**Testimony regarding Article 9 – Motor Vehicle Excise Tax**
**Senate Committee on Finance**
**April 25, 2019**

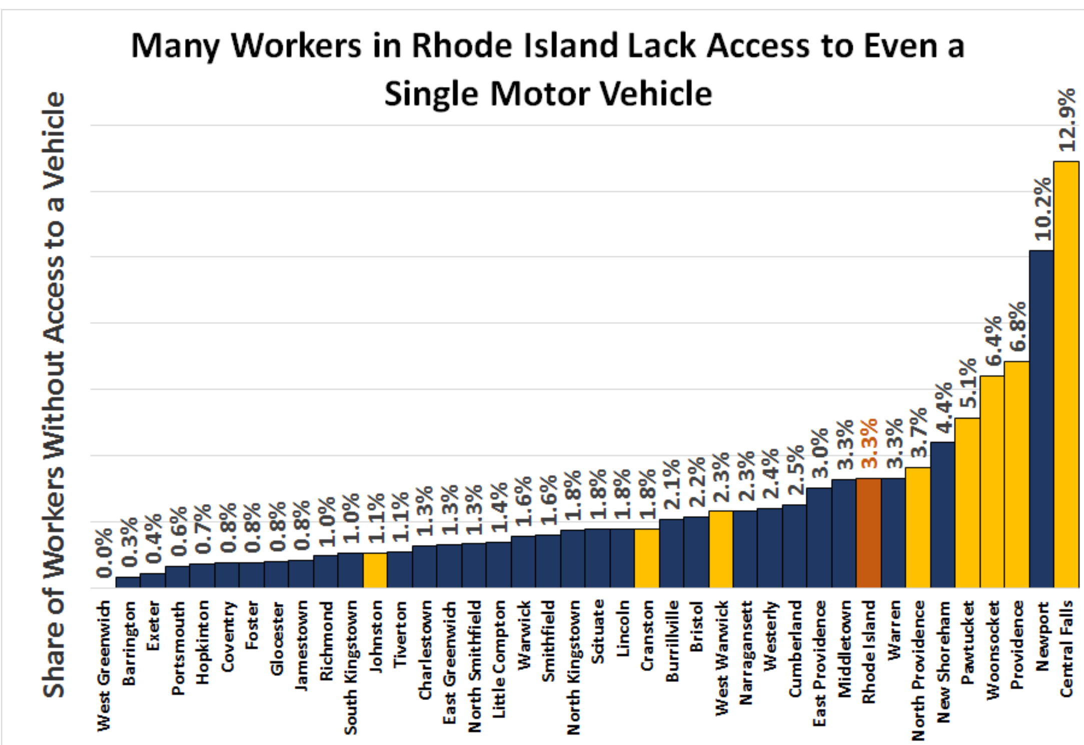
Article 9 of the Governor's proposed FY20 budget includes a provision to slow the phase-out of the Motor Vehicle Excise Tax, or "car tax". The budget proposal raises the opportunity to review whether phase out of the car tax is good public policy.

We think it is important to think critically about the car tax phase out and offer these three points:

**Full Cost of Phase Out is Unaffordable**: As we testified when the car tax phase out was proposed two years ago, while we appreciate that the car tax is intended to give tax relief to Rhode Islanders, the state cannot afford yearly relief proposed in current law or in the Governor's proposed changes, of $234 million a year after full phase-out in FY2024.

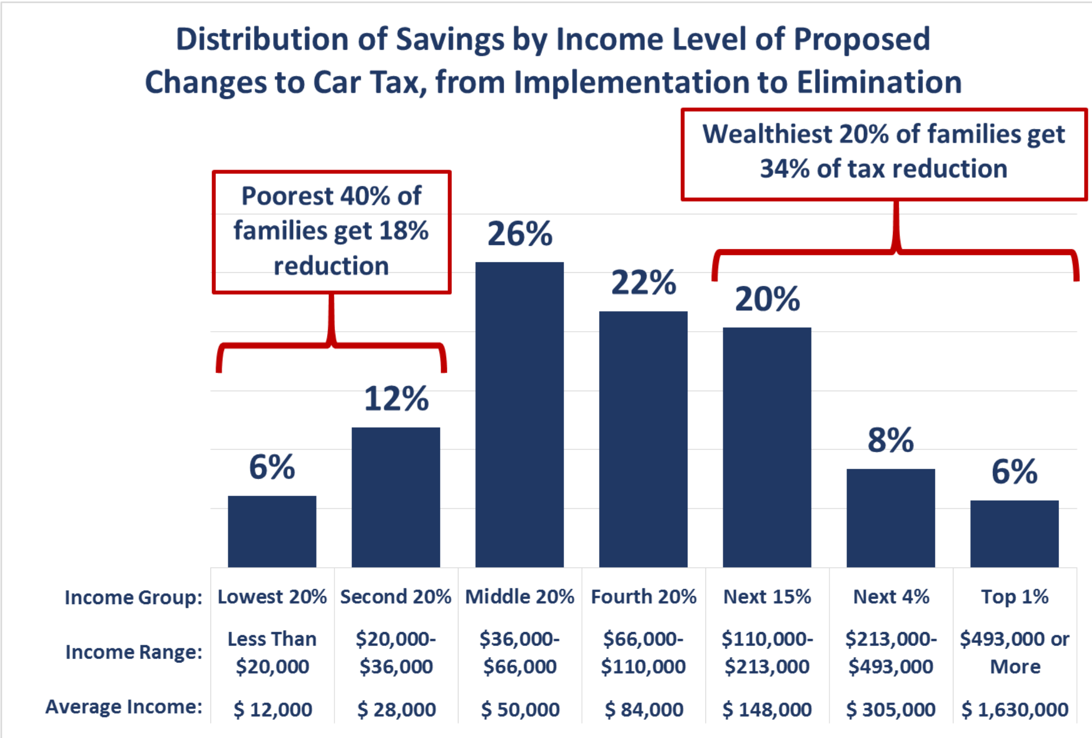
**Tax Relief Should be Targeted:** To the extent that the state wants to provide tax relief to its residents, that relief should be targeted to those who most need it.

First, it is important to recognize that not all Rhode Island workers own cars. Figure 1 shows the rates, by locality, of workers who do not own a car. These Rhode Islander have not seen and will not see *any* tax relief from the car tax phase out. Indeed, they will, no doubt, pay new sales and use taxes necessary to cover the state reimbursement to localities and the tax burden on those without cars is thereby *increasing*.



Source: US Census Bureau, American Community Survey, 5-year data, 2013-2017.
Towns in gold are Rhode Island's FY2019 Distressed Communities.

Secondly, as structured, most of the tax relief accrues to higher income Rhode Islanders. According to the Institute on Taxation and Economic Policy (ITEP), with a complete phase out, lower-income families (those in the lower 40% of household incomes) would receive 18% of the total tax reduction, while the wealthiest families (the top 20% of household incomes) would take in about a third (34%) of the overall Car Tax reduction.[1]



Source: ITEP Microsimulation Model, 2017 (model assumes statewide average MVT rate of 3.4%, and $1,500 exemption level).

A more targeted way to provide tax relief to lower income individuals would be to increase the size of the state Earned Income Tax Credit (EITC). Increasing the EITC from 15% to 20% of the federal EITC could be achieved for less than $9 million, monies which would go into the pockets of lower-income and middle-income Rhode Islanders – and very likely back into the local economy.

**State Aid a Larger Question:** We believe the car tax needs to be looked at in the broader context of state aid to cities and towns in aggregate, considering all forms of state aid and what is equitable and fair to both the state, communities and tax payers.

[1] ITEP's analysis assumes a statewide exemption of $1,500, and a statewide 3.4 percent MVT rate. In Rhode Island municipalities with an exemption higher than $1,500, a larger share of the tax cut goes to wealthier families (and a smaller share to lower income families); in municipalities with a lower exemption than $1,500, a larger share of the tax cut goes to lower income families (and a smaller share to wealthier families).