**Testimony regarding H7171, Article 9 – Motor Vehicle Excise Tax (Relating to Local Aid)**
**Senate Committee on Finance**
**February 27, 2020**

Article 9 of the Governor's proposed FY2021 budget includes a provision to slow the phase-out of the Motor Vehicle Excise Tax, or "car tax." We support this proposal, which raises the opportunity to review whether phase out of the car tax is good public policy.

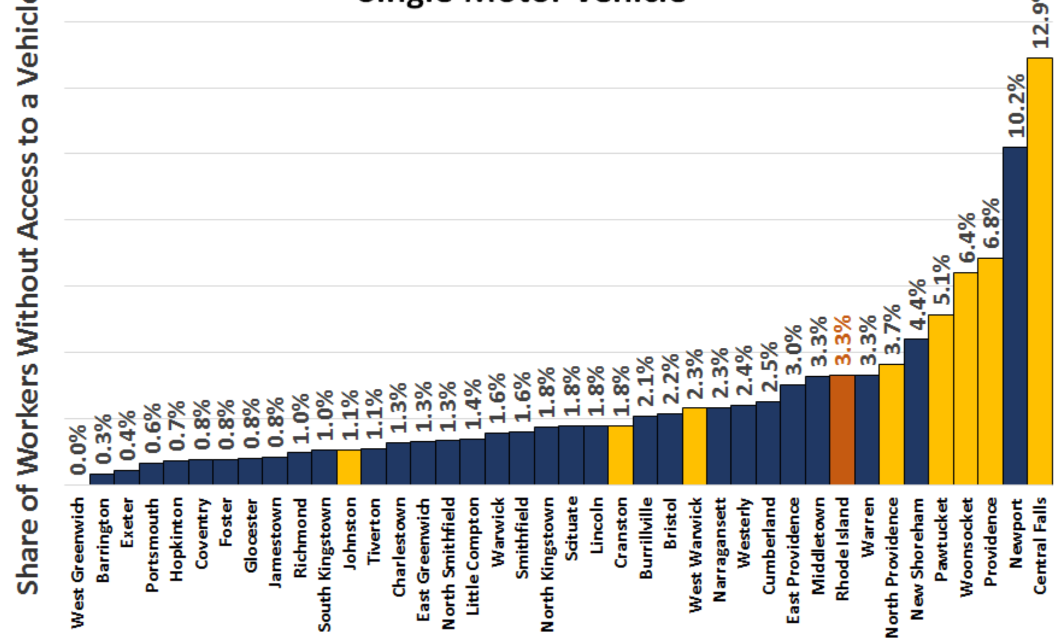
We think it is important to think critically about the car tax phase out and offer these three points:

**Full Cost of Phase Out is Unaffordable**: As we testified when the car tax phase out was proposed originally, while we appreciate that the car tax is intended to give tax relief to Rhode Islanders, the state cannot afford ongoing, yearly relief of at least $234 million a year after full phase-out.

**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.

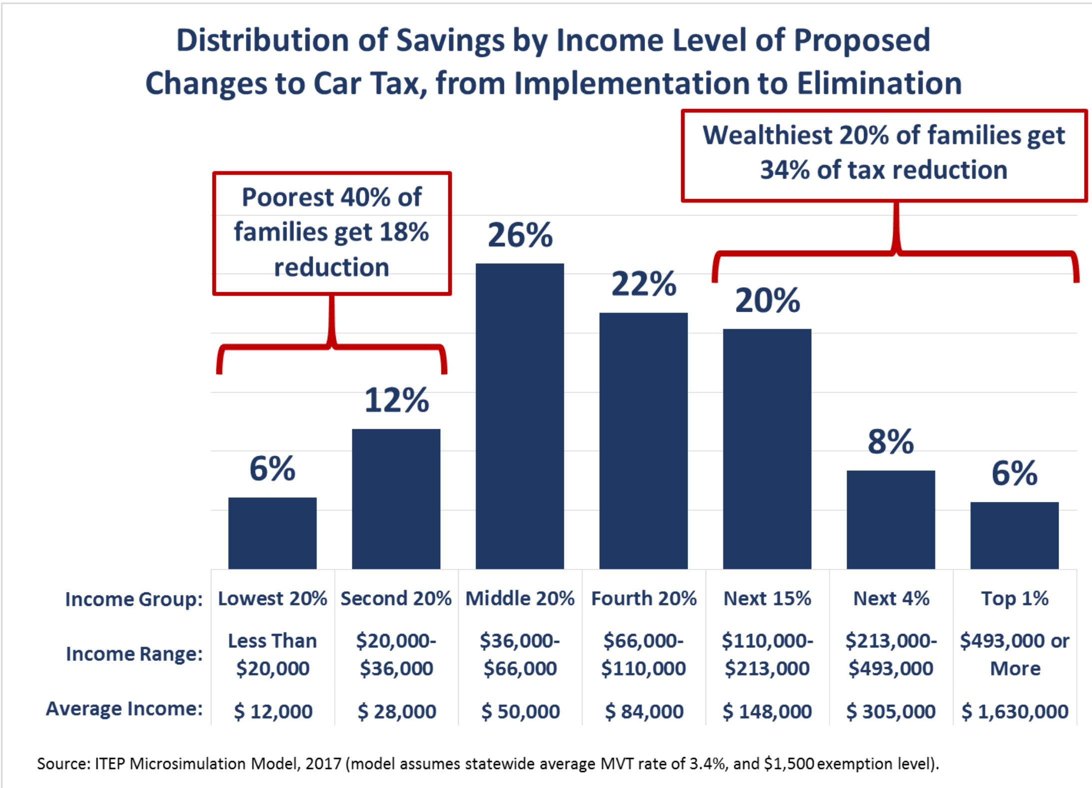
First, it is important to recognize that not all Rhode Island workers own cars. The chart below shows the rates, by locality, of workers who do not own a car. These Rhode Islanders have not seen and will not see *any* tax relief from the car tax phase out. Indeed, they will, most likely, pay new sales and use taxes necessary to cover the state reimbursement to localities. The tax burden on those without cars is thereby *increasing*.

**Many Workers in Rhode Island Lack Access to Even a Single Motor Vehicle**




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]




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

[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).