STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
DF-46 (REV 10/20)

Fiscal Year	Business Unit	Department	Priority No.
2021-2022	7600	California Department of Tax and Fee Administration	1

Budget Request Name	Program	Subprogram
7600-041-BCP-2021-MR	Sales and Use Tax Program	N/A

Budget Request Description
Used Motor Vehicle Sales Tax Gap

Budget Request Summary
The California Department of Tax and Fee Administration (CDTFA) requests $5,889,000 General Fund in fiscal year 2021-22 to reimburse the Department of Motor Vehicles (DMV) for the costs associated with the passage of Chapter 8 of the Statutes of 2020 (AB 85) and Chapter 14 of the Statutes of 2020 (AB 82). Of the $5,889,000, $4.4 million is for IT development costs and $1.5 million is for administrative costs. Of the $5,889,000, $3.75 million is for DMV Reimbursement authority for the costs associated with the design of the IT project and administration of the program. Provisional language is being requested to provide the remaining $2.15 million contingent upon approval of the IT project, by the Department of Finance (DOF), and the Joint Legislative Budget Committee (JLBC). The DMV will be responsible for the collection of sales taxes on retail sales of used motor vehicles on behalf of the CDTFA.

Requires Legislation	Code Section(s) to be Added/Amended/Repealed
☐ Yes ☒ No	Click or tap here to enter text.

Does this BCP contain information technology (IT) components?	Department CIO	Date
☒ Yes ☐ No	Click or tap here to enter text.	Click or tap to enter a date.

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No. Click or tap here to enter text. **Project Approval Document:** Click or tap here to enter text.

Approval Date: Click or tap to enter a date.

If proposal affects another department, does other department concur with proposal? ☒ Yes ☐ No

Chief Financial Officer	Date	Chief Deputy Director	Date
Click or tap here to enter text.	Click or tap to enter a date.	Click or tap here to enter text.	Click or tap to enter a date.
Department Director	**Date**	**Agency Secretary**	**Date**
Click or tap here to enter text.	Click or tap to enter a date.	Click or tap here to enter text.	Click or tap to enter a date.

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ Dept. of Technology

PPBA	Date submitted to the Legislature
Click or tap here to enter text.	Click or tap to enter a date.

Analysis of Problem

A. Budget Request Summary

The California Department of Tax and Fee Administration (CDTFA) requests $5,889,000 General Fund in fiscal year 2021-22 to reimburse the Department of Motor Vehicles (DMV) for the costs associated with the passage of Chapter 8 of the Statutes of 2020 (AB 85) and Chapter 14 of the Statutes of 2020 (AB 82). Of the $5,889,000, $4.4 million is for IT development costs and $1.5 million is for administrative costs. Of the $5,889,000, $3.75 million is for DMV Reimbursement authority for the costs associated with the design of the IT solution and administration of the program. Provisional language is being requested to provide the remaining $2.15 million contingent upon approval of the IT project, by the Department of Finance (DOF), and the Joint Legislative Budget Committee (JLBC). The DMV will be responsible for the collection of sales taxes on retail sales of used motor vehicles on behalf of the CDTFA.

B. Background/History

AB 85 and AB 82 require that, beginning January 1, 2021, used car dealers pay sales tax upon registration of a vehicle to the DMV for any vehicle sold at retail by a licensed dealer. This new law was passed to close the sales tax gap on underreported sales tax on retail sales of used motor vehicles. The DMV will be implementing the new payment requirement in multiple phases over the next few years through January 1, 2023. The first group of affected motor vehicle dealers began paying the sales tax to the DMV beginning January 1, 2021.

The CDTFA and the DMV have partnered as prescribed by AB 85 and AB 82. Used car motor vehicle dealers affected by this new law will be required to pay the sales tax directly to the DMV upon registering a motor vehicle. This will increase the likelihood that the sales tax will be paid since used motor vehicle dealers are required to register motor vehicles associated with their in-state retail sales. The DMV will provide reports indicating which vehicles have unpaid sales tax so that the CDTFA can issue department assessed billings.

Voluntary compliance is the most effective and efficient method of collecting tax. Since used motor vehicle dealers already provide complete data to the DMV when registering a used motor vehicle, this new law should increase sales tax payments made by these dealers.

Used Motor Vehicle Dealers

Under existing law, motor vehicle dealers are required to register for a seller's permit to report and pay the sales and use tax due on their vehicles sales. Upon the sale of a vehicle, a motor vehicle dealer must submit a completed Report of Sale (ROS), registration documentation, and fees to the DMV. Motor vehicle dealers must transmit the ROS and registration fees to the DMV electronically. The completion and submission of the ROS assumes the applicable sales tax was collected. Motor vehicle dealers currently are required to report and remit the sales tax, according to their filing frequency, to the CDTFA on their sales and use tax return.

CDTFA and DMV Partnership

<u>CDTFA and DMV Workgroup:</u>

The CDTFA carefully examines vehicle sales due to the high dollar value of each transaction. In 2010, the DMV and the CDTFA formed a workgroup to address the sales tax gap created by the vehicle resale industry. At the time, about one-third of the businesses on the CDTFA's top 250 list of sales and use tax delinquencies were auto dealers and related businesses. That workgroup increased data sharing and proposed successful legislation requiring auto auctioneers and dismantlers without a DMV dealer's license to collect tax on sales to individuals.

Private Party Sales:

The CDTFA contracts with the DMV to collect applicable use tax from vehicle purchasers on private party sales. Use tax is measured by the vehicle's selling price sold by the private party seller. Vehicle purchasers must report and pay the use tax to the DMV at the same time they register the vehicle.

Each business day, the DMV prepares and transmits to the CDTFA a Use Tax Collection Report and Transaction Request for use tax and fees collected the prior business day pursuant to an interagency contract. Additionally, the DMV transmits the completed Transaction Request Report each business day to the State Controller's Office, which utilizes the report to remit use tax collected from the DMV to the appropriate ledgers.

Resource History

Since the collection requirement for the DMV for use taxes on private party sales administered by the CDTFA are similar to the requirements described in AB 85 and AB 82, the tables below reflect data for private party sales for informational purposes only.

Resource History

Program Budget	**15-16**	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
Revenues	$606.9 M	$605.6 M	$638.9 M	$683.7 M	$605.1 M	N/A
Authorized Expenditures to Reimburse the DMV for Collection of Use tax for Private party Sales	$7,084,000	$6,559,000	$6,320,000	$6,632,000	$6,825,000	$7,103,000
Actual Expenditures to Reimburse the DMV for Collection of Use tax for Private party Sales	$5,849,000	$5,913,000	$5,925,000	$6,174,000	$5,373,000	N/A

Workload History

Workload Measure	**15-16**	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
Number of Transactions Processed by the DMV on behalf of the CDTFA for Private Party Sales	2,232,426	2,231,400	2,227,311	2,183,893	1,884,491	N/A

C. State Level Consideration

The CDTFA collects taxes, fees, and surcharges that provide over 30 percent of the annual revenue for state government and essential funding for counties, cities, and special taxing districts. In 2018-19, the CDTFA administered taxes and fees that produced over $73 billion for education, public safety, transportation, housing, health services, social services, and natural resource management. The CDTFA administers the state's sales and use, fuel, alcohol, tobacco, and other taxes and fees that fund specific programs. More than one million businesses are registered with the department. This proposal is consistent with the CDTFA's mission to make life better for Californians by fairly and efficiently collecting the revenue that supports our essential public services. Specifically, this proposal provides the resources for the CDTFA to administer the Sales and Use Tax program in conjunction with the DMV, who will be responsible for the collection of sales taxes on retail sales of used motor vehicles. This proposal is consistent with, and supports, the CDTFA's strategic plan by modernizing tax collections, improving taxpayer services, and supporting our team.

D. Justification

To increase compliance among this industry, AB 85 and AB 82 were passed to require used motor vehicle dealers to pay sales tax on their retail sales of vehicles at the same time they submit a vehicle registration application. The CDTFA and the DMV are required by law to partner to collect and administer the sales tax for used motor vehicle dealers, decreasing the sales tax gap.

To ensure maximum revenue is received, and to comply with the mandates of AB 85 and AB 82, the CDTFA must have the cooperation and mutual assistance in the collection of sales tax on the retail sales of used motor vehicles by the DMV. The CDTFA will reimburse the DMV for its programming costs to implement this new law beginning in fiscal year 2020-21 through 2021-22. CDTFA will pay a fee of $3 per transaction in 2020-21 and 2021-22 for the administration of collecting sales tax. The funding will ensure the CDTFA is able to administer the sales taxes for used motor vehicle dealers as prescribed by the new laws and will reduce illegal activities, such as the underreporting of sales tax and seller's operating without valid permits/licenses.

The CDTFA will assist the DMV as it prepares to collect sales tax for the used motor vehicle dealer industry. The CDTFA will collect additional data from used motor vehicle dealers such as sales transaction details and dealer license numbers, make return changes, and prepare reconciliations between the CDTFA and the DMV data to issue department assessed billings for underreported amounts. The CDTFA will be responsible for outreach to the used motor vehicle dealer industry and continuous monitoring of affected sales and use tax account holders to ensure maximum compliance is reached.

The CDTFA requests $5,889,000 in FY 2021-22 to reimburse the DMV to develop and implement an information technology (IT) solution ($4.4 million) to collect use tax from used motor vehicle dealers and for the costs of administering this program ($1.5 million). Additionally, provisional language is being requested making $2.15 million of the $4.4 million requested for the IT solution, contingent upon submittal and approval of the appropriate Project Lifecycle documents by Finance and the Department of Technology, and after appropriate JLBC notification. The DMV is requesting $3.75 million in Reimbursement authority for the costs associated with the design of the IT solution and the administration of the program. The DMV will conduct an industry assessment of used motor vehicle dealers and other program stakeholders to develop and design the automated use tax collection process to ensure that the sales tax collection process is effective and efficient for all impacted parties. The requested resources include one-time staff and consultant costs to develop business

requirements, perform project management duties, implement ROS System enhancements, and other automation efforts to meet the business requirements developed by the program stakeholders. The requested resources also include administration of this program and the additional workload associated with the collection of use tax from approximately 2,500 used motor vehicle dealers that submit 497,000 transactions annually to the DMV.

Without funding to reimburse the DMV for its costs, the CDTFA will not be able to successfully implement this new law. These efforts will help address the sales tax gap known in the used motor vehicle dealer industry and will result in an increase in sales tax revenue.

E. Outcomes and Accountability

As more used motor vehicle dealers are informed of the new requirements and are brought into compliance by the CDTFA or the DMV by maintaining a valid seller's permit, dealer's license, or paying past due sales taxes, revenues are expected to increase in the following years of the implementation of this new law.

This proposal addresses the sales tax gap for the used motor vehicle dealer industry. The outcomes will be measured by increases in sales tax revenue generated by businesses, revenue generated from audit assessments, department assessments, and decreased accounts receivable.

Projected Outcomes

Increased Revenues Due to Closing Used Motor Vehicle Sales Tax Gap	**20-21**	**21-22**	**22-23**
Tax dollars[1]	$12 million*	$24 million	$24 million

*Projected for six months (January 1, 2021 through June 30, 2021).

F. Analysis of All Feasible Alternatives

Alternative 1: Provide the $5,889,000 General Fund to CDTFA, and $3.75 million in Reimbursement authority to DMV in 2021-22 to reimburse the DMV for its programming costs and transactional administration fees on each retail sale processed as required by AB 85 and AB 82.

Pros:

- Allows the CDTFA to assess costs of this program to better determine the actual funding needs on an ongoing basis.
- Provides the resources for the CDTFA to implement, administer, and enforce compliance of this new law.
- Recognizes revenues for this new law implementation.
- Provides enforcement of the requirements of this new law by addressing underreporting to the CDTFA or the DMV of sales tax on retail sales of used motor vehicles.

Cons:

- Requires future BCP.

[1] The projected amounts assume all used motor vehicle dealers comply with the mandates of AB 85/82 beginning on January 1, 2021.

Alternative 2: In lieu of providing resources directly to the CDTFA, provide a direct appropriation to the DMV in 2021-22.

Pros:

- Eliminates administrative oversight and billings made by the DMV.
- Ensures funding meets the DMV's needs in 2021-22.
- Allows the CDTFA to meet legislative mandates.

Cons:

- May require a trailer bill.
- Requires a future BCP.

G. Implementation Plan

The following table details the full implementation of this program:

Description	Date
Partner with the DMV to ensure the DMV computer system is ready to collect sales tax beginning January 1, 2021	July 2020 (ongoing)
Submit CDTFA programming requests and sales and use tax return changes	September 2020
Develop and mail industry notifications	October 2020
Handle taxpayer inquires received by phone, mail, and email	October 2020 (ongoing)
Update webpages and publications	November 2020
Provide internal operations instructions to CDTFA team members on handling accounts required to pay sales tax to the DMV	January 2021
Implement new program	February 2021 (ongoing)

H. Supplemental Information

None.

I. Recommendation

Alternative 1 is recommended to implement the new laws prescribed by AB 85 and AB 82.

Provide the $5,889,000 General Fund in 2021-22 to CDTFA, and $3.75 million in Reimbursement authority to DMV to reimburse the DMV for its programming costs and transactional administration fees on each retail sale processed. Also, approve provisional language making $2.15 million of the $4.4 million requested for the IT solution, contingent upon submittal and approval of the appropriate Project Lifecycle documents by Finance and the Department of Technology, and after appropriate JLBC notification.

BCP Fiscal Detail Sheet

BCP Title: Used Motor Vehicle Sales Tax Gap

BR Name: 7600-041-BCP-2021-MR

Budget Request Summary

Operating Expenses and Equipment

Operating Expenses and Equipment	FY21 Current Year	FY21 Budget Year	FY21 BY+1	FY21 BY+2	FY21 BY+3	FY21 BY+4
5340 - Consulting and Professional Services - Interdepartmental	0	5,889	0	0	0	0
Total Operating Expenses and Equipment	**$0**	**$5,889**	**$0**	**$0**	**$0**	**$0**

Total Budget Request

Total Budget Request	FY21 Current Year	FY21 Budget Year	FY21 BY+1	FY21 BY+2	FY21 BY+3	FY21 BY+4
Total Budget Request	**$0**	**$5,889**	**$0**	**$0**	**$0**	**$0**

Fund Summary

Fund Source

Fund Source	FY21 Current Year	FY21 Budget Year	FY21 BY+1	FY21 BY+2	FY21 BY+3	FY21 BY+4
State Operations - 0001 - General Fund	0	5,889	0	0	0	0
Total State Operations Expenditures	**$0**	**$5,889**	**$0**	**$0**	**$0**	**$0**
Total All Funds	**$0**	**$5,889**	**$0**	**$0**	**$0**	**$0**

Program Summary

Program Funding

Program Funding	FY21 Current Year	FY21 Budget Year	FY21 BY+1	FY21 BY+2	FY21 BY+3	FY21 BY+4
6275100 - Sales and Use Tax Program	0	5,889	0	0	0	0
Total All Programs	**$0**	**$5,889**	**$0**	**$0**	**$0**	**$0**

BCP Fiscal Detail Sheet

BCP Title: Used Motor Vehicle Sales Tax Gap **BR Name: 2740-077-BCP-2021-MR**

Budget Request Summary

	FY21					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Salaries and Wages						
Earnings - Temporary Help	0	628	0	0	0	0
Total Salaries and Wages	**$0**	**$628**	**$0**	**$0**	**$0**	**$0**
Total Staff Benefits	0	302	0	0	0	0
Total Personal Services	**$0**	**$930**	**$0**	**$0**	**$0**	**$0**
Operating Expenses and Equipment						
5340 - Consulting and Professional Services - External	0	1,025	0	0	0	0
5340 - Consulting and Professional Services - Interdepartmental	0	1,795	0	0	0	0
Total Operating Expenses and Equipment	**$0**	**$2,820**	**$0**	**$0**	**$0**	**$0**
Total Budget Request	**$0**	**$3,750**	**$0**	**$0**	**$0**	**$0**

Fund Summary

Fund Source - State Operations						
0995 - Reimbursements	0	3,750	0	0	0	0
Total State Operations Expenditures	**$0**	**$3,750**	**$0**	**$0**	**$0**	**$0**
Total All Funds	**$0**	**$3,750**	**$0**	**$0**	**$0**	**$0**

Program Summary

Program Funding						
2130 - Vehicle/Vessel Identification and Compliance	0	3,750	0	0	0	0
Total All Programs	**$0**	**$3,750**	**$0**	**$0**	**$0**	**$0**

BCP Title: Used Motor Vehicle Sales Tax Gap **BR Name: 2740-077-BCP-2021-MR**

Personal Services Details

Salaries and Wages	CY	BY	BY+1	BY+2	BY+3	BY+4
TH00 - Temporary Help	0	628	0	0	0	0
Total Salaries and Wages	**$0**	**$628**	**$0**	**$0**	**$0**	**$0**
Staff Benefits						
5150150 - Dental Insurance	0	3	0	0	0	0
5150200 - Disability Leave - Industrial	0	1	0	0	0	0
5150350 - Health Insurance	0	61	0	0	0	0
5150450 - Medicare Taxation	0	7	0	0	0	0
5150500 - OASDI	0	29	0	0	0	0
5150600 - Retirement - General	0	139	0	0	0	0
5150700 - Unemployment Insurance	0	1	0	0	0	0
5150750 - Vision Care	0	1	0	0	0	0
5150800 - Workers' Compensation	0	19	0	0	0	0
5150820 - Other Post-Employment Benefits (OPEB) Employer Contributions	0	11	0	0	0	0
5150900 - Staff Benefits - Other	0	30	0	0	0	0
Total Staff Benefits	**$0**	**$302**	**$0**	**$0**	**$0**	**$0**
Total Personal Services	**$0**	**$930**	**$0**	**$0**	**$0**	**$0**