

# Analysis of Road Use Tax Fund User Fee Generation

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Comprehensive Review of All Vehicles and  
Equipment that Use Iowa's Public Roadway System

**Prepared by Iowa Department of Transportation  
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## **Background**

As a way to gain valuable public input on Iowa's transportation system and to evaluate current and future funding alternatives for the system, Governor Terry Branstad created the Governor's Transportation 2020 Citizen Advisory Commission (CAC) in March 2011. The twelve commission members, in conjunction with four ex-officio legislative members, were tasked with providing input to the Iowa Department of Transportation (DOT) in its efforts to complete a report detailing current revenue levels and the sufficiency of such revenues to meet the construction and maintenance needs of Iowa's state, city, and county roads.

The CAC gathered information on Iowa's transportation system and potential funding options during a number of meetings held between June and September 2011. The CAC first spoke with Iowa DOT staff to obtain background information on the subject and to discuss potential alternatives to generate additional revenue for the roadway system. The CAC then met with city, county, and other statewide stakeholders to gain input on the challenges that exist in maintaining the local road system. In addition, potential funding sources that could be captured to address funding shortfalls were documented.

The CAC held seven public meetings around the state in Bettendorf, Mason City, Des Moines, Storm Lake, Council Bluffs, Waterloo, and Mount Pleasant. The public was invited to address the CAC and discuss the condition of the roadway system, the impact of the roadway system, views on funding needs and opportunities, and how road funds should be utilized.

## **Road User Fee Equity**

Based on the input collected from Iowa DOT, cities, counties, statewide stakeholders, and the general public, the CAC published their Report and Recommendations on October 24<sup>th</sup>, 2011. As part of that report the CAC made seven recommendations. One of those recommendations was that the Iowa DOT undertakes a study to look at vehicles and equipment that use Iowa's public roadway system but pay no fees or substantially lower fees than other vehicles and equipment.

This report is intended to address this recommendation from the CAC and will provide the base line for further discussions and analysis of user fees and equity. Three tables were compiled to summarize and review discounted or forgiven user fees are included at the end of this document. The tables contain a list of reduced fees, a description of the fee reduction and the related section from the Code of Iowa.

- Table A: Annual Registration Fee – This table documents categories where annual registration fees are reduced or not paid at all.
- Table B: Fee for New Registration – This table documents vehicles that are exempted from paying a fee for new registration.
- Table C: Other Fees – There are several other reduced user fees that exist in the Code of Iowa and they are documented in this table.

A theme heard during the CAC public meetings was that implements of husbandry should be charged some fee to account for their use of the public roadway system. There is currently no registration fee

levied on implements of husbandry. The size and weight of this equipment can be large and does have an impact on the condition of the public roadway system.

Another type of vehicle discussed during the CAC public meetings was bicycles and consideration of a fee to account for their use of the public roadway system. As legal users of the roadway system cyclists may contribute to the system through property taxes and the registration of any motorized vehicles they own. Currently, bicycles are not charged a registration fee. Levying a registration fee upon bicycles had been discussed as a way to more equitably collect revenue from these users of the system. Though, it should be noted that bicycles have virtually no impact on the roadway system with regard to condition of the roadway system and there likely would be significant administrative costs associated with implementing a statewide bicycle registration system.

### **Inequity Resulting from Under-Reporting of Registration Fees**

An important equity issue of note is under-reporting of registration fees. The most common form of under-reporting is with the collection of the fee for new registration. The primary reason this under-reporting occurs is the fee is determined according to a *self-reported* purchase price by the person submitting the application for registration and title. The under-reporting of purchase price and under-collection of new registration fees has been seen by the Iowa DOT as follows:

- The buyer, purchasing from either a private seller or a dealer, completes the registration and title application and lists a false, low purchase price to reduce the amount of new registration fee paid;
- The buyer purchases from a dealer who collects the fee for new registration, completes and submits the registration and title application, and pays the fee to the county treasurer. The dealer collects the proper amount from the buyer but lists a false low purchase price on the application to reduce the fee paid and retains the difference; and
- The purchase price can be manipulated by inflating the value of a trade in vehicle (which exempts the traded vehicle's value from calculation of the fee for new registration), by falsely claiming a trade where none existed, or by claiming a trade that is not eligible.

The current process to detect under-reporting of registration fees and then to collect unpaid fees involves flagging of individual transactions by county treasurers and review of those records which exhibit the greatest indication of potential fraud by investigators in the Iowa DOT Office of Motor Vehicle Enforcement (MVE). Remaining records are submitted to the Iowa Department of Revenue (IDOR) for investigation. The investigations conducted by the MVE and IDOR resulted in the collection of just under \$400,000 during fiscal years 2009 and 2010.

To gauge the extent to which new registration fees may be under-reported, the Iowa DOT Office of Vehicle Services completed a comparison of actual new registration fees collected versus new registration fees that would have been collected based on private party values as determined by Kelly Blue Book (KBB). Based on August 2011 private party to private party sales (approximately 25 percent of all transactions) and using KBB values rather than self-reported purchase price, the under-reporting of

new registration fees ranged from \$1.0 million to \$1.4 million. Applying this August impact for a twelve month period shows there is a potential annual impact of over \$10 million from an equity perspective to the Road Use Tax Fund.

### **Recommendations**

To create a more equitable payment of user fees among those that use Iowa's public roadway system, the following recommendations should be implemented.

- **Improve the process for determination of vehicle value at the time of sale when calculating the fee for new registration** - Fees for new registration are calculated based on a self-reported value of the vehicle whose ownership is being transferred. The Iowa DOT should enhance the vehicle sale review process to seamlessly use a vehicle value determined by an industry-wide standard such as Kelly Blue Book to ensure the appropriate amount of new registration fee is paid. This will result in a more equitable payment of the new registration fee among all car buyers, equity in the Road Use Tax Fund, and allow the Iowa DOT MVE Investigation Unit to focus more efforts towards overall vehicle and driver consumer protection.
- **Eliminating the Electric Vehicle Fee discount** - While the goal is not to dissuade increased use of such vehicles, electric vehicles utilize the roadway system in the same fashion as vehicles equipped with internal combustion engines. Electric vehicles impact the system in-line with internal combustion vehicles and thus should be charged annual registration fees in-line with vehicles of corresponding weight and list value.

Finally, the Iowa DOT is continuing to evaluate the following items to determine how best to improve equity in collection of vehicle user fees.

- Fuel tax rates (specifically including Liquid Natural Gas, Liquid Petroleum Gas, and Compressed Natural Gas)
- Special farm trucks and implements of husbandry (includes equipment and machines necessary to carry out business of agricultural production)

**Table A**  
**ANNUAL REGISTRATION FEES**

Category	Description of Reduced Fee	Code Section
Vehicles equipped to assist persons with disabilities	Flat fee of \$60.	321.109(1)(b)
Seriously disabled veterans with vehicle provided by federal government.	No registration fee is charged.	321.105(5)
Implements of husbandry (applies to all tools, equipment, or machines necessary to carry out business of agricultural production)	No registration fee is charged.	321.18(3)
Patriotic trailer registration waiver	No registration fee is charged.	321.18(10)
School Bus	No registration fee is charged.	321.18(7)
Electric automobiles capable of high speeds	Annual fee of \$25 for first five years. Over five model years old, the fee is \$15.	321.116
Church buses used exclusively by the church and not operated for rent or hire	These vehicles are charged an annual registration fee of \$25	321.119
Business trade truck registration	These vehicles are charged reduced annual registration fees.	321.122
Special trucks for farm use	These vehicles are charged reduced annual registration fees.	321.121
Mobile/manufactured home or temporary undercarriage used to transport buildings used for human occupancy	No registration fee is charged.	321.18(8)
Farm trailers, mobile homes, and manufactured homes	Not subject to trailer registration fees.	321.123(1)(a)
Bicycles	No registration fee is charged.	N/A

## Table B

### FEE FOR NEW REGISTRATION

Category	Description of Reduced Fee	Code Section
Vehicle transferred from one person to another as a gift	No fee is charged.	321.105A(2)(c)(19)
Vehicle given by corporation as a gift to retiring employee	No fee is charged.	321.105A(2)(c)(20)
Vehicle sold where profits are used by or donate to non profit	No fee is charged.	321.105A(2)(c)(21)
Vehicle given or sold as a raffle prize	No fee is charged.	321.105A(2)(c)(22)
Vehicle won as a raffle prize	No fee is charged.	321.105A(2)(c)(23)
Vehicles sold to nonprofit educational institutions	No fee is charged.	321.105A(2)(c)(1), 423.3(17)
Vehicles sold to nonprofit freestanding hospices	No fee is charged.	321.105A(2)(c)(1), 423.3(28)
Vehicles sold to a tax verifying or tax levying body of the state and used for public purposes	No fee is charged.	321.105A(2)(c)(1), 423.3(31)
Vehicle purchased directly by federal, state, or local government agency	No fee is charged.	321.105A(2)(c)(30)
Vehicles sold to nonprofit medical care facilities	No fee is charged.	321.105A(2)(c)(1), 423.3(18)
Vehicles sold to nonprofit hospitals	No fee is charged.	321.105A(2)(c)(1), 423.3(27)
Vehicles sold to nonprofit private museums	No fee is charged.	321.105A(2)(c)(1), 423.3(21)
Vehicles sold to nonprofit private art centers	No fee is charged.	321.105A(2)(c)(1), 423.3(22)

Category	Description of Reduced Fee	Code Section
Vehicles sold to nonprofit organ procurement centers	No fee is charged.	321.105A(2)(c)(1), 423.3(26)
Vehicles subject to registration which are transferred between a business and a sole proprietor continuing the business and vice versa...	No fee is charged.	321.105A(2)(c)(3)
Vehicles transferred from vehicle leasing business to corporation engaged in business of leasing vehicles	No fee is charged.	321.105A(2)(c)(4)
Vehicle repossessed by a licensed vehicle dealer	No fee is charged.	321.105A(2)(c)(26)
Damaged vehicle acquired by an insurance company	No fee is charged.	321.105A(2)(c)(28)
Vehicles purchased for a rental business	No fee is charged.	321.105A(2)(c)(6)
Leased vehicle with gross vehicle weight of 16,000 lbs or less	No fee is charged.	321.105A(2)(c)(25)
Leased vehicles for out of state/interstate use	No fee is charged.	321.105A(2)(c)(2)
Vehicles used substantially in interstate commerce and registered from gross weight of 13 tons or more (25% of miles or more outside of Iowa)	No fee is charged.	321.105A(2)(c)(5)
Vehicle used in the recycling or reprocessing of waste products	No fee is charged.	321.105A(2)(c)(24)
Vehicle transferred by operation of law	No fee is charged.	321.105A(2)(c)(10)
Vehicles owned by a person who moved from another state within the intention of changing residency to Iowa	No fee is charged.	321.105A(2)(c)(8)
Homemade vehicles	No fee is charged.	321.105A(2)(c)(16)

<b>Category</b>	<b>Description of Reduced Fee</b>	<b>Code Section</b>
Vehicles where sales, use or occupation tax was paid to another state	No fee is charged.	321.105A(2)(c)(7)
Vehicle delivered to a resident native American on a reservation	No fee is charged.	321.105A(2)(c)(18)
Vehicles purchased by nonresident for removal to the state of residence	No fee is charged.	321.105A(2)(c)(13)
Vehicles whose ownership is transferred to or from a trust	No fee is charged.	321.105A(2)(c)(11)
Vehicle repossessed by a financial institution by means of foreclosure	No fee is charged.	321.105A(2)(c)(27)
Vehicle returned to manufacturer and titled in the manufacturer's name	No fee is charged.	321.105A(2)(c)(29)
Vehicles titled under a salvage title	No fee is charged.	321.105A(2)(c)(17)
Vehicles sold to non profits lending the vehicle to the general public	No fee is charged.	321.105A(2)(c)(1), 423.3(19)
Vehicles sold to nonprofit legal aid organizations	No fee is charged.	321.105A(2)(c)(1), 423.3(20)
Vehicles sold to a recognized community action agency	No fee is charged.	321.105A(2)(c)(1), 423.3(79)

**Table C**  
**OTHER FEES**

Category	Description of Reduced Fee	Code Section
Fuel tax rebate/dyed special fuel *	Fuel tax is rebated for certain uses and no fuel tax is collected on dyed special fuel.	452A.3(1C)(3) and 452A.17 (1)
Liquid Natural Gas	No state fuel tax is collected on the use of liquid natural gas for on-road purposes.	N/A
Implements of husbandry (tractors, combines, and other implements used directly and primarily in agricultural production)	These vehicles pay no sales or use tax at the time of purchase.	423

\* agricultural production, government, benefited fire districts, urban transit systems, regional transit systems, native American tribe, contract carrier, commercial fishing, home heating, extraction of natural deposits, denaturing alcohol, refrigeration units, pumping credits, off road, racing fuel, export of tax paid fuel, idle time, power takeoff, ready mix, solid waste, refund agent, transport diversions, casualty losses, special fuel blending errors, and excess tax paid on gasohol/E85