

TRANSPORTATION FUNDING
and
MINNESOTA'S VEHICLE REGISTRATION TAX

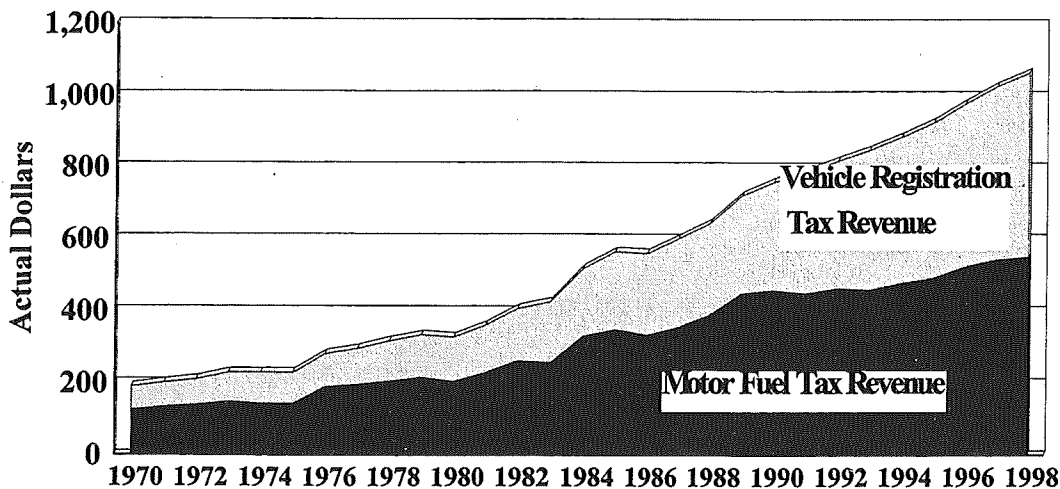
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by
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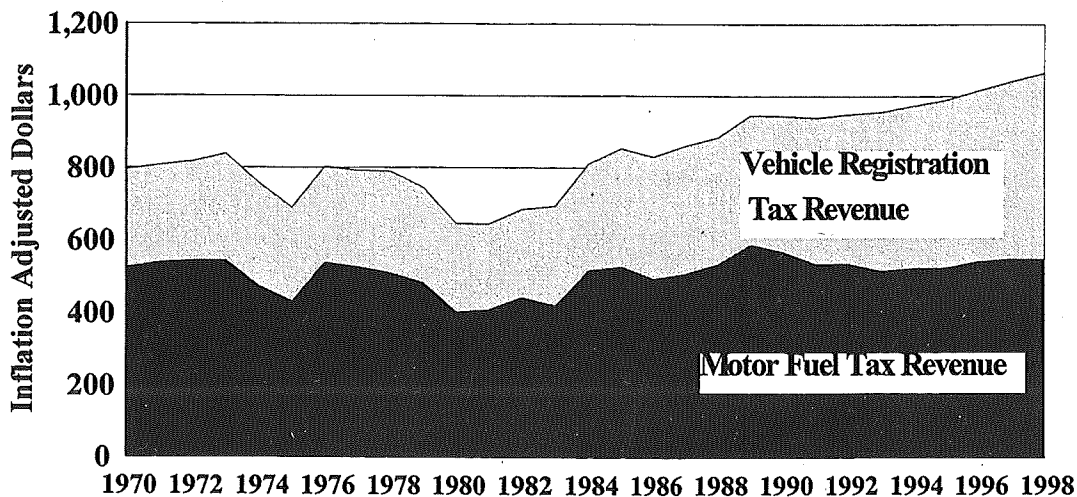
HIGHWAY USER TAX DISTRIBUTION FUND (HUTDF)

- The Highway User Tax Distribution Fund (HUTDF) is created in Article 14 of the Minnesota constitution.
- Revenues within the HUTDF must be used solely for “highway purposes.”
- The HUTDF receives all revenues derived from the state’s motor fuel and vehicle registration taxes.
- Article 14 establishes a formula for distribution of the HUTDF revenues as follows: 62 percent for state trunk highways, 29 percent for county state-aid highways, and 9 percent for municipal state-aid streets. The other major source of funding for county state-aid highways and municipal state-aid streets is local property taxes.
- Article 14 allows 5% of the HUTDF revenues to be taken “off-the-top” and allocated by the legislature among the three funds. The 5 percent formula may be changed no more frequently than once every six years and was last changed during the 1998 session, effective FY 2000.
- In FY 1999, revenues to the HUTDF totaled \$1.15 billion, of which 51% (\$585 million) was generated by the motor fuel tax, 48% (\$555 million) was generated by the vehicle registration tax and 1% (\$8 million) was from miscellaneous revenue.
- Since 1970, the “real dollar” growth in HUTDF revenues has come primarily from vehicle registration tax revenues, not from motor fuel tax revenues, leading to an increased reliance on the registration tax as a source of transportation revenue.
- In 1970, 34% of the total HUTDF revenues came from the registration tax, while in 1998, 48% of the total HUTDF revenues came from the registration tax.

Highway User Tax Distribution Fund Revenues Actual Dollars



Highway User Tax Distribution Fund Revenues Constant 1998 Dollars



MOTOR FUEL TAX

- 100% of the revenues from the motor fuel tax are deposited in the HUTDF and may be spent only for “highway purposes.”
- In Minnesota gasoline and diesel fuels are taxed at the same rate, currently at 20 cents per gallon.
- The tax rate was last increased in 1988, from 17 cents to the current 20 cents per gallon.
- Because the gas tax is collected on a per gallon basis, the revenues do not grow with inflation. Revenues increase only as consumption increases.
- A one cent increase in the gas tax raises approximately \$29 million.
- Minnesota’s fuel tax rate is about average for the nation, 22 states have a higher tax rate and four states also have a 20 cent per gallon tax. Some other states also allow “local option” gas taxes (city or county gas tax) or charge a sales tax on gas -- Minnesota does not allow either.
- Wisconsin’s gas tax is 25.8 cents per gallon, North Dakota’s 21 cents per gallon, South Dakota’s 22 cents per gallon, and Iowa’s 20 cents per gallon.

Current Passenger Vehicle Registration Tax

- The current passenger vehicle registration tax is imposed by M.S. 168.013 and is calculated based upon the value and age of the vehicle. The tax is equal to \$10 plus an additional amount equal to 1.25 percent of the vehicle's base value (manufacturer's suggested retail price).
- The value of the vehicle is depreciated over time as follows: 100 percent of base value for the first and second year; 90 percent for the third and fourth years; 75 percent for the fifth and sixth years; 60 for the seventh year; 40 percent for the eighth year; 30 percent for the ninth year; and 10 percent for the tenth year.
- For the eleventh year and each year thereafter, the additional tax is equal to a flat sum of \$25 for a total tax of \$35.
- In 1999, Minnesota had approximately 3.6 million registered passenger vehicles, about 38% of which pay the minimum tax of \$35.
- Trucks pay an annual registration tax based upon the weight and age of the vehicle. The minimum tax is \$120 and the maximum is \$1760.
- Of the \$555 million collected from the vehicle registration tax in FY 1999, 82% or approximately \$453 million was paid by passenger vehicles.
- In comparison to the other states, Minnesota's registration tax ranks about in the middle. However, our rank varies depending on the value and age of the vehicle. For example, on a 1999 passenger vehicle with a value of \$22,000, Minnesota's tax would rank 21st highest at \$284.
- Thirty-one states levy a value-based registration tax. Many of these states also allow local governments to levy a personal property tax on the vehicle. Minnesota does not allow local option registration taxes.

1999 Vehicle Registration Tax Rates -- Minnesota's 50 State Ranking

Vehicle Type and Year	MSRP (Base Value)	MN's 1999 Taxes & Fees	50 State Average Taxes & Fees	MN's Ranking (1)
1999 Honda Civic	\$14,100	\$186.00	\$160.34	19
1999 Ford F150	\$15,700	\$206.00	\$185.73	21
1999 Ford Taurus LX	\$17,900	\$234.00	\$203.44	21
1999 Chevy Blazer	\$21,900	\$284.00	\$249.85	21
1994 Honda Civic	\$11,500	\$117.00	\$84.81	12
1994 Ford F150	\$12,900	\$131.00	\$93.78	12
1994 Ford Taurus	\$19,300	\$191.00	\$104.95	8
1994 Chevy Blazer	\$17,700	\$176.00	\$117.82	9
1989 Honda Civic	\$9,190	\$35.00	\$48.47	36
1989 Ford F150	\$11,001	\$35.00	\$62.13	41
1989 Ford Taurus	\$15,282	\$35.00	\$55.33	40
1989 Chevy Blazer	\$13,510	\$35.00	\$66.42	40

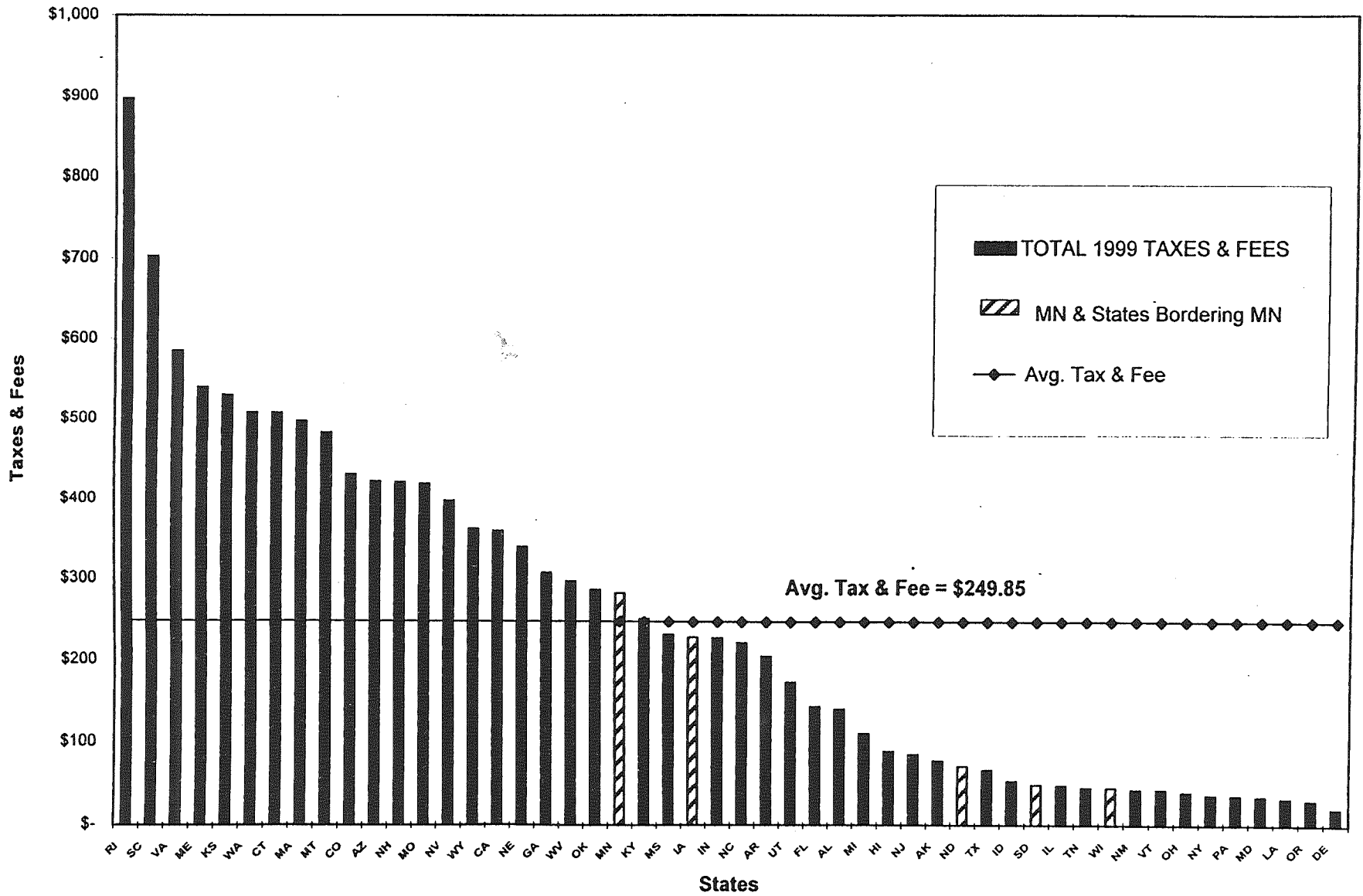
(1) Ranking is from highest state tax to lowest state tax.

Source: MnDOT Office of Financial Management

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1999 Chevy Blazer (Passenger Vehicle Valued at \$22,000)



Minnesota's Passenger Vehicle Fleet

Total Number of Passenger Vehicles:	3,586,529	
Number of Vehicles Paying the Minimum Tax:	1,372,525	(38.3%)
Number of Vehicles 11 Years and Older:	1,165,622	(32.5%)

Percent of Vehicles by Year of Registration:

Year	Percent	Year	Percent
0	1.3%	6	6.9%
1	7.0%	7	6.4%
2	6.9%	8	5.9%
3	7.1%	9	6.0%
4	6.7%	10	6.1%
5	7.3%	11 & >	32.5%

Percent of Vehicles by Value:

Value	Percent
\$1,500 - \$5,000	3.0%
\$5,000 - \$10,000	16.3%
\$10,000 - \$15,000	31.7%
\$15,000 - \$20,000	26.5%
\$20,000 - \$25,000	13.8%
\$25,000 - \$30,000	4.4%
\$30,000 & Greater	4.2%

Source: MnDOT Office of Financial Management

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OPTIONS FOR CHANGING THE REGISTRATION TAX

- Flat Registration Tax – A revenue neutral flat tax would result in a flat tax of approximately \$126 per passenger vehicle.
- Reduce the Tax Rate – The current tax rate could be reduced from the 1.25 percent rate to a lower rate such as 1.00 percent.
- Change the Depreciation Schedule – The vehicle depreciation schedule was changed by the Legislature in 1989 (effective 1990) to raise more revenue for the HUTDF. The current and pre-1989 depreciation schedules are as follows:

<u>Year</u>	<u>Depreciation %</u>		<u>Year</u>	<u>Depreciation %</u>	
	<u>Current</u>	<u>Pre-1990</u>		<u>Current</u>	<u>Pre-1990</u>
1	100%	100%	6	75%	35%
2	100%	90%	7	60%	30%
3	90%	75%	8	40%	20%
4	90%	60%	9	30%	15%
5	75%	45%	10	10%	10%

- Set a Maximum Tax – A maximum registration tax could be established, in addition to the minimum tax. Under this option, the current formula calculation would be maintained, however, if the calculation results in a tax that exceeds the maximum, the maximum tax would be assessed instead.
- Reduce the Minimum Tax -- The minimum tax of \$35 could be reduced so that all passenger vehicles receive a tax reduction.
- Weight-Based Registration Tax – Some states (such as North Dakota) assess the registration tax based upon the gross weight of the vehicle. This type of tax is seen as being more of a user fee than is a value-based tax.
- The Governor proposes a maximum tax of \$75, which will result in an estimated revenue loss to the HUTDF of \$276 million in FY 2001 and \$292 million (54% of MVET) in FY 2002.

PASSENGER VEHICLE REGISTRATION TAX --- HUTDF REVENUE LOSS ESTIMATES

Tax Reduction Proposal	FY 2001		FY 2002		FY 2003	
	\$ Loss	% MVET	\$ Loss	% MVET	\$ Loss	% MVET
Governor -- Maximum \$75 Tax All Years	276.2	52.5%	292.0	54.4%	308.5	55.7%
Change Tax Rate from 1.25% to 1%	83.1	15.8%	86.9	16.2%	90.7	16.4%
Change the Depreciation Schedule to 10% per year	74.0	14.1%	77.3	14.4%	80.8	14.6%
10% Depreciation and 1% Rate	142.0	27.0%	148.4	27.7%	155.1	28.0%
10% Depreciation and 1.10% Rate	114.8	21.8%	120.0	22.4%	125.4	22.6%
10% Depreciation and 1.15% Rate	101.2	19.2%	105.8	19.7%	110.6	20.0%
10% Depreciation and 1.20% Rate	87.6	16.7%	91.6	17.1%	95.7	17.3%

HUTDF revenue loss estimates are in millions of dollars.

Percentage of MVET required to cover the lost revenue is based upon November 1999 forecast -- in FY 2001, \$526 million; in FY 2002, \$536.7 million; and in FY 2003, \$554.1 million.

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SALES TAX ON MOTOR VEHICLES (MVET)

- The sales tax on motor vehicles (formerly known as the motor vehicle excise tax or MVET) is currently deposited 100% in the general fund, not in the HUTDF.
- In 1981, legislation was passed phasing in a transfer of MVET revenue from the general fund to the HUTDF and a newly created transit assistance fund. However, this legislation was changed a number of times and eventually eliminated in 1991. The original legislation and the transfer that actually took place are shown below.

Fiscal Year	<u>ORIGINAL LEGISLATION</u>		<u>ACTUAL TRANSFER</u>	
	<u>General Fund Share (%)</u>	<u>Transportation Share (%)</u>	<u>General Fund Share (%)</u>	<u>Transportation Share (%)</u>
1982	100	0	100	0
1983	100	0	100	0
1984	75	25	100	0
1985	75	25	75	25
1986	50	50	100	0
1987	50	50	100	0
1988	25	75	95	5
1989	25	75	70	30
1990	0	100	65	35
1991	0	100	100	0

- In FY 1999, the sales tax on motor vehicles generated approximately \$487 million. The November 1999 forecast estimated MVET revenues to be \$520 million for FY 2000.
- The sales tax on motor vehicles traditionally grows at a rate exceeding the rate of inflation. Annual growth in the revenue was approximately 7.9% per year between 1994 and 1999.