Testimony of

**The Alliance of Automobile Manufacturers**

Submitted to

**The Joint Committee on Finance, Revenue, and Bonding**
**Connecticut General Assembly**

Regarding

**Senate Bill 1007**

**March 7, 2011**

On behalf of the Alliance of Automobile Manufacturers, thank you for the opportunity to testify before the Committee today with regard to Senate Bill 1007. The Alliance is a trade association of twelve passenger car and light truck manufacturers including BMW Group, Chrysler Group LLC, Ford Motor Company, General Motors Company, Jaguar Land Rover, Mazda, Mercedes-Benz USA, Mitsubishi Motors, Porsche, Toyota, Volkswagen, and Volvo.

Senate Bill 1007 contains two provisions that the Alliance's members strongly oppose. The first – found in Section 47 – is a repeal of Connecticut's tax exemption for automobile trade-ins. Our partners in industry, the Connecticut Automotive Retailers Association representing 245 Connecticut-based businesses, has expressed our industry's concerns about how the repeal of this tax exemption will negatively impact Connecticut dealers and consumers. The Alliance fully concurs and supports this opposition.

The second provision of concern – foundin Section 25 – isthe imposition of a "luxury tax"on the value of car and truckpurchases over $50,000. This three percent surcharge establishes a 9.25% sales and use tax on the value of vehicles over $50,000; outpacing all of Connecticut's neighboring states with regard to the sales tax on new motor vehicles. With its adoption, Connecticut would be the only state in the nation to impose a "luxury tax" on its consumers.

In an extreme economic environment that has severely impacted auto makers and dealers, vehicle sales continue to contribute significantly to Connecticut's sales tax revenue. Dealers estimate that they did more than $6.6 billion in sales in 2009. At the current sales tax rate of 6%, that equates to almost $400 million in sales tax revenue.

The proposition of a "luxury tax" is counter intuitive to the state's objective of collecting <u>even more</u> sales tax revenue through the sale of motor vehicles. As with any purchase, the sale of more expensive vehicles yields more sales tax revenue for the State. The "luxury tax" provision in Senate Bill 1007 discourages consumers from purchasing vehicles over $50,000 or be subject to an extra tax.

The result will not be additional revenues, but an ultimate loss in sales tax revenue as consumers purposefully avoid purchases subject to the "luxury tax" surcharge. It is counter-intuitive to discourage the sale of these higher revenue generating vehicles by levying an additional tax on their sale.

It should also be noted that the so called "luxury tax" on vehicles over $50,000 does not just impact high-end luxury vehicles purchased by wealthy consumers. This is a tax that impacts vehicles sold by virtually every manufacturer and purchased by all segments of consumers. This additional tax will disproportionately impact farmers, contractors, tradesmen and other small business owners with a need for larger vehicles. Additionally, consumers with large families or special interests will be hit by this tax as well due to their need for larger vehicles.

Furthermore, vehicles priced below the $50,000 price point may become subject to the tax as consumers add various options to their vehicles. These options are not frivolous add-ons, but can include important features like all wheel drive, navigation systems, engine/transmission upgrades, and other advanced technologies like Hybrid or other alternative fuel applications. The "luxury tax" proposal runs counter to the State's efforts to get consumers to invest in more advanced technology vehicles that often come with a higher price tag.

This policy establishes an artificial divide between vehicles that will and will not be subject to a tax surcharge. This divide will influence consumer decisions in such a way that will ultimately cost the state revenue and negatively impact local dealer businesses. With a fiscal note of just $1.2M for 2012, a small shift in the market due to the tax surcharge will result in the state losing, not gaining, revenue from this tax. This assertion is not speculation, it supported by example.

In 1990, Congress imposed a federal luxury tax on the sale of planes, yachts, jewelry, fur, and automobiles. As predicted, this tax discouraged consumers from purchasing items subject to the added tax and had an adverse impact on these industries and their employees. The federal "luxury tax" proved to be a failure and was ultimately repealed by Congress after a careful study by the Joint Committee on Taxation.

The Alliance believes the arguments presented today show that the adoption of a "luxury tax" will do more to harm Connecticut's budget concerns than address them. On behalf of the Alliance's member companies, I respectfully request that the Committee oppose both the luxury tax and the repeal of the automotive trade-in tax exemption when considering the budget proposal before you.

For additional information, please contact Laura Dooley at the Alliance of Automobile Manufacturers and/or refer to the written testimony submitted by Alliance members Volkswagen Group of America and Daimler.

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