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**Revised Implementation of the
Motor Vehicle Registration Tax Reduction**

August 24, 2000

Motor vehicle registration tax reductions adopted by the Legislature in May 2000 became effective one month earlier than intended due to an inconsistency between existing statutes and the effective date specified for the tax reduction in the Omnibus Tax Act of 2000 (Chapter 490, Minnesota Laws of 2000). As a result, unanticipated refunds totaling up to \$13.3 million will be paid to approximately 140,000 vehicles owners whose vehicle registrations expired June 30, 2000.

Reason for Change

The budget agreement reached between legislative leaders and the Governor during the 2000 legislative session anticipated that revenue losses resulting from the motor vehicle registration tax reduction would first occur in FY 2001. Consequently, because vehicle owners typically renew registrations and pay the registration tax during the month in which the current registration will expire—i.e. during July for registrations set to expire July 31—the intent was for the tax cut to first become effective for registrations set to expire July 31, 2000.

The language developed by the Ventura Administration specified that the tax reduction become effective “for taxes first due after June 30, 2000.” Determination of the effective date was based on an assumption that vehicle registration renewal payments were due on or before the expiration of the current registration period. Based on that assumption, taxes “first due after June 30, 2000” would have applied to registrations expiring July 31, 2000, as intended by policymakers.

However, Minnesota Statute 168.31 specifies that registration taxes on passenger vehicles are due on “the first day of the month commencing the 12-month registration period.” More specifically, renewal payments for registrations expiring June 30 are first due on July 1 and renewal payments for registrations expiring July 31 are first due on August 1. As a result, the specified effective date first applied to registrations expiring June 30, 2000, rather than to registrations expiring July 31, 2000, as originally intended. It should be noted that, as specified in

Minnesota Statutes 168.09, sub. 4, while vehicle owners also have a 10-day grace period from the day the tax

is due to affix the new tabs to their license plates, the grace period is not the reason for the change in implementation of the tax cut.

State officials first became aware of the inconsistency between existing statutes and the intended effective date in early June when the Office of Attorney General received an inquiry questioning the implementation of the tab fee cut. On June 22, another constituent filed a class action lawsuit against the Commissioners of Public Safety and Revenue seeking to have the tax reduction made effective for renewal of vehicle registrations expiring June 30, 2000 and to have affected vehicle owners be reimbursed for any overpayment of tax. The lawsuit has since been dismissed following the Administration's decision, in consultation with legislative leaders, to issue refunds.

Fiscal Impact

Refunds totaling up to \$13.3 million must be issued to approximately 140,000 vehicles owners because they had already been issued renewal notices and were paying their taxes at the higher level when the inconsistency was discovered. Another 233,000 owners of vehicles for which registrations also expired June 30 will not receive refunds because their tax amount would not have decreased. The costs of administering the unanticipated rebate are expected to be absorbed by the relevant state agencies.

Refunds are expected to be issued in mid September. While most eligible taxpayers can be easily identified an estimated 5,000 refunds will require a search of paper records to ensure that the refund payment is sent to the individual that paid the tax rather than the current owner of the vehicle for those vehicles that have changed ownership since June. The refunds will increase the total cost of the tax reduction from the \$147.4 million, as estimated at the end of the 2000 legislative session, to approximately \$160.7 million. The earlier implementation will not affect cost estimates for FY 2002 and FY 2003.

The refunds will be paid out of the Highway Users Tax Distribution Fund (HUTDF), to which motor vehicle registration taxes are dedicated. However, no road or bridge projects will be affected in FY 2001 because total HUTDF revenue is now expected to exceed by more than \$13.3 million the amount forecasted when current year allocations from the HUTDF were determined. Nonetheless, since all registration tax revenues are dedicated to the HUTDF, the refunds will result in approximately \$13.3 million less for highway projects in future years unless those funds are replaced by other funding sources. Governor Ventura has indicated that he will submit a proposal to replace the lost revenue to the HUTDF with general fund revenue during the 2001 legislative session.

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