

## TESTIMONY OF James Fleming

### President Connecticut Automotive Retailers Association

### Joint Public Hearing of the committees on Appropriations, Commerce, Finance Revenue and Bonding, and Planning and Development

### Concerning the report of the

### Commission on Fiscal Stability and Economic Growth

March 21, 2018

My name is James Fleming. I am the president of the Connecticut Automotive Retailers Association (CARA.) CARA, founded in 1921, is one of the oldest trade associations in our state and represents the interest of the 270 new car dealers in Connecticut. Our members are almost exclusively generationally owned family businesses. In 2017, CARA dealers had sales of 10 Billion dollars' representing over 17% of the total retail sales in this state. CARA dealers directly employ over 14,397 people in good jobs with an average salary of \$63,000 dollars per year with a combined payroll of \$880 million and \$327 million paid in state and federal income taxes. These are good jobs, highly skilled with health benefits and pension plans. Our industry is also directly responsible for another 14,747 jobs in associated businesses such as delivery services, radio, newspaper and TV advertising, parts, service etc. Taken as a whole, auto retailers are one of the state's largest employers. Any decision that impacts our industry must be carefully weighed.

I am here to testify in support of retaining the Auto trade-in allowance pursuant to Section 12-430(4) of the Connecticut General Statutes. Although the Commission report, does not highlighting any specific exemptions that should be retained or deleted the report does recognized the importance of retaining exemptions based on "***sound policy rationale (e.g., cost of collection, avoidance of cascading and redundancy, and conformity with federal or state law)***" \*on which the trade in allowance is clearly based. This sales tax trade in exemption clearly fits the commissions criteria for retention as it is well thought out and designed to avoid ***cascading and redundancy*** in this case the double taxation of product, an automobile, from being taxed twice once when originally purchased and then again when its value traded in towards the sale of a new vehicle. This exemption has been on the on the books in our state since 1961. It is ***sound policy rationale policy*** nearly universal throughout the United States ***conformity with federal or state law*** in nearly every state with a sales tax by providing an exemption from the sales tax for the value of a trade-in vehicle during a sales transaction for the purchase of a new or used motor vehicle. In fact, if it were not the law in our state today, I

advocate that the legislature retain this exemption as a pro-growth, pro-job and pro-tax revenue generator for our state. Any decision eliminating the Auto Trade allowance is short sighted - while it may initially seem to add more dollars to the state budget – it will result in fewer cars being sold, **producing less sales tax, loss of auto retailing jobs and increase consumers cost to finance a vehicle. (Please see the attached testimony submitted to the commission on January 23, 2018.)**

With respect to the legislature adopting any recommendation for an additional sales tax imposed at the local or regional level I would urge caution and rejection of such a proposal as it will have a negative impact on revenue collected under the state's sales tax with respect to automotive sales. Which, as noted, accounts for over 17% of all retail sales in our state and the concurrent sales tax associated with those transactions. Respectfully on a cautionary note, the policy makers should be aware for example that not all the counties in New York have the local county sales tax option on vehicles because of reservations that the effect of such additional taxes will force New York consumers to cross into Fairfield and Litchfield counties in Connecticut for purchases, thus hurting New York retailers and the jobs associated with those retailer businesses. In a geographically small state like Connecticut, a local or regional sales tax will on vehicles costing thousands of dollars and involving long term auto loans will undermine auto retailers by putting them at a distinct and unrecoverable price disadvantage with retailers located just steps away in neighboring municipalities and states that have a lower sales taxes.

In the case of inter-town sales tax discrepancies dealerships that are physically located in towns with higher sales tax rates will without question lose business and associated employment to towns where the tax on the vehicle and service work tax at a lower rate is.

The second concern and perhaps the gravest unintended consequences for the state will be the resultant state sales tax loss due to municipal sales taxes forcing sales and service across the state line to NY, Mass and RI. Consumers will cross the border to avoid the higher municipal sales taxes and financing costs. And, although such cross-border sales will eventually pay the Connecticut sales tax upon registering the vehicle in Connecticut, the larger concern is that consumers tend to have their vehicle serviced at the dealership where they purchase the car. Such taxable services performed in other states will translate into a loss of significant Connecticut sales tax revenue and employment in local Connecticut dealerships. Over 30% of a dealership's income is in service/repair work. Considering that sales in our state by just new car dealerships in 2017 approximated 10 billion dollars; if just 5% of existing service, warranty and repair work crosses the border into our neighboring states the loss in Connecticut state sales tax will be in excess of \$15,000,000 dollars.

Thank you for consideration of my views on this important topic.