

VEHICLE LICENSE TAX

DESCRIPTION

The Vehicle License Tax (VLT) is an ad valorem tax levied on registered vehicles in the state. The tax is levied per \$100 of a vehicle's assessed value. For the first 12 months of the vehicle's life, the assessed value is 60% of the manufacturer's base retail price. For each subsequent year, the assessed value is 16.25% less than the previous year. The rate per \$100 of assessed value is \$2.80 for new vehicles and \$2.89 for renewals.

DISTRIBUTION

Monies received by the Director of the Department of Transportation from this tax are distributed as follows [A.R.S. § 28-5808]:

For monies collected from alternative fuel vehicles, car rental surcharges, and private ambulances, fire fighting vehicles, and school buses:

- 37.61% to the Highway User Revenue Fund (HURF)
- 20.45% to county general funds
- 4.91% to counties for highway purposes
- 20.45% to incorporated cities and towns
- 1.64% to the State Highway Fund, except if the department's share of Federal Surface Transportation Programs monies is greater than \$42 million, the difference shall be deposited in the Local Transportation Assistance Fund for cities and towns
- 4.09% to the State Highway Fund
- 10.85% to the General Fund for school financial assistance

For monies collected from all other eligible vehicles:

- 45% to the HURF
- 24.6% to county general funds
- 5.7% to counties for highway purposes
- 24.6% to incorporated cities and towns

(See *Highway User Revenue Fund Overview* at the beginning of this section for distribution of the Highway User Revenue Fund.)

Table 1			
VEHICLE LICENSE TAX COLLECTIONS			
<u>Fiscal Year</u>	<u>Net Collections</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
FY 2005	\$747,013,406	FY 1995	\$426,019,239
FY 2004	\$695,325,929	FY 1994	\$377,593,859
FY 2003	\$628,207,211	FY 1993	\$333,479,528
FY 2002	\$601,666,653	FY 1992	\$314,914,865
FY 2001	\$570,769,364	FY 1991	\$311,789,377
FY 2000	\$583,199,118	FY 1990	\$297,267,498
FY 1999	\$594,224,410	FY 1989	\$267,293,501
FY 1998	\$586,835,092	FY 1988	\$251,882,684
FY 1997	\$552,348,715	FY 1987	\$228,840,811
FY 1996	\$480,300,608	FY 1986	\$202,226,106

SOURCE: Department of Transportation, Office of Financial Planning.

Vehicle License Tax

Table 2

DISTRIBUTIONS

<u>Fiscal Year</u>	<u>State General Fund</u>	<u>State Highway Fund</u>	<u>Local Governments</u>
FY 2005 ^{1/}	\$135,073,829	\$106,498,187	\$505,441,390
FY 2004	\$800,278	\$158,103,703	\$536,421,948
FY 2003 ^{2/}	\$975,947	\$142,750,943	\$484,480,321
FY 2002	\$70,213	\$136,700,056	\$464,896,384
FY 2001	\$475,007	\$134,437,105	\$435,857,252
FY 2000	\$24,265,823	\$144,206,700	\$414,726,595
FY 1999	\$90,592,289	\$135,244,316	\$368,387,805
FY 1998	\$168,833,230	\$121,324,834	\$296,677,028

^{1/} In FY 2005, there was a one-time distribution in the amount of \$118 M of the State Highway Fund share of the HURF portion of the VLT monies to the General Fund. Additionally, there was an allocation of \$16.4 M, which is 50% of the increase in the VLT from the MVD registration compliance program to the General Fund (See *Tax Law Changes* section).

^{2/} FY 2003 General Fund amount includes both FY 2002 and FY 2003 deposit.

SOURCE: Department of Transportation, Office of Financial Planning.

The enacted FY 2006 budget included a provision that transfers 1.51% of vehicle license tax received for distribution to the State Highway Fund to the Parity Compensation Fund beginning in FY 2006.

WHO PAYS THE TAX

Owners of vehicles that are registered for operation on the highways of Arizona [Arizona Constitution, Article 9, Section 11].

TAX BASE AND RATE

Base

The VLT is levied on the assessed value of each vehicle. Effectively, the tax is levied on 10 classes of vehicles [A.R.S. § 28-5801]:

- (1) Passenger vehicles.
- (2) Commercial vehicles.
- (3) Non-commercial one-half ton pick-ups and similar vehicles.
- (4) Buses.
- (5) Taxis.
- (6) Travel trailers.
- (7) Trailers.
- (8) Motorcycles and scooters.
- (9) Privately owned motor vehicles used exclusively as a school bus.
- (10) Motor vehicles powered by alternative fuels.

The taxable value of vehicles in these classes is determined as follows:

Classes 1 through 8

During the first 12 months of the life of the vehicle (as determined by its initial registration) the assessed value of the vehicle is 60% of the manufacturer's base retail price. During each succeeding 12-month period, the assessed value of the vehicle is 16.25% less than the assessed value for the preceding 12-month period.

Vehicle License Tax

Class 9 and Class 10

During the first 12 months of the life of the vehicle (as determined by its initial registration) the assessed value of the vehicle is 1% of the manufacturer's base retail price. During each succeeding 12-month period, the assessed value of the vehicle is 15% less than the assessed value for the preceding 12-month period [A.R.S. § 28-5804, 28-5805].

If a Class 9 vehicle is temporarily used for purposes other than as a school bus, the taxable value is determined in the same manner as Class 1-8 vehicles. The tax is then assessed and collected monthly in an amount equal to one-tenth of the calculated annual VLT for each full month the vehicle is operated for other purposes [A.R.S. § 28-5804].

EXEMPTIONS

A veteran who is a resident of Arizona and whose vehicle or replacement of such vehicle is acquired by financial aid from the Veteran's Administration is exempt from this license tax [A.R.S. § 28-5802].

No license tax or registration fee shall be collected for a vehicle that is personally owned by a veteran, a veteran and another party, or the surviving spouse of a veteran, if such veteran is certified by the Veteran's Administration as 100% disabled and drawing compensation. Only one vehicle or its replacement may claim this exemption during each 12-month period.

A vehicle owned by a resident who receives disability payments under Title 16 of the Social Security Act is exempt from the VLT. Such resident must show satisfactory proof of such assistance [A.R.S. § 28-5803]. Only one vehicle may be claimed by a disabled resident.

Rate

For Classes 1 through 8, the VLT rate is \$2.80 per \$100 of assessed value for the first 12 months of the vehicle's life, and \$2.89 per \$100 of value thereafter. Exception: for noncommercial trailers that are not travel trailers and have a gross vehicle weight of less than 6,000 pounds the VLT is a one-time tax of \$105 on initial registration and is a one-time tax of \$70 on renewal of registration [A.R.S. § 28-5801].

For Classes 9 and 10, the VLT rate is \$4 per \$100 of assessed value [A.R.S. § 28-5804, 28-5805].

For trailers and semitrailers over 10,000 pounds gross vehicle weight, the VLT is a one-time fee of \$555 for trailers which have not previously been registered, \$355 for trailers less than six years old which have been previously registered in another state, and \$100 for trailers six or more years old which have been previously registered in another state.

Minimum Tax. For Classes 1 through 8, the minimum amount of the VLT is \$10 per year for each vehicle subject to the tax [A.R.S. § 28-5801]. For Class 9 and Class 10 vehicles, the minimum VLT is \$5 per year [A.R.S. § 28-5804, 28-5805].

PAYMENT SCHEDULE

The VLT is due and collected annually at the time of vehicle registration. Exception: depending on eligibility, owners of vehicles may participate in a two-year vehicle registration program and prepay the VLT for the following year [A.R.S. § 28-5801].

The Arizona Department of Transportation collects tax payments and fees.

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law and other revenue changes that have been enacted by the Legislature since 1999. The estimated dollar impact of these changes is summarized by fiscal year in [Table 3](#) below:

Vehicle License Tax

Table 3		
<u>ESTIMATED DOLLAR VALUE OF TAX LAW AND REVENUE CHANGES</u>		
<u>Session/Chapter</u>	<u>Description</u>	<u>Revenue Impact</u>
<u>FY 2005</u>		
L 2004, 2 nd RS, Ch. 282	VLT Transfer to General Fund	\$ 118,000,000
<u>FY 2001</u>		
L 1999, 1 st SS, Ch. 5	VLT Rate Reductions	\$ (25,000,000)
<u>FY 2000</u>		
L 1999, 1 st SS, Ch. 5	VLT Rate Reductions	\$ (35,000,000)
L 1998, 4 th SS, Ch. 3	VLT Rate Reductions - Reduced GF Share of VLT	<u>\$ (20,000,000)</u>
Subtotal FY 2000		\$ (55,000,000)
<u>FY 1999</u>		
L 1998, 4 th SS, Ch. 3	VLT Rate Reductions - Reduced GF Share of VLT	\$ (80,000,000)

There were no changes enacted to this tax in 2000 and 2003.

2005 TAX LAWS

Laws 2005, Chapter 306 establishes the Parity Compensation Fund consisting of VLT distributions and legislative appropriations to fund salaries and benefits for Department of Public Safety law enforcement personnel. This legislation redirects 1.51% of the portion of the VLT revenues for the entire month that would otherwise be deposited in the State Highway Fund to the Parity Compensation Fund. It also directs that the appropriation to the Parity Compensation Fund from the VLT revenues will not impact the distribution of those revenues to the state General Fund and to the counties, cities and towns. The bill specifies that the Parity Compensation Fund monies do not revert to the state General Fund, are exempt from lapsing and are subject to legislative appropriation. The bill becomes effective on the general effective date, retroactive to July 1, 2005.

2004 TAX LAWS

Laws 2004, Chapter 282 provided that the first \$118,000,000 of VLT received in FY 2005, that would normally be deposited into the State Highway fund pursuant to A.R.S. § 28-6538, be instead deposited into the state General Fund.

Laws 2004, Chapter 306 provided that the surviving spouse of a 100% disabled veteran may continue to receive the exemption from this tax until remarriage or death. The fiscal impact of this change is unknown.

2002 TAX LAWS

Laws 2002, Chapter 328 provided that 50% of any increase in vehicle license tax collections due to vehicle registration enforcement in the motor vehicle division of the department of transportation shall be deposited in the state General Fund, and the remaining 50% shall be distributed pursuant to A.R.S. § 28-5808.

Laws 2002, Chapter 221 changed the VLT and registration fees for trailers over 10,000 pounds gross vehicle weight based on the model year of the trailer and previous registration in this or any other state. It provided that previously registered trailers over six years old pay a reduced registration fee and previously registered trailers of any age pay reduced VLTs. Registration and VLT rates for the initial registration of these types of trailers remained unchanged.

Vehicle License Tax

2001 TAX LAWS

Laws 2001, Chapter 154 established a one-time registration and VLT fee for trailers or semitrailers exceeding 10,000 pounds gross vehicle weight. Previously, owners and operators of these types of trailers paid an annual registration fee and an annual VLT.

1999 TAX LAWS

Laws 1999, 1st Special Session, Chapter 5 reduced the VLT rate from \$3.35 for each \$100 of assessed value down to \$3.22 for new vehicles, and from \$3.45 for each \$100 of assessed value down to \$3.32 for renewals. Beginning June 1, 2000, the rate per \$100 of assessed value for new vehicles will further decrease to \$3.12, and the rate per \$100 of assessed value for renewals will drop to \$3.22. This provision is effective July 7, 1999. Also, this act identified 5 additional rate reductions that are based on the availability of excess revenue at the end of FY 1999. If sufficient revenue exists to implement all 5 “triggered” rate reductions, the tax rate would fall by another \$0.29. Since there was sufficient excess revenue, the conditional VLT reductions became effective December 1, 1999. The General Fund impact of this legislation was projected to be a reduction of \$35 million in FY 2000 and an additional \$25 million in FY 2001. This legislation effectively eliminated VLT deposits to the General Fund.

In addition, General Fund deposits totaling \$21.4 million were made to the HURF and Local Transportation Assistance Fund (LTAF) in FY 2001, in order to hold these funds harmless from VLT rate reductions. As a result of reduced General Fund revenues, there were no hold harmless General Fund deposits made to the HURF in FY 2002 and FY 2003. There was a reduced General Fund deposit of \$3.5 million made to LTAF in FY 2002, and the deposit was eliminated in FY 2003.

A listing of tax law changes prior to the 1999 legislative session is available on the JLBC Web site located at www.azleg.state.az.us/jlbc/05taxbook/05taxbk.pdf.