

# DAIMLER

Testimony of  
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In Opposition to SB 1007

Before the

Finance, Revenue, and Bonding Committee  
State of Connecticut

March 7, 2011

Good morning. Daimler is the parent company of Mercedes-Benz, smart, Freightliner trucks, ThomasBuilt School buses, and Orion transit buses. We do not just sell these vehicles through our dedicated dealer network throughout the state: we are also proud to be an employer in Connecticut. We pay tens of millions of dollars to Connecticut each year in income, franchise, property, and sales & uses taxes; and, Middletown is home to Atlantic Detroit Diesel-Allison, an important member of the Daimler family.

We invented the automobile 125 years ago, and we are optimistic about its future. That's why we're concerned about the legislation being considered today. On behalf of Daimler, and our 20,000 employees throughout the United States, I am here to express our firm opposition to the stepped-up increase in sales tax -- what is mischaracterized as a "luxury tax" in SB 1007 -- on vehicles that cost more than \$50,000. If enacted, Connecticut would be the only state to have a surcharge based on transaction price. That is not an enviable position.

As crafted, this proposal will not generate incremental revenue for the state: it actually puts future revenue at risk. Here's how: the proposal assumes that people who consider cars that cost \$50,000 or more can -- and should -- pay more. It fails to take into consideration the price sensitivity of the consumers. In this challenging economic environment, consumers at all ends of the spending scale are deferring or cancelling spending. We are not immune or exempt. This "step tax" creates a built-in incentive for potential consumers to defer any discretionary spending. Individual transportation is a key to support continued economic growth, but let's be realistic: a product like ours is one you aspire to own. Chances are, you're not considering one of our products simply for basic transportation. Therefore, you don't have to buy a Mercedes-Benz -- you want to buy one. If you're concerned about your job, the economy, the perception of your friends or neighbors, or a variety of other factors, you're in a position to defer that purchase. Because the sales price for products like ours is higher, it generates significantly more sales tax revenue for the state. Therefore, any deferred purchase means lost tax revenue for the state of Connecticut in a significantly greater proportion than to other vehicles. That means the state is fiscally worse off as a result of enacting this tax.

For example, a consumer who buys a car at a \$75,000 price point generates about \$4,500 in sales tax. If the scenario presented in SB 1007 passes, that tax increases about 21% to almost

\$5,500. If that single purchase is deferred, it would take three vehicles costing \$25,000 to generate the same tax revenue for the State of Connecticut under the current scenario, and almost four additional vehicles sold under the proposed scenario. That is hardly a realistic scenario – even in the best of economic times – but it’s required for the state simply to break even. As an in-state employer, that is a major gamble we hope you’re not willing to take.

Not only do we need to consider the adverse economic impact of this proposal: it will have corresponding safety and environmental ramifications as well. Here’s why: it’s an economic reality that higher priced vehicles lead the industry with the early implementation of the most technologically advanced equipment, simply because these are expensive systems to develop. As innovative technology matures, the systems get widely adopted in our competitors’ vehicles at lower price, and a broader range of consumers benefit. By deferring purchases of our vehicles, that won’t happen: it will delay vehicles with our state-of-the-art technology from appearing on the roads of Connecticut. It will delay the broader adoption of our technology across the industry. Bottom line, the roads of Connecticut will be less safe, and your environment will be less clean.

To summarize, there are significant risks associated with this unique and onerous tax: your future revenue streams are at risk; the safety of your roads are at risk, and the environment is at risk. Daimler spends billions being the leader in innovation, and our Mercedes-Benz products provide the safest means of personal mobility. Consumers and the overall industry alike benefit from this innovation. I encourage you to not take any action that would preclude that from being realized in Connecticut.

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