depreciation Infographic: How Fast Does My New Car Lose Value?* Edmunds.

³ *How Much Do You Lose From a Dealer Trade-In?* Instamotor.

Prepared By: Mark Tygret

Other Considerations

None.