



Vehicle Tax Assessment Increases, Year over Year

“You’re telling me my vehicle is worth more this year than last year?” “How do vehicle values appreciate year over year?” “Shouldn’t the values decrease each year?” “What about mileage and wear & tear?” “I can’t sell my vehicle for the assessed amount!”

If you are hearing these types of questions and comments from taxpayers, you are not alone. While it is still the norm for assessed vehicle values to decrease from one year to the next, a significant number of taxpayers have seen their assessed values increase from last year. Most taxpayers are seeking a basic answer as to why their assessment has gone up. Many of these inquiries are coming from the City of Alexandria, Virginia, where vehicle values are measured in the month of January every year using NADA’s Clean Trade-in value. Therefore, we will consider changes from January 2011 to January 2012.

There are two reasons why vehicle tax assessments may have increased from one year to the next:

- 1) The tax was assessed on a NADA value this year and on MSRP last year
- 2) The NADA value on their vehicle actually did increase from year to year

The tax was assessed on a NADA value this year but on MSRP last year. NADA values are generated using meticulous research on high volumes of sales data—our editors analyze hundreds of thousands of wholesale and retail transactions per month and use this transactional data as the basis for used vehicle values.

For popular, bestselling vehicles NADA analyzes many sales transactions and can publish values early in the vehicle’s lifecycle. For less common vehicles, NADA must wait until it has collected enough sales data to create a value that is accurate. Waiting to develop a value created situations where there was no NADA Clean Retail value in January 2011 but by January 2012 NADA was able to publish a value.

In the book excerpt below, note that NADA has developed a series of current values for the Sedan 4D 740i but has not yet developed a value for the Sedan 4D 740Li. The 740i line has 3 Trade-In values, plus Clean Loan and Clean Retail values, whereas the 740Li has none of these.

<i>Rough Trade-In</i>	<i>Average Trade-In</i>	<i>Clean Trade-In</i>	<i>Body Type</i>	<i>Model Number</i>	<i>MSRP</i>	<i>Weight</i>	<i>Clean Loan</i>	<i>Clean Retail</i>	13
2012 7 SERIES							Mileage Class: V		B M W
54175	57700	60675	Sedan 4D 740i	KA4C	71000	4344	54625	67200	
			Sedan 4D 740Li	KB4C	75500	4432			

When faced with assessing the value on a vehicle for which there is not yet a NADA Clean Retail value, many localities use the MSRP for that vehicle in the NADA Used Car Guide. This can create complications because **the MSRP printed in the NADA Used Car Guide is for the most inexpensive version of that vehicle.** On the other hand, the NADA Clean Retail value often includes some of the



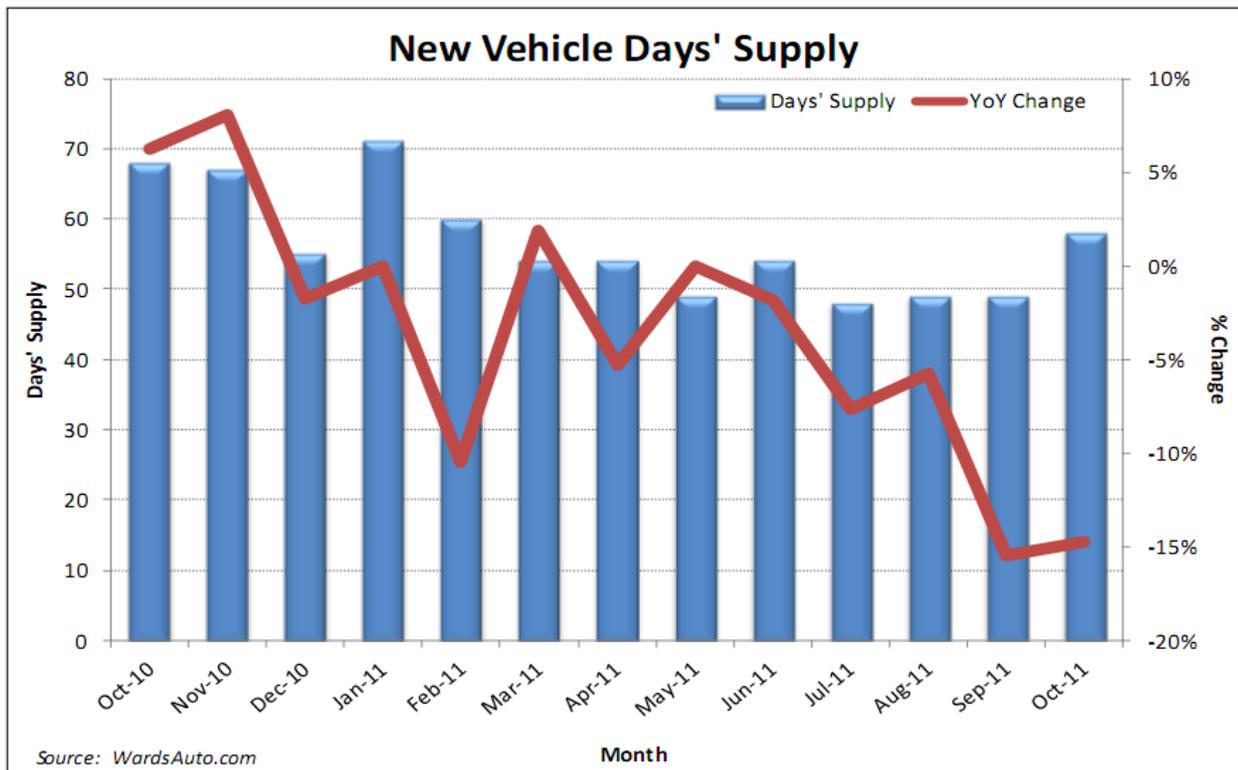
“technically” optional equipment on a vehicle; NADA considers this equipment standard because of the high installation rate of these options (like Automatic Transmission).

Consider a 2011 Lexus RX350-V6 Utility 4D 2WD, for example: The baseline **MSRP** for this vehicle in January 2011 was **\$37,975**. This was the lowest MSRP on a 2011 RX350-V6 2WD with manual transmission, leatherette seats, and manual seat adjustments. The **NADA Clean Trade-in** value for this vehicle in January 2012 was **\$39,000**. This took into account the original MSRP, MSRP increases over the course of the year, vehicle destination charge, the value of a six speed automatic transmission, leather seats, power seat and Eastern Region transaction prices at both retail and wholesale levels.

The NADA Clean Trade-in value for January 2012 represents a vehicle’s assessed value for the City of Alexandria’s property tax calculation and **is not and should not be considered to be the same as an MSRP**.

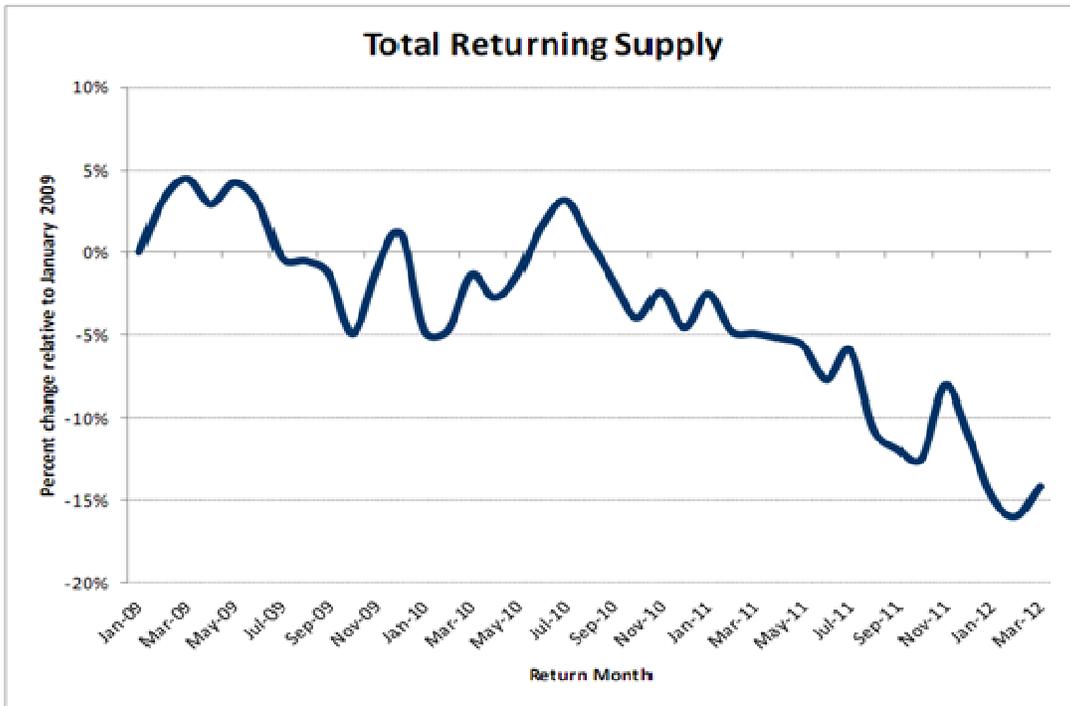
The NADA Value actually did increase. Many factors influence transaction prices and thus the NADA values for a vehicle: sale price, mileage, brand, sales incentives, seasonality, the economy, fuel prices, and vehicle supply. In calendar year 2011, vehicle supply had a particularly significant effect on used vehicle prices.

In order to understand how supply affects vehicle values it is important to consider both new and used vehicle supply. The chart below reveals that new vehicle supply dropped significantly between 10/2010 and 10/2011. As new vehicle supply decreases, manufacturers tend to offer fewer incentives. This helps to keep used values strong because without new vehicle price discounts, used vehicle prices can remain relatively high without moving too close to new vehicle prices.

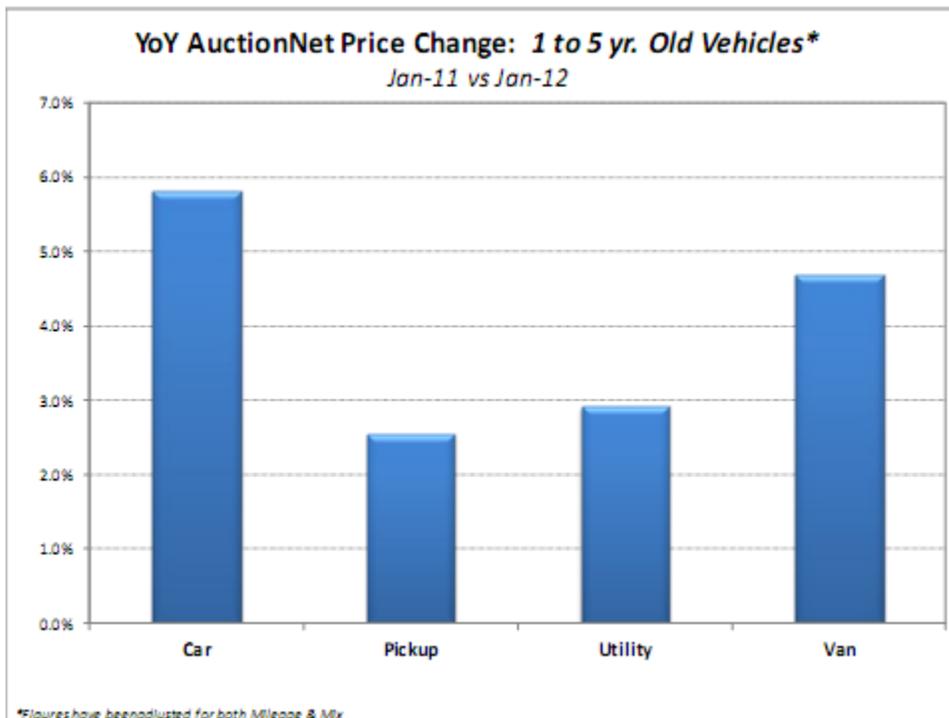




Used vehicle supply diminished over the same period as well, adding to the overall supply shortage.



Since early 2009 and continuing through early 2012, the declining new and used vehicle supply drove used vehicle prices upward as demand outpaced supply. ***As a result, used vehicle transaction prices increased significantly between January 2011 and January 2012.***





The bottom line is that NADA values take into account these market realities. Where transaction prices on a given vehicle were higher in January 2012 than they were in January 2011, the NADA values for these vehicles reflected the increase.

Although it seems counterintuitive for vehicles to increase in value over time, for the last several years there has not been an easily predicted rate of depreciation for used vehicle values. Economic drivers including gas prices, new and used vehicle supply, major weather events, domestic and international political instability and many other factors have influenced and will continue to influence used vehicle values and may result in atypical increases or decreases year over year.

Additional notes on NADA values

Frequently, taxpayers will attempt to validate their assessment by looking up their vehicle's value online. This is completely understandable but can be problematic because the assessed value was based on the NADA value in January and the values available online are for the current month. It is unlikely that these values will match, except by chance.

Commonly heard is the argument that nobody would purchase the taxpayer's vehicle for the assessed value. This is almost always true, but irrelevant, for two reasons:

- 1) Several months of value change may have occurred from the time of assessment to the present.
- 2) The assessment is based on the Clean trade-in value, which is not intended to represent a vehicle's Retail value or a value for sale to a private party.

Further reading

Since January 2010, NADA has published a monthly report entitled, "Guidelines, NADA Used Car Guide Industry Update," that offers detailed explanations of fluctuating vehicle values as they are influenced by fuel prices, vehicle supply, retail and wholesale market trends and other economic drivers.

Current (2012) issues of Guidelines as well as archive issues for calendar years 2011 and 2010 are available at: <http://www.nada.com/b2b/NADAOutlook/Guidelines.aspx>

Since early 2009 and continuing through early 2012, the declining new and used vehicle supply was driving used vehicle prices upward as demand outpaced supply