

A car tab fix is long overdue: a review of legislation that tries again to provide people with car tab relief

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Key Findings

1. As people continue to receive enormous car tab overcharges, they have asked their state and local officials for tax relief.
2. Senate Bill 5955/House Bill 2201 and Senate Bill 6303 are three bills that would provide varying degrees of car tab tax relief to the public. On balance, Senate Bill 6303 offers a stronger and more fair solution for taxpayers.
3. Senate Bill 5955/House Bill 2201 and Senate Bill 6303 allow a retroactive credit for overcharges that people paid in 2017. A retroactive credit should be a part of any car tab tax bill that seeks to bring relief to taxpayers, as tax overcharges paid to Sound Transit in 2017 remain unfair and should be returned.
4. Unlike other car tab legislation, Senate Bill 6303 would provide families with real financial relief by reducing the car tab tax rate to 0.5 percent as a part of its credit calculation. As a result, it would give taxpayers greater reprieve from high taxes, and would hold Sound Transit financially responsible for deceiving lawmakers and voters regarding the car tab increase.
5. Sound Transit officials should not be paid back by the state for any car tab tax relief provided to the public. Rewarding Sound Transit officials for overcharging taxpayers, rather than holding the agency accountable to stop dishonest taxing practices, is poor public policy and erodes public trust.
6. Sound Transit officials can provide tax relief immediately, without any legislative action, by paying off their old

Sound Move bonds now rather than in 2028.

7. Protecting families who are being unfairly taxed is more important than protecting the political and financial interests of a public transit agency.

Introduction

Sound Transit is a regional transit agency that imposes heavy taxes and builds and operates Link light rail, Sounder commuter rail, and express buses in parts of King, Pierce, and Snohomish counties. The taxes it imposes include a motor vehicle excise tax (1.1 percent), sales and use tax (1.4 percent), and property tax (\$25 per \$100,000 of assessed value).

Sound Transit officials sought and received their taxing authority from the state legislature. They then pushed for tax increases through three ballot measures: Sound Move in 1996, Sound Transit 2 in 2008, and Sound Transit 3 in 2016. The greatest increase came in 2016 with the passage of the \$54-billion Sound Transit 3 (ST3). Agency officials secured a 0.8 percent motor vehicle excise tax increase on top of their existing 0.3 percent, bringing the total tax to 1.1 percent.

When taxpayers in these three counties started receiving car tab renewals in 2017, they were shocked to find out their Sound Transit-imposed car tab tax was far higher than what officials led them to expect.

The public and lawmakers then learned that Sound Transit officials failed to inform voters that the agency collects maximum tax revenue on cars less than 10 years old by choosing to use an outdated, repealed depreciation schedule in state law from 1996. The flawed schedule inflates the value of vehicles by taking their manufacturer's suggested retail price (MSRP) rather than their fair market value, and depreciating the vehicle

at a rate that does not reflect its real value over time. As a result, the taxable amount is much larger and allows Sound Transit to collect maximum tax revenue from the public until 2028, when the 0.3 percent Sound Move car tab tax expires.

Sound Transit officials insist that they were honest with voters and lawmakers about the car tab increase, but a legislative investigation launched in late 2017 found that this was not the case.

Although several bills were proposed in 2017 to correct the unfair car tab overcharges, lawmakers were not able to come to an agreement. Lawmakers are trying to find a fix again in 2018, with legislation that tackles the tax overcharges from different angles. This Legislative Memo seeks to list some of these proposed ideas, and provide an analysis as to whether these proposals represent good or bad public policy.

Bill Summaries

There are several proposals this year in both the Senate and House of Representatives, and more may be offered during the short, 60-day 2018 Legislative Session. Below is a list of the most notable car tab tax-relief bills.

House Bill 2357, sponsored by Representative Kristine Reeves, would allow people whose motor vehicle excise tax payments are equal to or higher than \$200 to pay their car tab taxes in semiannual or quarterly payments. Those who choose to pay the high car tab overcharges in installments would have to pay an additional \$5 service fee for each payment, resulting in even higher overall car tab payments each year.¹

Senate Bill 5955, sponsored by Senator Patty Kuderer, and *House Bill 2201*, sponsored by Representative Mike Pellicciotti, would create a credit program that effectively applies the newer 2006 vehicle depreciation schedule only to the ST3 portion (0.8 percent) of the current total motor vehicle excise tax of 1.1 percent.

Senate Bill 6303, sponsored by Senator Steve O'Ban, would create a credit program that effectively assesses car tab taxes based on Kelley Blue Book or National Auto Dealers Association fair market vehicle values. Unlike House Bill 2201 and Senate Bill 5955, the calculation for the credit takes into account the full 1.1 percent Sound Transit car tab tax, rather than just the 0.8 percent that represents ST3. The program would also provide retroactive credit for tax overcharges paid in 2017.

Additionally, the bill states that Sound Transit can contract with the state Department of Licensing for the collection of car tab taxes only if Sound Transit implements this credit program.

Policy Analysis

House Bill 2357, which allows taxpayers to pay car tab taxes in installments and then charges them a \$5 service fee for each payment, actually increases the taxes people pay to Sound Transit. It does not bring relief to families and people on low or fixed incomes who are struggling to pay hundreds in new car tab overcharges. This bill represents bad policy, as it provides no relief and instead adds an additional, punitive tax burden on families who attempt to pay off an already unfair tax in smaller installments.

Senate Bill 5955/House Bill 2201 and Senate Bill 6303 are three bills that would provide varying degrees of car tab tax relief to the public. On balance, Senate Bill 6303 offers a stronger and more fair solution for taxpayers.

- Senate Bill 5955/House Bill 2201 apply the credit program only to the ST3 portion of the total motor vehicle excise tax, which is 0.8 percent. Senate Bill 6303 takes into account the full 1.1 percent car tab tax in its credit calculation. Both approaches are justifiable. Applying the credit program to the ST3 portion only (0.8 percent) makes sense, as the Sound Move portion (0.3 percent) preceded the 2006 change in the state's vehicle depreciation schedule. The dispute has largely been over the ST3 car tab increase, not Sound Move. However, taking into account the full 1.1 percent car tab tax in calculating the credit back

¹ House Bill 2357, Washington State Legislature, January 17, 2018, at <http://app.leg.wa.gov/bills/summary?BillNumber=2357&Year=2017>.

to taxpayers also makes sense, because the 1996 schedule first used by the Sound Move car tab tax severely inflates the value of vehicles and has been repealed.

- Senate Bill 5955/House Bill 2201 calculate the credit to taxpayers using the newer and more modest 2006 depreciation schedule in state law. Senate Bill 6303 calculates the credit to taxpayers using Kelley Blue Book or National Auto Dealers Association values, whichever is lower. Both approaches are justifiable, since the 2006 schedule is fairly close to Kelley Blue Book fair market values.²
- Senate Bill 5955/House Bill 2201 and Senate Bill 6303 currently allow a retroactive credit for overcharges that people paid in 2017. A retroactive credit should be a part of any car tab tax bill that seeks to bring relief to taxpayers, as car tab overcharges paid to Sound Transit in 2017 remain unfair and should be returned.
- Unlike other car tab legislation, Senate Bill 6303 has an additional provision which states that Sound Transit can contract with the state Department of Licensing for the collection of car tab taxes only if Sound Transit implements the credit program. Given that part of the credit calculation used in this program includes a reduced 0.5 percent car tab tax, the effect is two-fold. First, the bill would give taxpayers “greater reprieve” from high taxes than Senate Bill 5955/House Bill 2201.³ Second, it would prohibit Sound Transit from contracting with the Department of Licensing to collect the car tab tax unless it allows a significantly lower tax rate (0.5 percent – or a 0.6 reduction in the ST3

2 “Democrats in Olympia still wrestling with car-tab tax cut,” by David Gutman, *The Seattle Times*, January 16, 2018, at <https://www.seattletimes.com/seattle-news/transportation/despite-one-party-control-washington-legislature-still-wrestling-over-sound-transit-car-tab-taxes/>.

3 “It’s pretty clear those running Sound Transit aren’t seizing the initiative to ease the financial pain caused by a surge in its car tab fees,” by Jerry Cornfield, *Maple Valley Reporter*, May 24, 2017, at <http://www.maplevalleyreporter.com/opinion/its-pretty-clear-those-running-sound-transit-arent-seizing-the-initiative-to-ease-the-financial-pain-caused-by-a-surge-in-its-car-tab-fees/>.

portion of the car tab tax) to be used in calculating the credit to taxpayers.

Although there is debate about whether it is right to reduce a voter-approved tax increase in this calculation, it is increasingly clear that Sound Transit officials were not honest with voters about how high their proposed car tab tax increase would be.

As people continue to receive enormous car tab overcharges, they have asked their state and local officials for tax relief. Senate Bill 6303 is most responsive to this public outcry. Protecting families who are being unfairly taxed is more important than protecting the political and financial interests of a public transit agency.

Lawmakers should not reward Sound Transit officials for tax overcharges

In response to any legislative proposals that provide car tab relief to the public, Sound Transit officials say, “Any reduction of [car tab] revenues should be accompanied by offsetting measures to ensure that our transit expansion program remains whole.”⁴

Just like in 2017, Democrat floor leader Senator Marko Liias and other lawmakers are looking at different ways to give Sound Transit even more public money, should any of the mentioned bills pass into law. This includes, “giving the agency more favorable terms when it needs to lease state land for rail-line rights of way, legislation to streamline permitting, or even looking at a \$500 million fund through which Sound Transit contributes to education funding.”⁵ Rewarding Sound Transit officials for overcharging taxpayers, rather than holding the agency accountable to stop dishonest taxing practices, is poor public policy and erodes public trust.

For example, giving Sound Transit “more favorable terms” to lease state land for rail-line

4 “Democrats in Olympia still wrestling with car-tab tax cut,” by David Gutman, *The Seattle Times*, January 16, 2018, at <https://www.seattletimes.com/seattle-news/transportation/despite-one-party-control-washington-legislature-still-wrestling-over-sound-transit-car-tab-taxes/>.

5 Ibid.

rights-of-way for far less than its real value, diminishes trust in public officials and the way they manage taxpayer dollars. When taxpayers pay full price for land intended for roads, as they did with Interstate 90, this land should not be given away by the Washington State Department of Transportation (WSDOT) to a transit agency for a small percentage of what the public paid. Yet this is the agreement that WSDOT has had with Sound Transit since 2015. This is an indirect diversion of fuel tax dollars for non-highway purposes.⁶

It is equally erosive to take \$500 million in public money from an account designated for education and use it to fund transit. The Puget Sound Taxpayer Accountability Account Senator Liias referred to was created in 2015 to fund:

“...educational services to improve educational outcomes in early learning, K-12, and higher education including, but not limited to, for youths that are low-income, homeless, or in foster care, or other vulnerable populations.”⁷

Although funds go to counties in the Sound Transit taxing district, King County receives more than half of the money.⁸ Taking public money designated for vulnerable students and giving it to Sound Transit would be an inappropriate and dishonest use of taxpayer money. This is especially true as legislators consistently say that budgets should not be balanced on the backs of our most vulnerable citizens.

Sound Transit can provide car tab relief without legislative action

As we noted in 2017, Sound Transit officials can provide tax relief immediately, without any legislative action, by paying off

their old Sound Move bonds now rather than in 2028. Eliminating old debt early is called defeasance and is a provision that is built into Sound Transit’s bond contracts. Doing so would remove the 0.3 percent car tab rate and associated bond debt from Sound Transit’s books. The remaining Sound Transit 3 car tab fee of 0.8 percent would switch to the more accurate 2006 depreciation schedule in state law. Taxpayers would save an estimated \$2 billion in tax overcharges.

This solution strikes a fair balance between the credit calculations in Senate Bill 5955 and House Bill 2201, which use the newer 2006 depreciation schedule, and the credit calculation in Senate Bill 6303, which seeks greater tax relief by using a reduced car tab tax rate. This is a practical solution that works for all parties.

Instead, Sound Transit officials have said that defeasance is their “nightmare scenario” because it would cost them money.⁹ Sound Transit officials collect \$120,000 dollars per hour in tax revenue, and have identified multiple ways they can balance their budget between now and 2041, without having to defer projects. We are confident Sound Transit officials will meet their obligations to bondholders and manage any funding shortfall they foresee by being more responsible stewards of the billions in taxpayer dollars they already have.

Conclusion

Public officials’ greatest concern should be for overburdened taxpayers who are paying high, inaccurate tax bills, whether or not they use, benefit from, or will ever see Sound Transit’s finished rail project in their lifetime. Any short-term loss in tax revenue for Sound Transit is modest compared to the massive revenues agency officials expect to collect by 2041 from Sound Move, Sound Transit 2 and Sound Transit 3 (\$60.6 billion just in tax

6 “Senate Bill Report: SB 6623,” Washington State Legislature, February 8, 2016, at <http://lawfilesex.leg.wa.gov/biennium/2015-16/Pdf/Bill%20Reports/Senate/6623%20SBR%20TRAN%2016.pdf>.

7 Revised Code of Washington 43.79.520: Puget Sound taxpayer accountability account, Washington State Legislature, at <https://app.leg.wa.gov/rcw/default.aspx?cite=43.79.520>.

8 “Vote to expand light rail next year could mean \$500M for education,” by John Higgins, *The Seattle Times*, March 24, 2016, at <https://www.seattletimes.com/seattle-news/education/potential-vote-on-transit-levy-would-benefit-education/>.

9 “Sound Transit board member concerned about ‘nightmare scenario’ over car tab fee,” by Dyer Oxley, *MYNorthwest*, March 21, 2017, at <https://mynorthwest.com/577995/rob-johnson-st3-olympia-concern/>.

revenues, or \$92 billion total from all available sources).¹⁰

As families in the Puget Sound region have endured one year of tax overcharges already, an honest car tab fix is badly needed and long overdue. Senate Bill 6303 represents the best policy to accomplish this goal by providing families with real financial relief. This bill decreases the tax burden on families in the Puget Sound region, and holds Sound Transit financially responsible for deceiving lawmakers and voters regarding the car tab increase.

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¹⁰ “Central Puget Sound Regional Transit Authority: October 2017 Financial Plan,” Sound Transit, October 2017, at <https://www.soundtransit.org/sites/default/files/2017-financial-plan.pdf>.