

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT  
LEGISLATIVE RESEARCH COMMISSION  
2024 REGULAR SESSION**

**MEASURE**

2024 BR NUMBER 947

HOUSE BILL NUMBER 389

**TITLE**      AN ACT relating to motor vehicle usage tax.

**SPONSOR**    Representative Callaway

**FISCAL SUMMARY**

STATE FISCAL IMPACT:    YES    NO    UNCERTAIN

OTHER FISCAL STATEMENT(S) THAT MAY APPLY:    ACTUARIAL ANALYSIS  
 LOCAL MANDATE    CORRECTIONS IMPACT    HEALTH BENEFIT MANDATE

APPROPRIATION UNIT(S) IMPACTED: \_\_\_\_\_

FUND(S) IMPACTED:    GENERAL    ROAD    FEDERAL    RESTRICTED \_\_\_\_\_

<b>FISCAL ESTIMATES</b>	<b>2023-20234</b>	<b>2024-2025</b>	<b>2025-2026</b>	<b>ANNUAL IMPACT AT FULL IMPLEMENTATION</b>
<b>REVENUES</b>		(\$2,500,000)	(\$2,800,000)	(\$2,800,000)
<b>EXPENDITURES</b>				
<b>NET EFFECT</b>		(\$2,500,000)	(\$2,800,000)	(\$2,800,000)

( ) indicates a decrease/negative

**PURPOSE OF MEASURE:**

The purpose of HB 389 is to exempt, from motor vehicle usage tax ("MVUT"), motor vehicles sold to members of the Kentucky National Guard or Reserves from a dealer registered and licensed in compliance with KRS 186.070 and 190.010 to 190.180.

This measure also includes a new exemption from MVUT for motor vehicles brought into Kentucky that were sold or transferred by a licensed motor vehicle dealer in another state to a member of the Armed Forces on duty in Kentucky under orders from the federal government while the service member was assigned temporary duty in another state.

**FISCAL EXPLANATION:**

The taxable value of new and used vehicles, the number of new and used vehicles purchased, and how many vehicles will be purchased by National Guard members and active-duty armed forces members in Kentucky temporarily assigned to duty outside of Kentucky have been used to prepare this estimate. Estimated numbers have been rounded.

In 2023, the average price of a new vehicle was \$45,800 and a used vehicle was \$28,900. It is assumed the price of vehicles will remain the same in FY 2025 and FY 2026 as they were in 2023.

Twenty percent of all motor vehicle transactions in Kentucky will include a trade-in. Using Kentucky averages, the value of a trade-in vehicle is \$22,800 when purchasing a new vehicle and \$14,000 when purchasing used. To estimate the taxable value of vehicles for transactions including a trade-in, the difference between the average price and the average trade-in value is used. Thus, the estimated taxable value is \$23,000 for a new vehicle with a trade-in, and \$15,000 for a used vehicle with a trade-in.

To determine the potential forgone tax revenue for exempting active members of the Kentucky National Guard from Kentucky's MVUT on vehicles purchased from Kentucky motor dealers, the MVUT of six percent was applied to the taxable estimates. For transactions with no trade-in, the impact is \$2,700 for a new vehicle and \$1,700 for a used vehicle. For transactions with a trade-in, the estimated impact is \$1,400 for a new vehicle and \$900 for a used vehicle.

It is estimated that 810,000 vehicles will be sold in Kentucky in FY 2025 and FY 2026. Of those, it is estimated that 170,000 are new vehicles and 641,000 are used cars.

There are 7,500 active members of the Kentucky National Guard. 700 members are on active duty at any given time and are already exempt from the MVUT. Thus, 6,800 members may be impacted, which represents 0.19 percent of Kentucky's seventeen and older population. 0.19 percent was applied to the number of vehicles sold in Kentucky to estimate of vehicles sold to National Guard members.

The percentage of new and used sales with and without a trade-in are applied to the estimate of vehicle sales to National Guard members. Staff estimate active members will purchase: without a trade-in, 260 new and 1000 used vehicles; and, with a trade-in, 100 new and 200 used vehicles.

Using the values calculated, and applying the six percent MVUT, it is estimated that total foregone revenue in FY 2025 and FY 2026 is \$2.5 million and \$2.8 million, respectively. Because this bill becomes effective on July 1, 2024, this estimate reflects eleven months of collections in FY 2025.

To the extent that National Guard members are aware they may be placed on active duty, they may have a propensity to delay their car purchase to be exempt from the MVUT as it exists under current law. This suggests the fiscal impact of the proposed legislation may be smaller than estimated here.

**DATA SOURCE(S): Kentucky Department of Revenue; J.D. Power Valuation Services (for new cars), Edmunds Used Vehicle Report (for used cars); <https://ky.ng.mil/Home/About-the-Kentucky-National-Guard/>; LRC Economists and Appropriations and Revenue Staff**

**PREPARER: Katy Jenkins NOTE NUMBER: 79 REVIEW: JH DATE: 3/5/2024**