Death and Taxes

Our legislators tried to eliminate the much-maligned car tax before — and they failed. With hundreds of millions of dollars at stake, will the current plan work?

Jack (not his real name) was a managed-care nightmare. Homeless and unemployed, the fifty-one-year-old alcoholic was plagued by stomach pain and mobility issues. He was eligible for Medicaid, but he hadn't seen his primary care physician in more than a year. Nonetheless, Jack had gotten lots of medical attention: sixty-five hospitalizations between January and September 2017, costing roughly $200,000 in emergency room visits and inpatient stays.

In 2013, the state hired CareLink, a nonprofit network of health care managers, to help more than 2,600 Medicare and Medicaid recipients get the right treatment in the right setting. In June, CareLink's Community Health Team RI (CHT) tracked Jack down. He wasn't receptive at first, but eventually, Jack started seeing his doctor and taking his medications regularly. His hospitalizations dropped by 50 percent in five months, saving $36,000.

The CHT might have continued to help Jack, but in mid-October, CareLink learned that the state had chopped the $700,000 program. So what motivated officials to clip a program with the potential to deliver significant health care savings?

In late September, the General Assembly closed out the legislative season after House Speaker Nicholas Mattiello and Senate President Dominick Ruggerio made peace over a plan to gradually eliminate the automobile excise tax, otherwise known as the car tax. The August passage of a budget that included $26 million for the phase-out's first year was followed by a special session in which the legislature approved a bill requiring the Department of Revenue to study the impact of axing the tax.

Mattiello, for whom this was a signature issue, pronounced himself "thrilled for the Rhode Island taxpayer. People were angry with the rate and amount of car tax. It's an unfair tax — I heard it from constituent after constituent. We are elected to represent the interest of folks. The people wanted this, and it's our job to get it done."

To be sure, the car tax is particularly hated — and baffling to transplants who came from one of the twenty-six states that did not tax motor vehicles.

"When I first moved here, I was in shock that they even had one.

ILLUSTRATION BY RYAN PELTIER

I had never heard of an auto excise tax," says Wade Murray, a car salesman in West Warwick. "Some people bring it up. I used to hear it a lot. When I would complain about it, people would say: Well, that's Rhode Island."

Part of that disdain is rooted in the way the tax wildly varies from town to town. The car tax, a municipal revenue-generator, is predicated on three factors: the value of the vehicle, the amount each city and town exempted from taxation and the tax rate.

Vehicle values — with the exception of the three municipalities — are set by the state Vehicle Value Commission. But each of the thirty-nine cities and towns has different exemption amounts and tax rates. A resident of Pawtucket, with a high $53.30 tax rate and a minimum $500 exemption who owns a $40,000 vehicle, would pay a $2,105 car tax. A resident of Block Island, with a $9.75 rate and $1,000 exemption, would only pay $380 for the same car. The car tax is also considered a regressive tax, because it represents a larger percentage of income for lower and middle-income taxpayers.

Under the first year of the phase-out, all vehicles fifteen years or older are immediately exempt from any tax. The minimum exemption was raised from $500 to $1,000, and would rise annually in $1,000 increments to $6,000 in 2023. The new valuation rate is 95 percent of Kelly Blue Book value, dropping by 5 percent increments until the tax is eliminated in 2024.

Beginning in 2021, the Department of Revenue is required to file annual reports with the General Assembly on the impact of the measure on the state's fiscal health. Director of the Office of Management and Budget Jonathan Womer says they are now developing the methodology and determining what data will be collected.

The job, though, is not exactly done. The new law, which replaces the cities' and towns' lost revenues with state funds, is estimated to cost $598 million in lost revenues over the life of the phase-out. After 2023, lost revenues will amount to $221 million per year.

As part of the budget that phased-out the tax, the legislature directed Governor Gina Raimondo to find $25 million in savings. The biggest chunk — $15 million — will come from a reduction in the state workforce through attrition and a retirement incentive program launched in October. With payouts as high as $40,000, about 50 percent of 940 eligible workers were expected to take early retirement.

Another $5 million would come through management efficiencies — re-negotiating energy contracts and shifting personnel, for example — and the remainder from cuts to Medicaid.

"We have real concerns about how the state is going to pay for this going forward," says Rachel Flum, executive director of the Economic Progress Institute, a non-partisan research and public policy group that advocates for low-income Rhode Islanders. "This was not vetted. While the cuts are to small programs, we are concerned about a ripple effect. It's not just where we are but where we are headed, which is unknown."

Brian Daniels, executive director of the Rhode Island League of Cities and Towns, echoed Flum's caution while praising the structure of the phase-out.

"It makes the system fairer over time, with less variation. And, a better system would improve compliance; people would be more inclined to register a car where they live," he says. "The long-term sustainability is a concern."

University of Rhode Island economics professor Leonard Lardaro, a fierce critic of the state's penchant for pass-it-now, worry-about-it-later policymaking, was blunter in his assessment.

"They have no idea where the money is coming from; they never did," he says. "One of the most important criteria for fiscal policy is affordability, and there's no way we can sustain this. This is a big mistake, and we will come to regret it."

That was the case in 2010, when a 1998 law to gradually rid the state of the car tax died. The repeal had been buoyed by an improving economy and budget surpluses welcomed after the credit union crisis, says Antonio J. Pires, who championed the measure as then-chairman of the House Finance Committee. But the plan was delayed, then scaled back. In 2010, after the tough back-to-back budget years of the Great Recession, the effort stalled.

"I understood the math," says Pires. "If it happened once, it can happen again. My only regret is that I could have been a little smarter about making it harder to repeal. Once we had given the taxpayers a taste of relief, it would have been wise to put the initiative on a referendum and lock it in, so only the voters could be the ones to kill it."

Twenty years later, state officials are headed into the second round of car tax repeal with the same confidence about the economy's ability to replace the lost car tax revenues. For one, eliminating the car tax will reduce Rhode Island's property tax burden, making it more competitive with other states.

"The money will come from the economy," says Mattiello. "We have hope that we have economic growth. The economy is not stagnant. If we control expenses and if we manage the government properly, the implementation [of the repeal] is not the biggest challenge we face."

Some of the initial signs have been less than positive. The September Revenue Assessment Report, a monthly snapshot of adjusted general revenues, posted a 1.2 percent dip of $9.2 million. The construction of Twin River's Tiverton casino — expected to bring in up to $55 million in tax revenues — is behind schedule. And then there is the specter of the Trump administration and U.S. House budget, with deep cuts to Medicaid, and a shifting of federal programs like Supplemental Nutrition Assistance Programs (SNAP) to the states.

Raimondo's Deputy Chief of Staff Kevin Gallagher brushes those concerns aside: the 1 percent dip was not significant; he expects revenue projections to be on target; Twin River's Tiverton casino opening was only delayed by three months; the riven Congress hadn't passed a budget in years, relying on short-term continuing resolutions to see the federal government through to the next patch. The state is enjoying an improved labor market, and the state is in a position to boost its sales tax revenues now that it has collection and remittance agreements with 120 online retailers, including Amazon.

"We are optimistic," he says.

Ellen Liberman is an award-winning journalist who has commented on politics and reported on government affairs for more than two decades.