



CREDIT FOR PURCHASE OF UNIQUELY VALUABLE MOTOR VEHICLE REGISTRATION NUMBERS

EVALUATION SUMMARY | JANUARY 2022 | 2022-TE10

TAX TYPE	Income	REVENUE IMPACT	\$0
YEAR ENACTED	2013	(TAX YEAR 2018)	
REPEAL/EXPIRATION DATE	None	NUMBER OF TAXPAYERS	0
		(TAX YEAR 2018)	

KEY CONCLUSION: The credit is not encouraging purchasers to bid higher amounts for uniquely valuable vehicle registration numbers that are part of the Colorado Disability Funding Committee's vehicle registration number fundraising auctions. The credit has rarely been claimed, and the Colorado Disability Funding Committee and its staff were not aware of the credit and have not been issuing certificates to vehicle registration number purchasers, which purchasers are required to attach to their tax returns to claim the credit.

WHAT DOES THE TAX EXPENDITURE DO?

The Credit for Purchase of Uniquely Valuable Motor Vehicle Registration Numbers [Section 39-22-535, C.R.S.] (Registration Number Credit) allows an income tax credit for taxpayers who purchase the exclusive right to use uniquely valuable motor vehicle registration numbers from the Colorado Disability Funding Committee (Committee). Uniquely valuable motor vehicle registration numbers, which are displayed on individuals' vehicle license plates, are letter and number combinations that are likely to be worth substantially more than the average value of a registration number (license plate), for example, COORS, BENTLEY, ROCKET, 1ST, and BOURBON. The credit is equal to 20 percent of the portion of the purchase price that the Committee certifies exceeds the registration number's fair market value.

WHAT IS THE PURPOSE OF THE TAX EXPENDITURE?

Statute and the enacting legislation for the Registration Number Credit do not state its purpose; therefore, we could not definitively determine the General Assembly's original intent. Based on the operation of the credit and testimony from a witness during committee hearings for the enacting legislation [Senate Bill 13-170], we considered a potential purpose: to encourage bidders to pay more for vehicle registration numbers that the Committee sells as part of its vehicle registration number fundraising auctions.

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

The General Assembly may want to consider:

- Repealing the Registration Number Credit.
- If it does not repeal the Registration Number Credit, establishing a purpose and performance measures for Registration Number Credit.
- If it does not repeal the Registration Number Credit, clarifying the method that should be used to determine the credit amount.

CREDIT FOR PURCHASE OF UNIQUELY VALUABLE MOTOR VEHICLE REGISTRATION NUMBERS EVALUATION RESULTS

WHAT IS THE TAX EXPENDITURE?

The Credit for Purchase of Uniquely Valuable Motor Vehicle Registration Numbers (Registration Number Credit) [Section 39-22-535, C.R.S.] allows an income tax credit for taxpayers who purchase uniquely valuable motor vehicle registration numbers from the Colorado Disability Funding Committee (Committee), which is administered by the Lieutenant Governor's Office. Uniquely valuable motor vehicle registration numbers are letter and number combinations displayed on individuals' vehicle license plates that are likely to be worth substantially more than the average value of a registration number (license plate), for example, COORS, BENTLEY, ROCKET, 1ST, and BOURBON.

The credit is equal to 20 percent of the portion of the purchase price of the right to use a vehicle registration number that the Committee certifies exceeds the registration number's fair market value. For example, if a vehicle registration number had a fair market value of \$500 and sold for \$1,000, the tax credit would be \$100, calculated as follows:

EXHIBIT 1. CALCULATION OF HYPOTHETICAL CREDIT

Purchase Price	\$1,000
Fair Market Value	\$500
Amount that the Purchase Price Exceeds the Fair Market Value	\$500
Tax Credit (20 percent of the Amount that Exceeds the Fair Market Value)	\$100

SOURCE: Office of the State Auditor analysis of Section 39-22-535(1), C.R.S.

The credit is not refundable, but may be carried forward for 5 years if the credit exceeds the taxpayer's income tax liability.

The Committee auctions the exclusive right to use uniquely valuable motor vehicle registration numbers as a means of raising money to support its mission of distributing funding to support programs benefiting Colorado's disability community. Specifically, statute [Section 24-30-2208(1), C.R.S.] provides that the Committee "shall raise money by selling to a buyer the right to use valuable letter and number combinations for a registration number... [and that the Committee] shall auction registration numbers that are likely to be worth substantially more than the average value of a registration number." According to Committee staff, the Committee identifies potentially valuable vehicle registration numbers by (1) taking suggestions from Committee members; (2) examining lists from the Division of Motor Vehicles (DMV), which is within the Department of Revenue (Department), of vehicle registration numbers that were recently in use but have since expired; and (3) taking recommendations from a contractor. The Committee then requests that the Department reserve vehicle registration numbers that it intends to auction.

Vehicle registration numbers that the Committee reserves can only be purchased through the Committee's auctions; they cannot be purchased as personalized license plates directly from the DMV. Statute [Section 24-30-2210(2)(a) and (b), C.R.S.] authorizes the Committee to sell vehicle registration numbers that deviate from the standard constraints for license plates. For example, these registration numbers can contain only one character (e.g., X) or include any symbol on the standard American keyboard (e.g., #, \$), whereas personalized vehicle registration numbers requested directly from the Department must contain between two and seven characters and may only include numbers and letters [Section 42-3-211(3)(a), C.R.S.].

According to Committee data, between 2013 and 2021, the auction program has sold 225 vehicle registration numbers for between \$40 and \$20,000, with an average purchase price of \$1,000. Recent Committee

auctions have included vehicle registration numbers with themes such as Colorado Day (e.g., CO, WELOVCO), cannabis (e.g., ISIT420, GREEN), and Colorado colleges and universities (e.g., ILOVECU, CORAMS). According to the Committee’s website, when someone purchases the right to use a registration number through one of its auctions, that person retains the right to use that number on their license plate for 3 years. The license plate number may be transferred to another person only at the time of the initial purchase following the auction, but may not be transferred again. They may renew the registration number at 30 percent of the winning bid price for each 3-year renewal period, for a total ownership period of 12 years.

The money raised through the sale of the valuable vehicle registration numbers is used by the Committee to fund “program[s] to aid persons with disabilities in accessing disability benefits” [Section 24-30-2204(1), C.R.S.] or “projects or programs that study or pilot new and innovative ideas that will lead to an improved quality of life or increased independence for persons with disabilities” [Section 24-30-2204.5(1), C.R.S.]. The Committee and the vehicle registration number fundraising auction program are scheduled for repeal on September 1, 2026, and will undergo a sunset review by the Department of Regulatory Agencies prior to their repeal. If the Committee and auction program are repealed as scheduled, the Registration Number Credit would effectively become obsolete beginning in Tax Year 2027, except for taxpayers that are carrying forward credits; the credit does not currently have a statutory expiration or repeal date.

The General Assembly created the credit in 2013 with Senate Bill 13-170. When the credit was created, the License Plate Auction Group (LPAG), which was within the Governor’s Office, was responsible for overseeing the vehicle registration number auctions and issuing certifications for the Registration Number Credit. In 2016, House Bill 16-1362 replaced the LPAG with the Committee. The credit has remained substantively unchanged since that time.

To claim the credit, all taxpayers are required to attach a copy of the certification from the Committee to their income tax return. According to Department staff, there is no specific form or format for the certification, but it must be issued by the Committee and certify the portion of the purchase price that exceeds the fair market value of the registration number; certifications for registration numbers sold in 2016 or earlier years would have been issued by the LPAG.

Individuals claim the credit on Line 30 of the Individual Credit Schedule (Form DR 0104CR), which they must attach to the Colorado Individual Income Tax Return (Form DR 0104). C-corporations claim the credit on Line 18 of the Credit Schedule for Corporations (Form DR 0112CR), which they must attach to the Colorado C Corporation Income Tax Return (Form DR 0112). S corporations and partnerships claim the credit on Line 16 of the Colorado Pass-through Entity Credit Schedule (Form DR 0106CR), which they must attach to the Colorado Partnership and S Corporation and Composite Nonresident Income Tax Return (Form DR 0106). Estates and trusts claim the credit on the “Other Credits” line (Line 11) of the Schedule G of the Colorado Fiduciary Income Tax Return (Form DR 0105).

WHO ARE THE INTENDED BENEFICIARIES OF THE TAX EXPENDITURE?

Statute does not directly state the intended beneficiaries of the Registration Number Credit. Based on the statutory language of the credit and testimony from a witness during committee hearings for the enacting legislation [Senate Bill 13-170], we inferred that programs funded by the Committee are the intended beneficiaries of the credit, to the extent that it incentivizes taxpayers to bid higher amounts for vehicle registration numbers, since there would be more funding available for those programs. Taxpayers who purchase motor vehicle registration numbers for more than their fair market value through the Committee’s auctions are also intended to benefit since they get to reduce their income tax liability.

WHAT IS THE PURPOSE OF THE TAX EXPENDITURE?

Statute and the bill that created the Registration Number Credit do not state its purpose; therefore, we could not definitively determine the General Assembly's original intent. Based on the operation of the credit and testimony from a witness during committee hearings for the enacting legislation [Senate Bill 13-170], we considered a potential purpose: to encourage bidders to pay more for vehicle registration numbers that the Committee sells as part of its vehicle registration number fundraising auctions. During committee hearings, the witness stated that he believed people would pay more for unique vehicle registration numbers if they could get a tax benefit.

IS THE TAX EXPENDITURE MEETING ITS PURPOSE AND WHAT PERFORMANCE MEASURES WERE USED TO MAKE THIS DETERMINATION?

We could not definitively determine whether the Registration Number Credit is meeting its purpose because no purpose is provided for it in statute or in the bill that established it. However, we found that the credit is not meeting the purpose we considered to conduct this evaluation because it is rarely claimed.

Statute does not provide quantifiable performance measures for this credit. Therefore, we created and applied the following performance measure to determine the extent to which the credit is meeting its potential purpose:

PERFORMANCE MEASURE: *To what extent does the Registration Number Credit encourage people to bid higher amounts for uniquely valuable vehicle registration numbers that are part of the Committee's vehicle registration number fundraising auctions?*

We determined that the Registration Number Credit is not encouraging purchasers to bid higher amounts for vehicle registration numbers that are part of the Committee's vehicle registration number fundraising auctions. According to Committee staff, the current Committee and its

staff were not aware of the credit and have not been issuing certificates to purchasers of vehicle registration numbers sold through the auctions since the Committee began operating the program in 2016. This creates a barrier to taxpayers claiming the credit because they must include a certification from the Committee of the amount the purchase price exceeds the fair market value of the vehicle registration number when they claim the credit on their tax returns. Additionally, language in the Committee's rules and frequently asked questions page of its website may lead taxpayers to believe that there is uncertainty regarding the availability of the credit by stating, "The Colorado Disability Funding Committee has not made any representations regarding whether all or part of a winning bid amount is eligible for a tax deduction or tax credit under any state or federal law." Furthermore, in Tax Year 2016, the most recent year that taxpayers claimed the credit, only \$41 in credits were claimed, which indicates that the credit was unlikely to have had a significant impact on the amount purchasers paid for registration numbers.

Department data also indicate that awareness of the credit is low. In Tax Year 2018, which is the most recent year for which we had data on credit claims, no taxpayers claimed the Registration Number Credit. Data for Tax Year 2017 is incomplete, but the available data indicates that there were no claims by individuals or corporations in that year either. In Tax Year 2016, 10 taxpayers claimed credits. From Tax Years 2013 to 2015, too few taxpayers claimed the credit to report the number without revealing confidential taxpayer information. Although we lacked data to break down the number of eligible purchases from 2013 through 2018 on an annual basis, during this period 27 individuals purchased numbers, indicating that many eligible taxpayers did not claim the credit. It is also unclear whether taxpayers who claimed the credit did so properly, since the Committee has not issued the required certificates to taxpayers. However, in 2016 and prior years, certificates may have been issued by the LPAG, which administered the program from 2013 through mid-2016, and so it is possible that the 2016 claims could have come from taxpayers who carried forward credits from prior years for which the LPAG issued certificates.

However, due to time constraints and the low revenue impact of the credit, we did not investigate the claims to determine whether they were proper claims.

WHAT ARE THE ECONOMIC COSTS AND BENEFITS OF THE TAX EXPENDITURE?

The Registration Number Credit had virtually no impact on state revenue between Tax Years 2013 and 2018. According to Department data, there was no revenue impact in Tax Year 2018 and there did not appear to be an impact in Tax Year 2017, although the data was incomplete. In Tax Year 2016, 10 taxpayers claimed the Registration Number Credit for a total state revenue impact of \$41. Data for Tax Years 2013 through 2015 are not releasable because publishing the data could violate taxpayer confidentiality, which is required of the Department and the Office of the State Auditor under Section 39-21-113(4)(a), (5), and 305(2)(b), C.R.S., due to the small number of taxpayers claiming the credit.

In addition, the credit has not had any significant economic benefits for the State, the purchasers, or the Committee since it has not incentivized taxpayers to bid significantly higher amounts for the vehicle registration numbers that are part of the Committee's fundraising auctions.

WHAT IMPACT WOULD ELIMINATING THE TAX EXPENDITURE HAVE ON BENEFICIARIES?

Eliminating the Registration Number Credit would have little to no impact on the intended beneficiaries because it has rarely been claimed, and Committee staff were not aware of the credit, and therefore, have not used it to promote increased sales prices for the vehicle registration numbers that it auctions. Committee staff reported that they do not think that repealing the credit would reduce the sales prices of the registration numbers that are part of its auctions since purchasers did not appear to be aware of the credit. However, they reported that some purchasers, particularly purchasers of registration numbers worth thousands of dollars, have asked the Committee whether their

purchases would be eligible for a charitable contribution deduction. Because of this interest in receiving tax benefits related to registration purchases, Committee staff thought that promoting the credit going forward could potentially increase sales prices and stated that the Committee has expressed interest in promoting the credit. Therefore, eliminating the credit could potentially have an impact on registration number sales in the future.

Repealing the credit would not have an impact on the Committee's ability to conduct auctions of uniquely valuable vehicle registration numbers because the existence of the Committee and its fundraising auctions are not dependent on the existence of the Registration Number Credit.

ARE THERE SIMILAR TAX EXPENDITURES IN OTHER STATES?

We did not identify any similar tax expenditures in other states.

ARE THERE OTHER TAX EXPENDITURES OR PROGRAMS WITH A SIMILAR PURPOSE AVAILABLE IN THE STATE?

We did not identify any other tax expenditures or programs with a similar purpose available in the state.

WHAT DATA CONSTRAINTS IMPACTED OUR ABILITY TO EVALUATE THE TAX EXPENDITURE?

There were no data constraints that impacted our ability to review this tax expenditure.

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

THE GENERAL ASSEMBLY MAY WANT TO CONSIDER REPEALING THE REGISTRATION NUMBER CREDIT BECAUSE IT IS RARELY CLAIMED AND HAS NOT BEEN EFFECTIVE AT ENCOURAGING UNIQUELY VALUABLE VEHICLE REGISTRATION NUMBER PURCHASERS TO BID HIGHER AMOUNTS IN THE

COMMITTEE'S AUCTIONS. As discussed, no taxpayers claimed the Registration Number Credit in Tax Years 2017 and 2018, and in Tax Year 2016, only 10 taxpayers claimed the credit for a total of \$41. Additionally, Committee staff reported that they were not aware of the Registration Number Credit and therefore, the Committee had not been issuing certificates to purchasers that certify the amount of the purchase price that exceeds the fair market value; Committee staff also did not believe purchasers were aware of the credit. This indicates that the credit has not incentivized taxpayers to bid higher amounts for uniquely valuable vehicle registration numbers that the Committee sells in its auctions. However, Committee staff reported that now that the Committee is aware of the credit, they believe that promoting it could potentially increase the purchase price of some of the registration numbers that are part of its auctions. However, it is unclear the extent to which this would occur.

IF THE GENERAL ASSEMBLY DOES NOT REPEAL THE CREDIT, IT MAY WANT TO CONSIDER AMENDING STATUTE TO ESTABLISH A STATUTORY PURPOSE AND PERFORMANCE MEASURES FOR THE VEHICLE REGISTRATION NUMBER CREDIT. As discussed, statute and the enacting legislation for the credit do not state the credit's purpose or provide performance measures for evaluating its effectiveness. Therefore, to conduct our evaluation, we considered a potential purpose for the credit: to encourage bidders to pay more for vehicle registration numbers that the Committee sells as part of its vehicle registration number fundraising auctions. We identified this purpose based on the credit's operation and witness testimony for the enacting legislation [Senate Bill 13-170]. We also developed a performance measure to assess the extent to which the credit is meeting its potential purpose. However, the General Assembly may want to clarify its intent for the credit by providing a purpose statement and corresponding performance measure(s) in statute. This would eliminate potential uncertainty regarding the credit's purpose and allow our office to more definitively assess the extent to which the credit is accomplishing its intended goal(s).

IF THE GENERAL ASSEMBLY DOES NOT REPEAL THE CREDIT, IT COULD CONSIDER PROVIDING CLARIFICATION ON THE METHOD THAT SHOULD BE USED TO DETERMINE THE CREDIT AMOUNT. Currently, statute [Section 39-22-535(1), C.R.S.] provides that the credit is allowed “for twenty percent of the portion of the purchase price that the Colorado [D]isability [F]unding [C]ommittee, created in section 24-30-2203, certifies exceeds the registration number’s fair market value.” However, establishing a fair market value for the sale of registration numbers is challenging. First, although statute states “[The fair market value] is the value the Colorado [D]isability [F]unding [C]ommittee expects from the sale of the registration number, not the cost of registering the vehicle,” it does not provide a methodology for determining fair market value. Second, United States Treasury Regulations [26 CFR 1.170A-1(c)(2)] define fair market value as “the price at which the property would change hands between a willing buyer and a willing seller...” which also does not offer clear guidance for this situation. Since the Committee is a willing seller and the taxpayers who buy the auctioned registration numbers are willing buyers, the Federal regulations would indicate that the final sales price is the fair market value, so the difference between the two would be \$0, which would result in a credit of \$0. Since the Committee was not aware of the credit, Committee staff reported that it does not have a process in place for establishing fair market value and that it would be difficult to place a fair market value on the registration numbers besides \$0 because the registration numbers only have a monetary value because of the Committee’s exclusive right to sell them. Therefore, the General Assembly could consider clarifying how the fair market value should be determined or basing the credit on a more clearly established figure, such as a specific dollar amount or a percentage of the final purchase price.