NORTH CAROLINA
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STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

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Memorandum # 2014 - 18

TO: Finance Officers of Tax-Levying North Carolina Local Governments

FROM: Sharon Edmundson, Director, Fiscal Management Section

SUBJECT: Budgeting for Property Tax Revenues Under Tag and Tax Together

DATE: April 24, 2014

Budgeting for property tax collections on registered motor vehicles for fiscal year 2014-15 will present a bit of a challenge due to the implementation of Tag and Tax Together, effective in September of 2013. Under the new process a registered motor vehicle owner is mailed an invitation to renew and if he or she chooses to renew, the property tax on the vehicle is levied and due at the time of renewal. With registered motor vehicles tax collected upon renewal, there is no longer a lag between billing and collections. Part of the budget challenge is that we only have a partial year history of collections on which to base budget estimates. Another challenge is that the new system requires people to change their behavior, the effect of which will take a while to recognize. We have seen evidence of this in the collections through Tag and Tax. Collections started out relatively low but have been increasing as people get used to the new system. By this time next year we will have a more complete history and better indication of how collections will run. That doesn't help us out much with the coming budget year estimates however.

In addition to the lack of collections history, we also must still comply with the limitations of the statutes. G.S. 159-13(b)(6) has not changed regarding the way property tax can be budgeted. The statute *permits* a unit to budget an estimated twelve months of collections against only nine months of levy for registered motor vehicle taxes but it does not *require* this – the statute caps the percentage at the amount calculated using this method. The statute was initially written in this manner because of the lag between the levy and collection of the tax. Because we now levy and collect simultaneously, it is no longer necessary to account for a lag between levy and collection. **For fiscal year 2014-15 a unit of government we recommend that units estimate and budget for twelve months for both billing and collections.** Using a twelve month collection estimate and a nine month levy would likely result in a collection percentage of over 100% under the Tag and Tax system because the levy is not recognized until the tax is collected.

For the 2014-2015 year and beyond, collection rates should be close to 100% for taxes on registered vehicle. Only a few exceptions exist that may keep the rate from reaching 100%. First, new vehicle purchasers have the option to defer payment of the property taxes on the new vehicle for up to 60 days. If this crosses the fiscal year end you will have your levy in one year and payment in the subsequent year. Also, there are some special exceptions for individuals who have filed for bankruptcy protection. In total, these situations likely make up only a small percentage of total collections.

It is important to distinguish between the collection percentage and the dollar amount of revenue collected. Although the vehicle tax collection rate will be around 100%, the annual *revenue* generated from property tax collections under tag and tax may not be 100% of your historic annual revenues. Because the mailing reminding taxpayers to renew is simply an invitation to renew, the levy and assessment of the tax is not recorded on the books until renewal and payment takes place. The taxpayers who choose not to renew are not included in the total levy and subsequently do not affect the collection percentage. However, they obviously do affect the actual revenue amount collected. Over time we expect revenues to exceed what units were collecting before implementation.

As with any substantive change to a revenue generating process, time is needed to accurately compare collections under the new system compared to the old system. The North Carolina Department of Revenue publishes reports every month related to collections. If you have not reviewed these reports to gain a better understanding of the process, please do so. Since comparable data is not available at this time, we are asking units to conservatively budget revenue amounts for the 2014-15 fiscal year. It is our recommendation that a unit of government look closely at collections for the prior three or four months and use this as a starting point when budgeting for property tax revenue related to registered motor vehicles for 2014-15. Using December 2013, and January, February, and March 2014 collections should give units a good feel of what they can reasonably expect to receive in collections for the 2014-15 fiscal year. Of course each unit is different and finance officers and tax collectors should use their best judgment in estimating all revenues including tax collections.

To summarize, budgeting for and estimating revenues related to registered motor vehicle property taxes for the 2014-15 fiscal year may be more difficult than usual due to the implementation of the "Tag and Tax Together" program. It is important to remember, even though collection percentage should be very close to 100%, revenue amounts may be flat or possibly even lower than previous years. It is our recommendation that units use December, 2013 and the first three or four months in 2014 to project revenues for 2014-15. In subsequent years a more complete history should be available to aid in revenue projections. For more information on this subject, please refer to the UNC School of Government blog post on this topic: http://canons.sog.unc.edu/?p=7545 or contact Eric Toney with any questions at eric.toney@nctreasurer.com or (919) 807-2397.