Testimony of
Volkswagen Group of America
Submitted to
The Joint Committee on Finance, Revenue and Bonding
Connecticut General Assembly

March 7, 2011

Thank you for the opportunity to submit testimony today concerning the proposal contained in S.B. 1007 to add to the Connecticut vehicle sales tax an additional 3 percent tax on the portion of the sales price exceeding $50,000, and its potential impact on Connecticut automobile dealerships, their employees, and State revenues. Volkswagen Group of America includes both our Volkswagen and Audi brands. There are fifteen Volkswagen dealerships in Connecticut and seven Audi dealerships that call Connecticut home. Purchases of many Audi models will trigger the proposed tax increase. The disincentive to potential buyers of the proposed tax increase will have negative effects on these dealerships and more importantly, their employees.

On average, the individuals who own Audi dealerships have invested approximately $7.5 million in long-term assets within Connecticut, and each dealership employs an average 56 Connecticut residents, with an average annual salary of $56,000, and per-dealership payroll of over $3 million. We caution the Committee that this proposed tax increase puts these nearly 400 jobs and the economic impact created by the dealerships in jeopardy.

The following will outline the principle reasons Volkswagen and Audi oppose S.B. 1007. Primarily, the proposed tax increase would have a ripple effect throughout the state's economy, washing away jobs and car sales and causing significantly more economic loss than would be offset by any modest revenue increases that may result from the tax increase. Additionally, there are unintended consequences that can be anticipated if this proposed tax increase is enacted into law. For these reasons, we urge the Committee to prioritize Connecticut businesses, workers, and families by not adopting this detrimental proposed tax increase.

S.B. 1007 Will Eliminate Jobs and Export Car Sales with Minimal Positive Revenue Impact

If enacted, S.B. 1007 will discourage economic activity in Connecticut and could result in the export of jobs and car sales from Connecticut into other states, with little or no revenue benefit to Connecticut in return. While the intention of the proposed tax increase is to target purchasers of cars priced over $50,000, in actuality it will hit hardest the workers who make, sell, and service these vehicles – and their families. There is demonstrative evidence that sales will be decreased if the proposed tax increase is adopted. This will lead to an increase in pressure on auto dealers to downscale, or in the worst case shutter, their operations. This would of course be devastating for the nearly 400 employees of the seven Audi dealerships in the Connecticut.

In 1990, the U.S. Government adopted a law similar to the proposed tax increase as part of the *Omnibus Revenue Reconciliation Act of 1990,* which enacted a 10 percent excise tax on any passenger vehicle that cost more than $30,000. The result: already struggling vehicle sales worsened and auto manufacturers and dealerships all across the country laid off employees. The tax caused the American luxury car market to shrink by 30 percent. In 1991, the year the nationwide tax increase took effect, Volkswagen, for the first time since 1959, failed to sell 100,000 vehicles. Meanwhile, the policy forced companies like Jaguar to lay off 10 percent of its U.S. workforce.

Connecticut can expect a more detrimental impact on economic activity if the proposed tax increase is enacted. Unlike the 1990 tax, which took effect nationwide, leaving consumers with no alternative domestic purchasing options, this tax will be limited to Connecticut, and state residents will have the choice – and likely exercise it – to purchase their vehicles outside of Connecticut.

Further, previous experiences with vehicle taxes nationwide and in individual states suggest that Connecticut will not see increases in revenue to offset these damaging impacts. According to a 2002 report issued by the Congressional Research Service, the U.S. Government raised only a modest $3.94 billion throughout the ten-year history of the tax. Meanwhile, the increased luxury tax precipitated a decrease in revenue from other taxes. This happened because, when vehicle sales decreased, dealers paid less in payroll taxes, gas guzzler taxes, duties, and income taxes. By way of example, following the first year of the federal luxury tax of the 1990s, one dealership that made its records available to Congress reported paying *$129,000 less* in total federal taxes the year after the tax took effect.

California presents another example of how state policies intended to raise revenue through vehicle tax increases failed. A 2003 California law doubled the state tax on vehicles from 0.65 percent to 2 percent of the total value of the vehicle. According to statistics from California's 2011 to 2012 budget proposal, the increased vehicle tax contributed to a decrease of nearly $4 billion in state general fund revenues, which had increased by $8 billion the previous year. Further, the following year, after California repealed the policy, general revenues rose again by more than $5 billion. In 2009, as part of a suite of overall taxes to raise an additional $13 billion in revenue, California raised the tax again to 1.15 percent of the total vehicle cost. However, rather than increasing by $13 billion as forecast, revenues dropped by $10 billion.

In light of the significant costs to Connecticut businesses, employees, families and the state's tax base that can be anticipated from the proposed tax increase coupled with the questionable revenue benefits of the proposed tax increase, enacting this policy is wrong for Connecticut.

Other Unintended Consequences

There are additional negative consequences of enacting S.B. 1007 that the Committee must consider. First, the proposed tax increase discourages local businesses who are often good corporate citizens from locating in Connecticut. The seven Audi dealerships located throughout Connecticut have a strong record of community investment and involvement. Audi dealers support homeless shelters, Habitat for Humanity, the Leukemia & Lymphoma Society, and dozens of local charities. Important community relationships and investments would be significantly compromised with the anticipated downturn in vehicle sales resulting from the proposed tax increase, not only for Audi dealerships but for many dealerships throughout the state.

Second, while the proposed tax increase may appear to target "luxury" vehicle purchases, there are policy reasons to encourage purchasing of many vehicles priced above the $50,000 threshold. The proposed tax, for instance, is likely to discourage buyers from purchasing environmentally-friendly vehicles, such as Audi's TDI clean diesel vehicles, as well as certain hybrid and electric vehicle models offered by other manufacturers, which are more expensive than standard models. For example, Audi's Q7 TDI 7-passenger SUV costs $58, 325, a $5000 premium over our gasoline version. The VW Touareg TDI and Hybrid models also trigger the luxury tax. Discouraging the purchase of ultra-low emission products that are 30% more fuel efficient than their gas counterparts is short-sighted for a country working to reduce its dependence on foreign oil. Thus, the tax may discourage car buyers from purchasing environmentally-upgraded versions because they will be required to pay an additional 3 percent for the cost of the upgrade.

Finally, the tax may penalize vehicle purchasers who have disabilities or other special needs that require special equipment upgrades that can push the cost of the vehicles above the $50,000 price threshold proposed in the legislation.

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We therefore respectfully request that the Joint Committee reject the proposed tax increase.