

LAC

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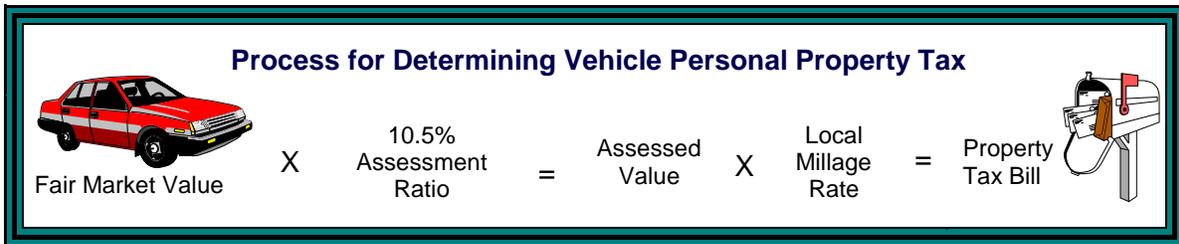
# A Review of the Department of Revenue's Vehicle Assessment Guides

Members of the General Assembly requested that we review the Department of Revenue's (DOR's) role in administration of vehicle personal property taxes. The requesters asked us to focus on the vehicle values DOR supplied to the counties in the fall of 1999.

According to S.C. Code §12-37-2680, the Department of Revenue is required to provide the counties with assessed values for vehicles that are subject to personal property tax. By law, the value of a vehicle cannot be more than 95% of the previous year's value. DOR uses a series of books published by National Market Reports to determine the fair

market value for most vehicles. DOR selects the lowest value, usually the financial or loan value, as the fair market value. The fair market value is multiplied by 10.5%, the assessment ratio, to determine the assessed value.

The counties receive information about taxpayers and the vehicles they own from the Division of Motor Vehicles (DMV) of the Department of Public Safety. The counties match the assessed values they receive from DOR with the vehicle information from DMV, multiply by the applicable local millage rate, and produce property tax bills.



## SCOPE OF THE PROBLEM

We found that the vehicle assessment guides for cars and trucks published by DOR in October 1999 contained a significant number of incorrect values, most of which resulted in an individual's property tax bill being higher than it should have been. In many cases DOR used the higher retail instead of loan value as the fair market value. We estimate that a minimum of 9,184 (38%) values out of 24,459 in the October assessment guides were incorrect. In April 2000 DOR estimated that more than 300,000 taxpayers may have had incorrect bills.

**Minimum Incorrect Values by Guide**

Guide	Incorrect Values	Total Values	Percent Incorrect
Cars	4,837	11,662	41%
Light Trucks	3,717	6,604	56%
Medium/Heavy Trucks	630	6,193	10%
<b>TOTAL</b>	<b>9,184</b>	<b>24,459</b>	<b>38%</b>

See full report for table notes.

### CAUSES

There were a number of different factors that led to the incorrect values in the guides.

- # Entering data for the guides is a labor-intensive, manual process.
- # The computer database for the assessment guides has limited checks.
- # DOR did not verify the data in the guides.
- # The assessment guide process was self contained; a single DOR employee was charged with producing the guides.
- # Management did not properly supervise the production of the assessment guides.
- # DOR did not provide good customer service to counties that inquired about problems.
- # There are no written policies and procedures for producing the assessment guides.



## OTHER PROBLEMS WITH THE VEHICLE ASSESSMENT GUIDES

We also identified other problems with the vehicle assessment guides. DOR has not used a consistent methodology to determine values for new cars and medium and heavy trucks. For example, in October 1999 DOR used 90% of MSRP as the fair market value for new cars. Then in its January 2000 guide, it used 100% of MSRP. This results in taxpayers being treated differently.

Also, DOR should consider deleting many of the heavy trucks from the guides because these trucks are now taxed under statutory provisions for motor carriers and are no longer subject to personal property tax at the county level.



Finally, we reviewed a sample of listings in the car and light truck guides DOR issued in February 2000 that corrected many of the previous errors. We found that the guides still contain errors that need to be corrected.

### DOR RESPONSE

When DOR management learned the extent of the problems with the guides in February 2000, the agency responded by taking several steps to correct the problems.

- # DOR management acknowledged responsibility for the problem.
- # DOR offered the counties DOR employees to assist with corrections.
- # DOR offered the counties reimbursements of \$1 per refund check to help with costs. DOR plans to use funds from its coin-operated devices fund to cover the estimated reimbursement amount of \$310,844. However, DOR's director stated that a proviso passed by the House may cap reimbursements at \$275,000.
- # DOR developed new guides that corrected many of the errors in the previous guides.
- # Employees involved in the situation were disciplined.
- # DOR made efforts to improve service to the counties.

### CHANGING THE SYSTEM

DOR established a vehicle valuation team to review the system for producing the guides. The team recommended short-term changes to lessen the risk of errors. Changes planned include the following:

- # Using vehicle values from a CD produced by the vendor instead of keying all values manually.
- # Adding automated checks to the computer program to ensure, for example, that a value is not more than 95% of the previous year's value.
- # Adding steps to the process where data entry and corrections will be verified by a different employee from the employee who entered the data.
- # Implementing written policies to document the methodology and process for compiling the guides.

DOR should also consider long-term solutions that increase the use of automation.

This document summarizes our full report, *A Review of the Department of Revenue's Vehicle Assessment Guides*. Responses from the Department of Revenue are included in the full report. All LAC audits are available free of charge. Audit reports and information about the LAC are also published on the Internet at [www.state.sc.us/sclac](http://www.state.sc.us/sclac). If you have questions, contact George L. Schroeder, Director.