**2021 SENATE TRANSPORTATION** 

SB 2312

#### 2021 SENATE STANDING COMMITTEE MINUTES

#### **Transportation Committee**

Fort Totten Room, State Capitol

SB 2312 2/4/2021 AM

A BILL for an Act to create and enact a new section to chapter 57-40.3 of the North Dakota Century Code, relating to motor vehicle purchase price adjustments; to amend and reenact subsection 5 of section 57-40.3-01 of the North Dakota Century Code, relating to the purchase price of a motor vehicle; and to provide an effective date.

**Chair Clemens** calls the meeting to order. Present are Chair Clemens, Vice Chair Fors, Senators Bakke, Conley, Dwyer, D. Larsen. [9:00]

#### **Discussion Topics:**

- Excise tax on motor vehicles
- Purchasing outright vs. purchasing from a dealership

**Senator Heckaman [9:01]** presents the bill, testifies in favor and submits testimony #5252.

**Senator Heckaman [9:07]** reads testimony written by her constituent, **Diane Rosenberg**, of New Rockford, ND. She testifies in favor and submits testimony #5414.

**Matthew C. Larsgaard [9:30]**, President and CEO of the Automobile Dealers Association of ND, testifies in opposition and submits testimony #5458.

**Jennifer Blumhagen [9:59]**, Motor Vehicle Division Director for the ND Department of Transportation, offers neutral testimony and submits testimony #5285.

Chair Clemens adjourns the public hearing. [10:05]

Committee work on SB 2312 commences. [10:34]

Chair Clemens adjourns the meeting. [10:41]

Sheldon Wolf, Committee Clerk

SB 2312

Senator Joan Heckaman

Chairman and Members of the Committee: I am State Senator Joan Heckaman from District 23 and I am here this morning to introduce SB 2312 to you.

This bill is at the request of a constituent and she will be providing testimony to you, too.

This bill came about when she/husband purchased a new semi. In the process of negotiating, the dealership offered them much less than they estimated the trade in to be. They ended up selling the previous semi for significantly more than the dealership offered.

In the end, when they came to complete the registration and licensing of the new semi, they found they could not deduct the price of the vehicle they sold outright and ended up paying excise tax on the full amount of the new vehicle.

This bill is here to provide that they could provide supporting documentation that the trade-in had indeed been sold and deduct that selling price from the price of the new vehicle for taxing purposes.

Another side note I discovered is that there is a way this could have been done by the dealership with something called an "in/out" transaction. But no one made them aware of this option. An in/out seems to work through the dealership where documents are completed to do exactly what this bill intends to do.

There may be a way to amend this bill to state that dealerships must disclose the in/out option to purchasers, but I would imagine that dealerships will oppose this because it will decrease their used inventory. But if this option is a current practice or in current law, then why doesn't the dealership give notice to the customer about this option? Just something to think about.

You will notice there is a fiscal note attached. For your information, this seems to indicate that the customers in our state are paying \$35million more in excise tax than they should. Just something to think about.

That completes my testimony and I would stand for any questions but note that Mrs. Rosenberg has testimony for this bill.

Dale and Diane Rosenberg 7397-13<sup>th</sup> St. NE New Rockford, ND 58356

Cell: 701-652-5724

Email: drosenberg@gondtc.com

RE: SB2312

Good morning to everyone.

I would like to talk to you about SB2312, relating to the purchase price of a motor vehicle; and to provide an effective date.

We need SB2312 passed.

Dale and I are both self-employed small business owners. Dale has owned his own trucking business since 1998. I have owned my own Licensed Broker of Transportation business since 2000. We have bought and sold many trucks, trailers, and vehicles since then. This past November 2020, we decided to upgrade our present semi-truck to a newer truck. We purchased a 2016 Peterbilt with the purchase price of \$89,400.00 at Allstate Peterbilt in Fargo, ND. We wanted to trade in our 2011 International Lonestar until the dealership offered us a trade-in of \$10,000.00. We were shocked. We purchased this 2011 truck from a dealership 5 years ago for \$79,900.00. Obviously, we could not take such a large loss as offered. We then advertised the 2011 Lonestar ourselves and sold it to a private party for \$35,000.00. Which was still less than we had hoped for. We take pride in our equipment and always keep up on everything, so this was not a rundown truck.

We purchased the 2016 Peterbilt on November 12, 2020 and sold the 2011 Lonestar on the same day November 12, 2020. When we contacted the Prorate Department of the ND Motor Vehicle to get it licensed, we were told that the cost of the sales tax would be \$4470.00, but with our prorate credit we would owe a tax of \$4061.98 plus title fees, etc. ending with a cost of \$4162.98. We did not qualify for a tax break even if we bought and sold our truck the same day because we did not trade this truck in at the dealership.

Dealerships have a trade-in price, and it is usually always based on book value and condition of the vehicle offered for trade-in, so they can make a profit.

If we would have traded our truck in for \$10,000.00, we would owe a sales tax of \$3970.00 with a tax savings of \$500.00. But taken a \$25,000.00 loss, if we would not have sold it privately.

If we could have used the \$35,000.00 less the \$89400.00 = \$54,400.00 we could have owed a tax of \$2720.00. This would have given us a savings of around \$1750.00 before prorating credits and other fees.

We have had a tough year with the COVID and less trucking, so our income was a lot less than in previous years, this would have been a great savings to us financially. We feel that whether we traded a truck or vehicle in at a dealership or sold our truck privately, we should get the same tax breaks. There should also be an allowed time of 3 to 6 months, or more, to buy and sell equipment or any licensed vehicle to qualify for a sales tax break, as most often it is hard to find good used vehicles.

When we bought the 2011 Lonestar we paid the sales tax on the purchase price, so we have already paid the taxes. It is like we are being taxed on it again when we sell it.

In the past 20 years of owning our own trucking business we have purchased and sold many trucks, vehicles, and trailers. The cost savings would have been helpful in making a profit for our small business.

We need SB2312 passed, not only for ourselves, but for all North Dakota residents. It would help personally and for all small business owners.

Thank you for your time and for allowing me the opportunity to speak and tell my story.

Diane Rosenberg

# Senate Bill 2312 Testimony before Senate Transportation Committee Matthew C. Larsgaard, MBA Automobile Dealers Association of North Dakota February 4, 2021

2/1/21

Mr. Chairman and members of the committee, my name is Matthew Larsgaard, and I am appearing in <u>opposition</u> to SB 2312 on behalf of the Automobile Dealers Association of North Dakota that consists of our state's franchised new car dealers.

This bill provides a "replacement motor vehicle" excise tax credit to an individual who sells a vehicle to either a dealer or an individual in a private sale. The credit must be claimed by the purchaser of the replacement vehicle within three years of the date of sale.

We have several concerns and questions regarding this legislation.

Consumer Protection – Motor vehicle dealers are highly regulated by the government and must comply with many consumer protection laws <regulatory maze handout>; private sale transactions are not subject to those same regulations. SB 2312 incents individuals to sell their vehicles privately, which exposes consumer purchasers to many risks, such as fraud, misrepresented vehicles, overestimated prices, etc. These are just a few examples of why the consumer protection laws exist. Again, private sale transactions are not subject to these consumer protection laws. In addition, vehicle manufacturers adamantly require dealers to meet specific customer satisfaction goals which further compel dealers to ensure all customers are well treated and are taken care of.

Child Support – Child Support Enforcement automatically places a lien on a motor vehicle owned by an individual who is past-due on their child support obligation. Every time an individual trades a vehicle in to a North Dakota dealer, the dealer is required, by law to identify whether there is a child support lien on that vehicle. If there is a lien, the dealer must pull the amount of the child support obligation out of the vehicle deal and send that money to Child Support Enforcement. It is very important to understand that the child support lien is not effective in private sales unless the lien is marked on the title, which is extremely rare, or the buyer is aware of the lien, which is also rare. Without a doubt, this bill will further motivate individuals to sell their vehicles in a private sale and attempt to avoid paying their past-due child support.

**Tax Fraud** – Although there is a penalty for misrepresentation, the bill does not appear to provide a sound method to validate the purchase price or date of purchase, and thereby avoid tax fraud. On page 4, lines 1-2 the bill requires "[t]he purchaser of the vehicle being replaced shall provide the seller a copy of the *motor vehicle purchaser's certificate* required under section 57-40.3-05." This "certificate" is embedded within SFN 2872, which is an Application for Certificate of Title....not a bill of sale.

We also have several unanswered questions: is there a requirement to have a notary or third party authenticate the purchase price and date of sale? How would it be confirmed that a vehicle was even sold in the first place? How do you police an individual from using multiple copies of the same certificate throughout the three year period? What happens if the holder of the "certificate" claims that three years ago the vehicle was sold to someone who lives in California and now that someone cannot be found? What if the VIN was written down in error or a handwritten VIN is illegible and it cannot be confirmed that a vehicle was actually sold?

**Lost Tax Revenue** – SB 2312 will result in decreased motor vehicle excise tax collections. <*See handouts regarding potential fiscal effects*>

There is already a partial solution to what this bill intends to accomplish. "In and Out" or "Paper Trade" are common terms in the retail motor vehicle industry for people who may want to purchase vehicles from a dealer, yet they want to sell their trade-in privately or to someone else *through the dealer*. Instead of selling directly to the third party, the dealer purchases the trade-in and immediately sells it to the third party at cost with zero fees. The benefit for the consumer is that they will be able to realize a tax credit on the trade-in. The benefit for the dealer is that they will sell a vehicle from their inventory. The benefit for the state is that the dealer fills out the true value of the private sale/trade, which allows the state to collect the proper amount of tax and past-due child support if applicable.

Mr. Chairman, due to the negative aspects and unknown consequences of SB 2312, we respectfully suggest a DO NOT PASS on this legislation. We believe that a greater understanding of the implications of this bill need to be established first....before passage.

SB 2299, introduced by Senator Vedaa, proposes to study the desirability and feasibility of providing a motor vehicle excise tax credit for the private sale of the vehicle being replaced which is exactly what this bill, SB 2312, is contemplating. This study should reveal answers to the many questions and concerns that we have presented today. Thank you Mr. Chairman.

Matthew C. Larsgaard, MBA President/CEO Automobile Dealers Association of North Dakota

## APPLICATION FOR CERTIFICATE OF TITLE & REGISTRATION OF A VEHICLE

North Dakota Department of Transportation, Motor Vehicle SFN 2872 (7-2019)

MOTOR VEHICLE DIVISION ND DEPT OF TRANSPORTATION 608 E BOULEVARD AVE BISMARCK ND 58505-0780 Telephone (701) 328-2725 Website: https://dot.nd.gov

I. This	Application	is for:	

(Check only one) SEE INSTRU  Title Process Vehicle Registration Registration Change - Rea Utility Trailer License \$5	CTIONS	ON REVE	RSE SIDE				Duplicate plates, t Duplicate tabs & r Duplicate registra	abs & req egistratio tion card	gistration card n card only		tolen, mutilated)\$5.00\$3.00\$2.00\$5.00
Permanent Trailer Plate - Check one: Farm Semi							T SEND C		\$5.00		
II. Applicant Information	n										
Applicant's Legal Name Individual (first, middle, last)	□В	usiness 🗌	Lessor	☐ Tru	st 🗌 Govt	i.	☐ Driver's Lic	ense	FEIN	Telep	phone Number
Mailing Address		>		City			State	ZIP Cod	le	Coun	nty
Co-Applicant's Legal Name  Individual (first, middle, last) Business Lessee Trust Gov				st 🗌 Govt		☐ Driver's License ☐ FEIN			Telep	phone Number	
Mailing Address				City		State ZIP Code		e	County		
	Must Check One (If Co-Applicant is included on application)  Or And And/Joint Tenants with Right of Survivorship  Vehicle is Leased										
							North Dakota	Title Nu	mber		
III. Vehicle Information											
Year Make					Model				Body Style		
Vehicle Identification Number					Fuel Type	□ Plug-	In Hybrid ☐ Ot	her		Color	
Weight	Previo	us Weight		Moto			ND License Pla		er	Credi	t Plate Number
Date 1st used on ND Highways ATV/UTV Only ☐Straddle ☐ Side by Side			Odor	neter Readi	- '- '- '- '- '- '- '- '- '- '- '- '- '-			.imits ☐ Not Actual			
IV. Motor Vehicle Purchase						V. Deale	er and Lienhol			iai iicai L	
Full Purchase Price (less Rebat	e)					Date Acc				0	☐ New Vehicle
Less Trade-In Allowance						Bate Act	quireu		Check	One	Used Vehicle
Less Total Loss Allowance				Acquired From ND Dealer No.							
Difference / Subtotal											
	ax (5% of Difference / Subtotal) First Lienholder										
Title Fee	Abandoned Vehicle Disposal Fee (\$1.50)  itle Fee (\$5.00)  Mailing Address										
Vehicle License Fee											
SRP		(\$25.00)				City			State		ZIP Code
License Plate Credit Amount						VI DENA	I TV: Any norson	makina	omy folia a stat		- 41-1 P - 0 - 6
Plate or Credit Transfer Fee (\$5.00)				VI. PENALTY: Any person making any false statement on this application for license or title for which another penalty is not specifically provided is guilty of a							
Branch Fee						class B misdemeanor.					
Duplicate Plate Fee		(\$5.00)				NDCC Chapters 39-04 and 39-05. Applicant certifies this vehicle will be insured as required by law. The applicant, under penalties of law and as rightful owner					
TOTAL FEES DUE: DO NOT SEND CASH				of the vehicle described on this application declares that the information set							
Year and Make of Trade-In				forth is correct.  If vehicle is company owned, company name and title of authorized agent							
VIN of Trade-In	<i>(</i>					NDCC Ch	e application mu: napter 57-40.3-08	st be note 3. Submit	ed. ting this appli	cation pi	resumes this vehicle is
Tax Exempt	(see ins	tructions on	reverse)			being driv	en on North Dak	ota street	s and highwa	ys.	
4======================================			***			Signature	)				Date
ATTENTION TRUCK OWNERS I declare, with my signature on tl Federal or State Motor Carrier al	nis applic	cation that I	am knowl	edgeal	ole of the	Business	Name (If applica	ble)			

VII. Tax Exemption NDCC 57-40.3							
(CONTINUATION OF MOTOR VEHICLE PURCHASER'S CERTI	FICATE)						
If vehicle is exempt from tax, enter number corresponding to exem							
1. Gift from: ☐Spouse ☐Parent(s) ☐Child ☐Sibling(s) ☐Grandparent(s) ☐Grandchild	13. Tribal (SFN 18085 required)						
Gift to (Specify relationship between ALL NEW owners)	14. Disabled American Veteran or Former Prisoner of War - Letter of						
Joint Tenants with Right of Survivorship and now vehicle is being put in	Eligibility from the Department of Veteran's Affairs is required						
one name only	15. Nonprofit senior citizens' or mobility impaired persons' corporation owned vehicle used for the transportation of the elderly or disabled						
3. Inheritance	16. Mobility impaired person(s) purchasing specially equipped vehicle						
4. Change of name by: ☐ Marriage ☐ Adoption ☐ Court Order	17. Homemade vehicles						
5. Vehicle acquired through a lease purchase agreement (Check one)	18. Newly formed Partnership Corporation (Check One)						
A. If tax was paid on the total lease consideration, tax is due on the	Date formed:						
lease buyout amount.	19. Dissolved Partnership Corporation (Check One)						
B. If tax was paid on the full purchase price and you have been in	Date dissolved:						
possession of the vehicle over one year, no tax is due.	20. Parochial or private non-profit school buses						
☐ C. If tax was paid on the full purchase price and you have been in possession of the vehicle for less than one year, tax is due on the							
lease buyout amount.	21. Assembled vehicles by motor vehicle dealer (SFN 21859 required)						
6. State Fleet	22. Transfer into family trust						
7. Lien change CURRENT ODOMETER READING	23. Military home of record: Entry Discharge (SFN 17147 required)						
8. Interstate carriers Account Number:	24. Mobile Home (SFN 3004 required) or Manufactured Home (SFN 53658 required)						
Tax paid to state that grants reciprocity to North Dakota (Proof required)	25. North Dakota political subdivisions						
10. Public Transportation provided under contract with NDDOT	26. Repossession (SFN 2880 required)						
11. Dealer resale - USED vehicle	27. Non-resident military lease						
12. Dealer resale - NEW vehicle	28. Total loss settlement or Salvaged						
12. Dealer resale - NEVV Verlicie	29. Other - Specify						
VIII. Damage Disclosure NDCC 39-05-17.2	-p-swy						
The damage disclosure law includes passenger cars, trucks, less than nine years old. It EXCLUDES all trailers, off-highway Statement (SFN 18609) must be completed. Motor vehicle body certificate of title on vehicles less than nine (9) model years old.  If applicable, please submit SFN 18609 Damage Disclosure S	tatement with this application.						
Any person who makes a false statement on this form is guilty of a Class A Misdemeanor.							
Instructions:							
SECTION NO.							
I. Check the type of application you are submitting (check only	one).						
II. Complete applicant information in <b>FULL</b> for each owner							
III. Complete ALL applicable vehicle information. Odometer reading required on all vehicles 10 years old and newer							
11. Complete ALL applicable purchaser's certificate information.							
<ul> <li>Abandoned vehicle disposal fee of \$1.50 is due on all n motorhomes when first titled in North Dakota.</li> <li>Title fee is \$5.00.</li> </ul>	ew and out-of-state passengers, trucks, buses, and						
Enter license fee and pay applicable plate credit using the appropriate fee schedule.							
• If applying plate credit, enter \$5.00 plate transfer fee							
If a trade allowance, year, make, and VIN are required							
<ul> <li>Enter the appropriate tax exemption number if an exemption for tax is claimed (see tax exemptions Section VII)</li> </ul>							
v. Complete <b>ALL</b> applicable dealer and lienholder information. If	needing to add a second liepholder complete						
SFN 2475 Part 3: Purchaser's Certification and Application to	include all lienholders.						

- VI. Application must be signed with applicant's legal signature and dated. VII. Applicable tax exemptions.
- VIII. Damage Disclosure statement SFN 18609 must be completed for all vehicles less than nine (9) model years old.

#### **Matthew Larsgaard**

om:

Fleming, James C. <jfleming@nd.gov>

To:

Tuesday, February 2, 2021 8:07 AM Matthew Larsgaard

Subject:

Senate Bill 2312

Hello Mr. Larsgaard:

Senate Bill 2312 has been brought to my attention, and I understand you will be testifying about the potential impact of the legislation on child support collections.

As you know, North Dakota law creates a lien by operation of law on any titled personal property held by a person who owes unpaid child support. For the protection of private buyers who are not in the business of buying and selling cars and thus not aware of the law, there is a good-faith purchaser exception which provides that the lien is not "effective" against any good faith purchaser. Over 870 child support payments are made each year based on the lien registry, either as a result of third-party payments to satisfy a lien or payments by delinquent parents in order to be relieved from the lien and be able to sell the vehicle without a cloud on the title. The Child Support Division is grateful for the cooperation of North Dakota's motor vehicle dealers in using the website and facilitating these collections.

The precise impact of the bill is hard to determine. However, it would be fair to say that any change in law that decreases trades at dealerships and increases private sales would have a negative impact on child support collections because of the good-faith purchaser provision in the lien registry law.

hould you choose to share this letter with the committee, you are free to do so.

Jim

James Fleming

Director

jfleming@nd.gov

childsupportnd.com



### SENATE TRANSPORTATION COMMITTEE February 4, 2021 - 9:00 a.m. - Fort Totten Room

## North Dakota Department of Transportation Jennifer Blumhagen, Motor Vehicle Division Director

#### SB 2312

Good morning Chairman Clemens and members of the committee. I'm Jennifer Blumhagen, Motor Vehicle Division Director for the North Dakota Department of Transportation (DOT). I'm here to provide information related to SB 2312.

Senate Bill 2312 proposes to change the motor vehicle purchase price credit calculation in two ways. First, Section 2 #3 removes the insurance deductible amount for inclusion in calculating credit on vehicles totally destroyed (total loss). This section would require a form revision and for NDDOT to communicate the change to insurance providers.

Next, Section 2 #5 adds an allowance for a credit to the purchase price for a vehicle sold in a private sale, similar to the trade-in credit allowed by motor vehicle dealers. Section 2 also allows this credit to be used for a period of 3 years from the date of sale.

Currently, a trade-in credit is allowable only on retail (dealer) motor vehicle sales. The trade-in credit eligibility for a North Dakota titled vehicle is validated by entering the VIN of the traded vehicle in our database to verify ownership and eligibility. Out-of-state vehicle ownership is validated by the motor vehicle dealer accepting the trade-in vehicle they are purchasing for resale. Motor vehicle excise tax is then collected on the resulting dealer sale.

The introduced version of the bill allows for a purchase price credit on a private party sale upon submission of a motor vehicle purchaser's certificate. The expected result of this change is a significant increase in DOT staff time researching ownership and eligibility for the credit, increased service delivery time per transaction, a significant opportunity for misuse, and a difficult burden of proof requirement to validate, especially for sales to non-North Dakota residents. A minimum of two additional FTEs would be required to accommodate the changes based on an estimate of 50% of the newly eligible transactions requiring research and review at five minutes per transaction.

This concludes my testimony. Thank You.

#### 2021 SENATE STANDING COMMITTEE MINUTES

#### **Transportation Committee**

Fort Totten Room, State Capitol

SB 2312 2/4/2021 PM

A BILL for an Act to create and enact a new section to chapter 57-40.3 of the North Dakota Century Code, relating to motor vehicle purchase price adjustments; to amend and reenact subsection 5 of section 57-40.3-01 of the North Dakota Century Code, relating to the purchase price of a motor vehicle; and to provide an effective date.

**Chair Clemens** calls the meeting to order. Present are Chair Clemens, Vice Chair Fors, Senators Bakke, Conley, D. Larsen. Senator Dwyer is absent. [3:26]

#### **Discussion Topics:**

• SB 2299

The committee [3:26] discusses the bill.

**Chair Clemens** adjourns the meeting. [3:32]

Sheldon Wolf, Committee Clerk

#### 2021 SENATE STANDING COMMITTEE MINUTES

#### **Transportation Committee**

Fort Totten Room, State Capitol

SB 2312 2/11/2021

A BILL for an Act to create and enact a new section to chapter 57-40.3 of the North Dakota Century Code, relating to motor vehicle purchase price adjustments; to amend and reenact subsection 5 of section 57-40.3-01 of the North Dakota Century Code, relating to the purchase price of a motor vehicle; and to provide an effective date.

**Chair Clemens** calls the meeting to order. Present are Chair Clemens, Vice Chair Fors, Senators Bakke, Conley, D. Larsen. Senator Dwyer is absent. [9:43]

#### **Discussion Topics:**

- SB 2299 (proposing a study on the same topic)
- Motor vehicle excise tax

**Senator Dwyer [9:46]** motions DO NOT PASS. **Senator Conley [9:46]** seconds.

Senators	Vote
Senator David Clemens	Υ
Senator Robert Fors	Υ
Senator Cole Conley	Υ
Senator Michael Dwyer	Υ
Senator Doug Larsen	Υ
Senator JoNell Bakke	N

Motion passes 5-1-0. [9:47] **Senator D. Larsen** will carry.

**Chair Clemens** adjourns the meeting. [9:47]

Sheldon Wolf, Committee Clerk

Module ID: s\_stcomrep\_26\_002

Carrier: D. Larsen

REPORT OF STANDING COMMITTEE
SB 2312: Transportation Committee (Sen. Clemens, Chairman) recommends DO NOT PASS (5 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). SB 2312 was placed on the Eleventh order on the calendar.