

# CONNECTICUT AUTOMOTIVE RETAILERS ASSOCIATION

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## TESTIMONY OF James Fleming

President Connecticut Automotive Retailers Association

State Tax panel Public Hearing

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Good Afternoon members of the Taskforce - 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, CARA represents the interest of the 269 new car dealers in Connecticut. Our members are almost exclusively generationally owned family business. When taken as a whole CARA dealers sell over \$9.5 Billion dollars' worth of vehicles representing 16.9% of the total retail sales in this state. We employ 13,164 people in good jobs with an average salary of 59,404 dollars per year paying 782 million in payroll and 229.4 million in payroll taxes. These are good jobs, highly skilled with health benefits and pension plans. Our industry, made up of small businesses is 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 the existing state tax policy that includes an Auto Trade-in allowance pursuant to Section 12-430(4) of the Connecticut General Statutes. This sales tax credit is well thought out and has been on the books in our state for many years. This type of credit is nearly universal throughout the United States and provides an exemption from the sales tax for the value of a trade-in vehicle during a sales transaction for the purchase of a new, separate motor vehicle. This exemption is most commonly referred to as the "credit for trade" sales tax exemption. It is vital to consumers and is important to the viability of Connecticut's automotive retail sector.

I do not have to explain to you that if car dealers lose business in vehicle sales, service and parts it will significantly impact the state's economy and result in job losses at our dealerships and tax revenue at the state and local level. Again, we estimate that the 269 dealerships in our state could lose upwards of 1000 jobs costing the state millions of dollars in lost income taxes and adding millions of dollars in unemployment benefit costs for those workers.

THIS IS NOT JUST IDLE TALK AND STATISTICS, THESE ARE REAL JOBS AND REAL LOSSES. History bears this out, the state of Maine adopted this same proposal some years ago. Sales dropped, state revenue dropped drastically and dealerships faced layoffs. Fortunately, Maine called a special session once they realized the mistake and repealed the repealer.

Connecticut has recognized that repealing this exemption is bad policy. It will not help balance the budget and it will not help our economic recovery. This is a fair rule and

one that has been in effect in Connecticut since 1961. The fact is, the rule prevents a double taxation on the trade-in vehicle since it had been assessed the sales tax when originally purchased. Our own state legislative Office of Fiscal Analysis has stated the exemption is **“intended to make instate businesses more competitive with those out of state”**. The rule has a positive impact on economic activity in the State of Connecticut and it should be retained in statute.

Any decision to repeal an important tax exemption incentive that allows consumers to use their automobile to buy another car is counterproductive and was rejected by the legislature in 2013. It 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 benefits and increase consumers cost to finance a vehicle.**

Taxing the trade-in value of a car, essentially the down payment, at 6.35% will mean a BIG LOSS not a gain to the state, the “credit for trade” sales tax exemption is so important to Connecticut’s automotive sector, I respectfully request you please consider the following arguments for retention of the automobile trade-in allowance:

Section 12-430(4) of the Connecticut General Statutes provide an exemption from the sales tax on the value of a trade-in vehicle during a sales transaction that includes the purchase of a separate motor vehicle. As an example, a consumer who buys a new, motor vehicle for \$25,000 would owe \$1,588 in sales tax. If that same consumer trades in his or her current auto as part of the transaction for \$5,000, the sales tax due is calculated on the difference between the two costs – a savings of \$318 dollars:

*With Credit for Trade:  $\$25,000 - \$5,000 = 20,000 \times .0635 = \$1,270.$*

*Without Credit for Trade:  $\$25,000 \times .0635 = \$1,588.$*

The outcome of this is \$318 less towards a down payment which makes it more difficult to get a loan, makes the loan more expensive, increases the amount financed over the life of the loan and raises the monthly payment.

Repeal of the Credit for Trade rule would hurt Connecticut’s consumers and the automobile sector, which has been faced with extremely difficult economic pressures. It will cost ordinary consumers in Connecticut hundreds—or thousands—of dollars in a tax hit and may actually reduce revenue to the extent that consumers put off purchases or opt for lower priced vehicles, or purchase and service out of state.

It is difficult to estimate the impact his will have overall but suffice to say 25% of Connecticut’s auto dealers are within 15 miles of the state border and this will have a dramatic negative impact on these businesses.

Additionally nearly 30% of a dealership's business is in service of the vehicles after sale. This service is also subject to the state sales tax. Most consumers service their vehicles where they purchase the vehicle thus the loss of vehicles sales to out of state dealers will have a negative impact on state sales taxes for parts, service and warranty the state collects on those transactions.

The trade-in allowance eases the amount of cash a consumer must come up with to qualify for a loan by both reducing the amount of tax paid but more importantly the amount that a dealer allows towards the bottom line price of the vehicle. Repeal of the trade-in allowance will cost, on average, over \$1000 dollars to the cost of an auto loan. In many cases this will make or break a deal.

The trade-in allowance eases the ability of low income and poor credit risk customers to get affordable credit as the trade-in allowance reduces the amount of the loan and need for cash down payments. The amount allowed by dealers for a trade-in oftentimes helps to lower the monthly payment and finance costs to a consumers for auto loans. This will mean less automobile sales sold and reduced sales tax revenue to the state.

Repeal of the allowance will reduce the number of vehicles used for trade-in purposes. If the allowance is repealed, some customers will sell the car on their own privately and perhaps avoid the tax with a private unregulated transaction or choose to delay or simply not make a new vehicle purchase. Keep in mind that privately sold vehicles under 10 years old receive no safety inspection. All dealer sold used vehicles must receive a DMV mandated safety inspection prior to being placed on the lot for sale.

There is a fairness issue which results when taxing the value of an automobile trade-in. In some cases it is double and triple taxation of the same vehicle. The issue is that the tax was already paid on the value of the trade-in vehicle at the time of original purchase and the exemption from the sales tax recognized this. Additionally when the "trade-in" is resold as a used vehicle the state will at that time tax the sales price of the transaction. To tax the value of the trade-in at time of trade on a new purchase is essentially a triple tax on the same vehicle.

Dealers purchase new vehicles and pay sales tax on the purchase. These cars are used as loaner cars for customers who have vehicles in for repair. A dealer will then use the loaner vehicle as a trade-in when purchasing a new dealership "loaner vehicle". Repeal of the trade-in allowance will result in less frequent dealer purchases of loaner vehicles and therefore sales tax to the state on the new vehicle purchase.

CARA is concerned that repealing the sales tax credit on the value of trade-in vehicles will be counterproductive. This allowance is a strong inducement for consumers to purchase new vehicles. Additionally, given the still tight consumer credit market, this allowance eases the dealer's ability to obtain affordable credit and terms for consumers.

In summary, we believe the loss of sales tax trade allowance will hurt the consumer, the dealer and economic recovery of our industry that is just beginning to take hold. Repealing the trade-in allowance will significantly reduce the number of vehicles sold and the associated sales tax collected that the state desperately needs to help balance its budget. Finally, given that Connecticut is geographically situated so close to 3 other states consumers always have the option to cross the border thus reducing sales to Connecticut businesses and jeopardizing the jobs of the people we employ.

**CARA estimates State revenue loss as follows:**

\$19,250,000 in lost sales tax on parts and service business.

\$91,200,000 in lost sales taxes as consumers defer purchases or purchase less expensive vehicles.

\$1,700,000 in state income taxes due to job losses at dealerships.

**We estimate State Job losses as follows:**

Dealerships will lose 735 jobs. We will lose sales and the salespersons' jobs. We will lose auto tech jobs because people who buy at out of state dealerships will service the vehicles out of state at the dealership where they purchased the vehicle. Dealership employees will lose \$41,160,000 in wages and the State will incur \$21,200,000 in unemployment compensation costs

**Consumers... your constituents will lose:**

Consumers will, on average, pay an additional \$1,012.20 dollars on the price of a 5 year auto loan because of the lost value of the trade-in down payment towards the purchase of a new vehicle.

**Consumers...your constituents lose safety:**

Many people don't realize that car dealers are mandated as part of their license process to do a full safety inspection on used cars. As more consumers opt for private party sales due to the lost trade- in exemption; used vehicles will go on the road without safe brakes, tires, steering and other safety features being inspected. DMV performs safety inspections on cars 10 years of age and older when sold. The cost for DMV to do safety inspections rather than dealers would be prohibitively costly and would certainly further exacerbate the state budget deficit.

Respectfully, I urge the state to retain the automobile sales tax trade-in allowance as part of our state tax policy.