March 4, 2013

TO: Finance, Revenue and Bonding Committee

FROM: Matthew S. Knickerbocker
First Selectman, Town of Bethel

RE: Proposal to Eliminate Certain Car Taxes

Dear Committee Members:

I write to you today IN SUPPORT of the Governor's initiative to eliminate automobile taxes with an assessed value of $20,000 or less. Given conversations I have had recently with many of my colleagues, I realize I may be the only town CEO in favor of this element of the Governor's budget, although I will quality my support in the narrative below. However, I believe strongly that this highly unfair and regressive tax actually hampers economic growth in our state, inhibits sales of new cars and contributes to unnecessary overhead and tax collection costs for every municipality, as well as the Department of Motor Vehicles.

Regressive and unfair

Unlike real estate, the value of automobiles does not vary from one location to another, and given the enormous wealth disparity in Connecticut, it is difficult to find an example of any tax that so unfairly targets those who can least afford it.

I will use my own 2008 Subaru Impreza, with an assessed value of $9,750 as an example. In New Canaan, the town with the highest per capita income in 2011 ($99,016), the current mill rate of 14.08 will cost the owner a mere **$137** in property tax. The same car in Hartford, the city with the lowest per capita income ($16,959) and a mill rate of 74.29, which is necessary to support city services, will cost its owner **$724**, a tax bill that is more than five times greater than in the wealthiest town. The implications to working people in this scenario are clear, especially considering our state's weak system of public transportation. This is a tax that can make it impossible for many low wage earners to afford the means to get to work.

If we believe in the ideal behind progressive taxation at all, there is absolutely no justification for this disparity. This regressive tax represents an unfair barrier to reinvigorating Connecticut's manufacturing base and must be corrected.

Impact on municipalities

Contrary to the objections you have undoubtedly heard, there is little truth to the claim that this initiative will automatically result in a loss of municipal revenue. As the Governor in his recent letter to municipal CEO's, the intent is not to reduce revenue, rather it is to restructure property taxation to make it fair. On average, car taxes represent only 5.5% of the annual tax revenue in Connecticut municipalities. While it is true that adjusting the mill rate to make up the difference in loss of car tax revenue will cause a small uptick in real estate taxes, the fact is most working families will benefit from the change. In the town of Bethel, for example, an analysis showed that over 70% of our residents would realize the same or lower total property taxes with the elimination of the car tax. In some cases the savings would be significant. Larger families that provide cars for their teens to get to school or work could see savings of hundreds of dollars per year.

Customer service burden

Assessing and collecting car taxes creates a burden for local municipalities that far exceeds the benefit of the relatively small amount of revenue derived. In Bethel's case, over 80% of the "problem collections" and complaints received in our tax office are related to car taxes. In addition, larger cities suffer commonly suffer from a much lower collection rate on car taxes than real estate, representing a hidden loss of revenue. Removing the burden of car taxes not only vastly streamlines these operations, it also has the potential for significant future savings at the state level, as the scope of the information technology and staffing DMV staffing levels could be decreased.

Easing the process of change

As with any change, not all participants will realize the same benefit. In this case, the taxpayer segment that will be forced to absorb the greatest share of the burden will be commercial property owners, along with a small number of residential property owners. Commercial and residential taxpayers who would not see an offsetting decrease in car taxes, either because they're vehicles are over the value limit, they do not own a vehicle or own an older vehicle, would have to absorb a year-over-year increase of about 5% in real estate taxes in order to keep municipal revenues flat. This presents a serious challenge considering the present economic environment.   The state would not want to take actions that would place additional tax liability on our already struggling business sector, nor add to the already significant burden felt by homeowners in an economy that has yet to fully recover.

For this reason, I recommend creating offsetting state income tax credits for both businesses and homeowners that would see an increase in total property taxes as a result of the elimination of the car tax. This would have minimal impact on state revenue, since a large majority of homeowners would not be eligible for the credit, as their total taxes would decreased as a result of the change. At the same time, it would hold harmless municipalities, homeowners and the many small local businesses that so vital to the economic health of our state and our communities.

Sincerely,

Matthew S. Knickerbocker
First Selectman
Bethel, CT