



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

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Memorandum #2013-16

TO: Local Government Finance Officials

FROM: Sharon Edmundson, Director, Fiscal Management Section

SUBJECT: Implementation of the New Motor Vehicle Property Tax Collection System

DATE: May 23, 2013

As most of you know, 2013 is the year we will implement the changes to our motor vehicle tax system brought about by House Bill 1779, adopted in the 2005 session of the General Assembly. This bill substantially changes the way taxpayers pay property taxes on their motor vehicles. Equally important is what it does not change. Motor vehicle taxes are still local taxes, levied by local governments that are responsible for setting their tax rates. These taxes will, under the new procedure, be accounted for by the State through the DMV State Titling and Registration System (STARS) and distributed to counties one month in arrears through the Department of Transportation (DOT) finance department. The system will go live on July 1, 2013, with invitations to renew registrations being mailed for vehicles on which the registrations are due for renewal in September 2013.

The new system, marketed to taxpayers as "Tag and Tax Together," eliminates tax collections in arrears and requires the taxpayer to pay the property tax at the time of registration, with one exception. Taxpayers purchasing a car from a dealer may opt to take up to 60 days to pay the property tax. These taxpayers will receive limited registration plates (LRPs) that will expire 60 days from the purchase date, during which time it is expected that the taxpayer will have paid the tax. These taxpayers have the option of paying the tax at the time of purchase as well, and receiving full registration plates. Taxpayers renewing registrations must pay the property tax at the time of renewal – no exceptions. Taxpayers will pay their registration renewal and property tax to the Department of Motor Vehicles (DMV) by mail, online or in person. Taxpayers paying in person will do so through a license plate agency (LPA).

The LPAs will remit funds to DMV each day, with online payments being made directly to STARS. The VTS will be updated nightly for all payments. Taxpayers may pay with

cash, check, debit or credit cards. Funds will be remitted by DMV Finance to each county on the 10th of each month for the previous month's collections. If the 10th is not a workday the distribution will occur on the next workday. It will then be up to each county to distribute the appropriate funds to each municipality in its jurisdiction. Because the new system overlaps with the old payment in arrears system, counties will need to have both the old and new systems in place until all billings and due dates for collections cycle over to the new system. It is anticipated counties should budget at least six months operating costs for the old system during fiscal year 2013-2014.

Significant administrative cost savings should occur once the new system is fully implemented. According to a study from the N.C. Department of Revenue, administrative costs under the old system are around \$2.50 per tax bill. Costs for billing and collections under the new system are expected to be \$1.69 per customer. During the 2013-2014 fiscal year, units of government should expect a one-time increase in revenue due to the additional four months of collections attributable to switching to the new system (6 months under the old system and 10 under the new). Also, it is anticipated a portion of the unused DMV interest money collected for the implementation of the new system will ultimately be sent back to the counties, although it is unclear at this time when that distribution will occur. We highly recommend that units not budget that revenue in their 2013-2014 budgets at this time. Please remember that there will be no costs deducted from the distributions for the first two distributions as the system is fully implemented.

After July 1, 2013, all interest on late registered motor vehicles tax payments will stay with the county. (Please note: counties will still have to remit register of deed fees – a separate memo with a new remittance form will be distributed before July.) Counties will have data available as to which vehicles were due to be registered or renewed but were not. Owners that renew late but still within the same registration year keep the same renewal cycle and simply pay interest on the late payment. Owners that have not renewed within the registration year fall out of the VTS and become subject to personal property listing requirements, discovery and taxation. If these taxpayers later decide to renew the registration, they will pay the tax and registration for the current year through the combined system and the delinquent tax plus interest and penalties directly to the counties through the usual property tax payment methods. DOT Fiscal will be responsible for remitting payments under the new system to the counties, and they have advised payments will be sent out once a month around the 10th of every month, but no later than the 15th. If the distribution date is not a workday, payments will be distributed on the next work day but at least by the 15th. Counties will be responsible for remitting appropriate payments to municipalities or other taxing districts. Several reports will be available to provide the information necessary to account for and record the monthly distributions. All reports will be available in .xls or .csv format. For a complete listing of all available reports along with any suggestions or ideas you have for additional or future

reports, please contact David Baker, (919) 733-7711 or david.baker@dornrc.com at the North Carolina Department of Revenue.

Accounting for Taxes Collected Through the New System:

G.S. 105-330.5(d) states that a county must include taxes on vehicles in the levy in the fiscal year in which the taxes are collected. Under the new system, there is no levy of tax on a registered motor vehicle until the tag is renewed or registered and simultaneously paid. The only exception to this is for taxes associated with LRPs, which are due 60 days from the date of issuance. Generally accepted accounting principles dictate that an asset cannot be recorded until the entity has an enforceable legal claim or until the revenue has been received. Under the Tag and Tax Together system, both of these acts occur simultaneously. Since the notice sent out to potential taxpayers is simply "an invitation to renew," no revenue or receivable should be recognized at the time of billing. The revenue should be recognized only when it is confirmed the taxpayer does wish to renew the vehicle, which will coincide with the payment of the motor vehicle tax.

Given these facts, these are our recommendations on how to account for the new process:

- Revenue should only be recorded when a vehicle is registered or renewed and the tax simultaneously paid. Please note, the only exception to this involves taxes associated with LRPs, which are discussed in detail further on in this memo.
- At fiscal year end, the only receivables associated with motor vehicle taxes will be a *due from other government* that should be recorded for the amount received in July for June collections and a taxes receivable for any amounts due as a result of LRPs.
- All collections will be remitted to the county from DOT Fiscal. The county will then be responsible for properly allocating revenues to municipalities and other taxing jurisdictions. Counties will need to enter into new inter-local agreements with their municipalities and districts if applicable regarding the allocation of costs that will be charged to the counties. The collection cost that will be charged is currently set at \$1.69 per transaction plus any applicable costs if a taxpayer made payment with a debit or credit card. Detailed reports will be available including the percentage being charged to the counties per transaction for debit and credit card payments.
- G.S. 159-13(b) (6) still limits a unit of government to budgeting no higher a collection percentage for the fiscal year's taxes than it collected in the immediately preceding fiscal year. For 2013-2014 we anticipate units will collect more than they are legally permitted to budget due to the increase we expect in motor vehicle tax collections. However, this will be a one-time occurrence as the higher percentage will be used for the 2014-2015 budget.

- Units should post their tax revenues at gross and record the expenditures separately. This will enable the unit to tie their tax revenues into their calculation of tax collection percentage. Also there has been much interest in tracking the cost of the new system and all collection costs must be recorded to enable management and statement users to evaluate the cost effectiveness of the new collection system.
- Since taxpayers purchasing a vehicle from a dealer will have the option of deferring payment of the property tax on that vehicle for 60 days, they will be issued a limited registration plate (LRP) and will receive a bill for the tax. Any of these taxes not paid at fiscal year-end should be reported as taxes receivable if material.
- G.S. 105-330.5(d) requires that motor vehicle tax revenue be recorded as revenue in the year in which it is received. GAAP requires that an asset be recorded when the revenue is received or when the government has an enforceable legal claim to the item. Both of these parameters indicate that motor vehicle tax revenue be recorded in the year of receipt, eliminating the recording of prepaid taxes for motor vehicle tax. Units that wish to track motor vehicle taxes paid in advance of the registration renewal date may do so and should be able to derive that information from the reports available in the VTS.

North Carolina Department of Revenue (NCDOR) will initially make several reports available to assist units in tracking and accounting for motor vehicle tax funding. However, NCDOR realizes this is a new process and welcomes any suggestions or ideas for future report requests. If you have any other questions, please contact Eric Toney at 919-807-2397 or via email at eric.toney@nctreasurer.com.