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## Coates' Canons Blog: “Tag and Tax Together” One Year Later

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Happy Birthday, *Tag & Tax Together!* What, you haven't bought a present yet? Well, you best get

moving, because September 1 will mark the first birthday of the new taxation system for registered motor vehicles (“RMVs”) known informally as *Tag & Tax Together*.

By now everyone driving a car on the highways and byways of North Carolina should have experienced paying their RMV taxes at the same time they renew the tags on their vehicles. (Other than those gamblers who see how long they can drive with expired tags without getting pulled over by one of North Carolina's finest, of course . . .)

Over the past year I've blogged about how the new process works, about bankruptcy issues relating to RMVs, and about the counties' obligations to distribute RMV tax receipts to their municipalities. I've also published this bulletin on “gap billing” for vehicles that move between registered and unregistered status.

Today I'm back with an update about the new system's financial performance. My report might surprise some readers—in a good way.

Concerns about reduced RMV tax revenue arose almost immediately after *Tag and Tax Together* launched. Critics argued that vehicle owners were choosing to delay renewing their registrations when faced with the “sticker shock” of having to pay both DMV fees plus property taxes at the time of renewal.

In March, the *Raleigh News & Observer* reported that license plate renewal rates were down 10% statewide and that Wake County was predicting a \$1.9 million drop in RMV tax receipts for the 2013-14 fiscal year. News outlets in Charlotte alleged that a rise in license plate thefts was related to *Tag & Tax Together* because it motivated car owners to steal plates for their attached renewal stickers.

Officials at the N.C. Department of Revenue and the Division of Motor Vehicles counseled patience, arguing that once taxpayers got used to the new system RMV tax revenue would rebound to (and hopefully surpass) previous levels.

As it turns out, both the critics and the supporters of *Tag and Tax Together* were right. David Baker, director of the Department of Revenue's Local Government Division, recently shared some RMV tax collection statistics with me. These stats prove that collections did drop precipitously in the first few months under the new system but have improved beyond expectation in recent months.

As a basis of comparison, in fiscal 2012-13 the average statewide RMV tax collection under the old system was \$47.5 million per month.

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For the first three months of the new system (September, October, and November 2013), statewide RMV tax collections averaged \$37.1 million per month. That's a drop of over \$10 million per month, which would definitely have made an impact in local budgets had it continued.

But here's the good news: in the most recent three months for which I have statistics (March, April, and May 2014), statewide RMV tax collections have risen each month and have averaged \$65.8 million. That's an increase of \$18.3 million from the 2012-13 monthly average.

Projected over a full fiscal year, the new system would produce \$220 million more than the old. And remember that collections continue to climb, meaning that surplus may be even larger once we have a full fiscal year under the new system.

What's the cause of this huge jump in RMV tax collections? One reason is that the RMV tax collection has improved dramatically, which was one of the main justifications for the new system.

Under the new system, the collection rate for renewals is essentially 100% because every vehicle owner that renews a vehicle registration must pay the tax owed on the vehicle (with the very limited exception of some taxpayers in bankruptcy). The collection rate for new registrations is about 95%, because some purchasers of new cars choose to obtain limited 3-month registrations without paying the property taxes on their new cars.

Renewals represent roughly 80% of all RMV property taxes, while new issuances represent roughly 20%. If multiply those percentages against their respective collection percentages under the new system, it works out to a overall RMV tax collection percentage of 99%.

Under the old system, the annual statewide RMV tax collection rate was around 86%. 99% is 15% higher than 86% (as a percentage, not as a raw increase), meaning that we should expect to see a 15% increase in monthly RMV tax collection, from \$47.5 million under the old system to \$54.6 million under the new system.

But the new system is generating far more than \$54.6 million per month—it is at \$67.4 million per month and climbing. Where is that extra \$13 million coming from? Some of those registrations may simply be taxpayers who delayed renewing their registrations (and risked tickets) earlier in the fiscal year rather than pay the property taxes at the time of renewal. But it's hard to believe that a simple change in the collection procedure turned tens of thousands of otherwise upstanding citizens into scofflaws.

Another possibility is that under the old system counties were missing lots of vehicles from their tax rolls due to missed communication between the DMV and the 100 county tax offices. Because the taxation process is now instant, perhaps these vehicles are no longer escaping taxation.

Also remember that state officials warned local budget officers that they might see a one-year bump in RMV tax collection due to the elimination of the three-month lag in these collections. In September, October and November we were collecting both taxes from registrations three months earlier (under the old system) and taxes from registrations made in those months (under the new system). We won't see that overlap again next fiscal year.

Whatever the reason, it's clear that the new system is (finally) exceeding expectations. Here's hoping it continues—and that nobody swipes your license plate.



## Links

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