

TESTIMONY OF James Fleming

President Connecticut Automotive Retailers Association

Commission on Fiscal Stability and Economic Growth

January 23, 2018

Good afternoon chairpersons Smith and Patricelli, members of the Commission - 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 270 new car dealers in Connecticut. Our members are almost exclusively generationally owned family business. 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 14,000 people in good jobs with an average salary of \$63,000 dollars per year with a combined payroll of \$880 million paying \$327. million in state and federal income. 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 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 or used motor vehicle.

This exemption is most commonly referred to as the "credit for trade" sales tax exemption. IT IS IN EFFECT THE SINGLE LARGEST PORTION OF THE DOWNPAYMENT CONSUMERS MAKE WHEN OBTAINING CREDIT TO PURCHASE OR LEASE A VEHICLE.

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 add thousands of dollars to the cost of an auto loan. In many cases this will make or break a deal.

For example, taxing a trade-in vehicle worth \$21,000 at 6.35% reduces the amount towards the down payment by \$1,333.50 which increases the monthly payment by \$27.00 or \$1,620.00 over the course of a 60 month loan. Credit for trade is vital to consumers and is essential to the viability of Connecticut's automotive retail sector. I urge the Commission to not only support maintaining this provision in our tax laws but to

actively oppose removing in from the books as the consequences of this will result in job loss at existing dealership , a significant reduction in vehicle sales and a reduction in sales tax revenue due to deferred vehicle sales, drop in the average vehicle sale price and lost sales for maintenance services as consumers purchase and service vehicles out of state in order to take advantage of more favorable credit terms and lower month payments in Massachusetts, New York and Rhode Island where dealers will apply their states credit for trade provision.

CARA estimates that the 270 dealerships in our state could lose upwards of 1000 jobs costing the state millions million dollars in lost income taxes and adding million dollars in unemployment benefits costs for those workers as a result of losing the credit for trade provision.

THIS IS NOT JUST IDLE TALK AND STATSITICS, 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 layoff. Fortunately, Maine called a special session once they realized the mistake and repealed the repealed.

In the past Connecticut has recognized that repealing this exemption is bad policy. It will not help balance the budget and it will not help our states economic recovery. This is a fair rule and one that has been in effect in Connecticut since 1961 and is law in nearly every one of the 50 states. 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. 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.

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 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, respectfully please consider the following arguments for retention of the automobile trade in allowance:

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 opt for lower priced vehicle, purchase and service out of state.

Repeal of the allowance will also reduce out of state consumers from cross boarder sales in Connecticut as the advantage to purchase in Connecticut by NY, RI, MA, and other New England state residents will be lost. It is difficult to estimate the impact this will have overall but suffice to say 25% of Connecticut Auto dealers are within 15 miles of the state board and this will have a dramatic negative impact on these businesses. Additionally, nearly 30% of a dealerships 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 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 often times helps to lower the monthly payment and finance costs to a consumer 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 private unregulated transaction or choose to delay or simply not make a new vehicle purchase. Keep in mind that privately sold vehicles under 10-year-old receive no safety inspection. All dealer sold used vehicles must receive a DMV mandate safety inspection prior to being place on the lot for sale.

Additionally, because dealers have some discretion in the amount they allow for the value of a trade-in towards the purchase price, dealers may lower the amount of value allowed for the trade in to offset the tax. Ultimately, this will reduce the number of auto sales and the resultant taxes and fees paid to the State.

This a fairness issue for consumers as well because taxing the value of an automatable trade in is double and triple taxation of the same vehicle. 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 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 stock 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 counter-productive. 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 Connecticut's economic recovery. Auto retailing sales represents \$10 billion dollars, 17.7% of all of our states total retail sales. A percentage that unlike national statistics has been dropping steadily in the last 3 years. Please see the attached graph: In 2015 new car dealership sales totaled \$11.2 billion dollars in 2016 it dropped to \$10.3 billion although the final numbers for 2017 are not yet available it is conservatively estimated that it will drop to below \$10. Billion. Finally based on the now declining national industry SAAR figure national sales will drop by 2% which historically will be larger in Connecticut dropping sales to the mid \$9 billion. I advise caution and respectfully remind the commission that in the credit crunch of 2008 Connecticut sales dropped to \$6 billion dollars and resulted in the loss of 30% of the dealerships and thousands of associated dealership jobs. It would be wrong headed at this time to make it more difficult and expensive to sell cars in our state.

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 purchase or opt to purchase less expensive vehicles.

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

\$5,000,000 in lost revenue from the newly enacted \$35-dollar Connecticut Dealer Trade in Fee

CARA estimate State Job losses as follows:

Dealerships will lose 1439 dealership jobs. We will lose sales and the salespersons jobs. We will lose auto tech jobs because people who buy out of state dealerships will service the vehicles out of state at the dealership where they purchased the vehicle. Dealership employees will lose \$88,000,000 in wages. Indirect job loss from parts and material suppliers for lost service work will likely equal another 1400 jobs.

Consumers... will lose:

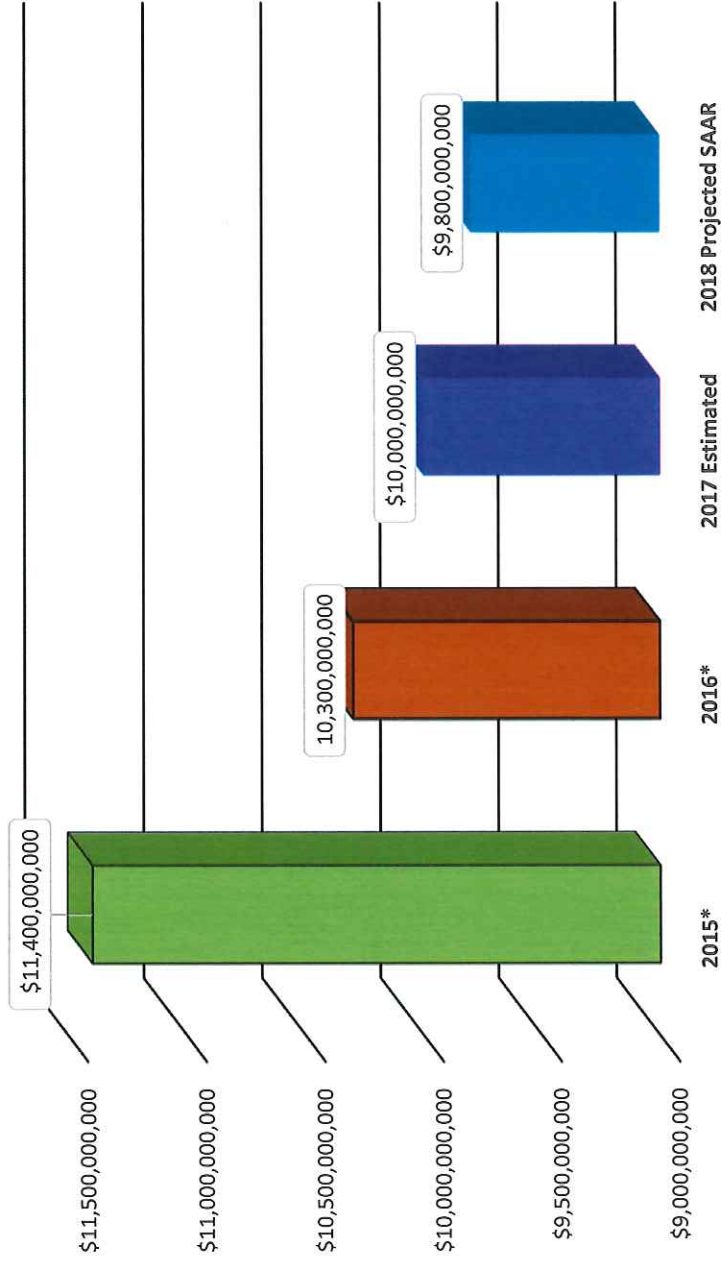
Consumers will on average pay an additional \$1,680 dollars on the price of a 5-year auto loan because of the lost value of the trade-in down payment towards the purchase of a new vehicle.

Consumers... lose safety inspections:

Many people don't realize that Car Dealers are mandated as part of the 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, tire, steering and other safety features being inspected. Note, DMV only performs safety inspection on cars 10 years of age and older. 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 Commission to retain the automobile sales tax trade-in allowance as part of our state tax policy and job retention efforts.

Total New Car Sales



* Sources: Alliance of Automobile Manufacturers, Center for Automotive Research, HIS Markit, NADA Industry Analysis Bureau of Labor Statistics