Testimony in Opposition to H6267
House Committee on Finance
June 6, 2017

The Economic Progress Institute is opposed to **House Bill 6267, *An Act Relating to Taxation – Excise on Motor Vehicles and Trailers*** in its current form for the following reasons:

1) It is not affordable to fully phase out the motor vehicle tax (MVT) without identifying new revenue sources to offset the estimated annual cost of $221 million (this amount is in addition to the $10 million in state aid currently allocated to partially offset the MVT). Given current fiscal constraints, even the $25.2 million cost in the first year of the phase-out is problematic.
2) The specifics of looming federal budget cuts remain unclear; we know that cuts are coming, placing Rhode Islanders – and the Rhode Island budget (one third of which relies on federal funds) - at risk. Potential cuts to Medicaid (a $2.6 Billion program in Rhode Island), SNAP, LIHEAP, education, housing and workforce development, would have a significant and harmful impact on the state budget. This is no time to decimate state revenues further.
3) In the absence of new revenue sources, the MVT phase out will require significant budget cuts. Both the General Assembly and the public should understand what cuts are on the table before embarking down the path of the proposed MVT phase out.
4) The MVT needs to be looked at in the broader context of the relationship between the state and localities. There are glaring needs in our education system – most urgently the need to address long neglected school infrastructure investments – that merit higher priority than totally phasing out the MVT. Investments in school construction and services for English language learners will pay larger dividends for the state than will elimination of the MVT.

We do, however, agree that we should bring some relief to low and modest income people and that there are inequities in the current MVT system. Increasing the exemption, and moving away from "blue book" valuation would provide such relief. (A more targeted way to provide tax relief to low income Rhode Islanders would be to increase the size of the state EITC. Increasing to 20 percent of the federal EITC could be achieved for less than $9 million.)

Overview of the Components of the MVT

The Motor Vehicle Tax (commonly known as the "Car Tax") is a property tax collected by each Rhode Island municipality based on the value of each motor vehicle owned. There are **three components** that determine how much each individual car is taxed: **valuation, tax rate and exemption**.

The **valuation** of the motor vehicle is set by the Vehicle Value Commission, a state-wide body appointed by the Governor. [1] In all but three Rhode Island towns (Portsmouth, Richmond and Scituate) each car of a

[1] Membership of The Vehicle Value Commission consists of seven members: the Director of the Department of Revenue, five local tax officials, and one motor vehicle dealer.

certain year, make, and model are assigned the same value.[2] The Commission relies on the National Automobile Dealers Association book value to set the rate, a practice that has been criticized since the valuation ignores both mileage on the vehicle, and the condition of the vehicle. Both these omissions tend to disadvantage low-income Rhode Islanders less able to own and operate low-mileage vehicles in top condition. Changing the valuation disproportionately helps owners of older, less valuable vehicles, including many lower-income residents.

The **tax rate is** determined by each municipality. In FY2017, the rate ranges from $9.75 per $1,000 value of the car in New Shoreham to $60.00 per $1,000 in Providence, evident in Table 2.

The third component, the **exemption level**, also varies by municipality. Currently state law requires municipalities to exempt $500 of the vehicle value. Exemption levels range from the minimum $500 in fifteen municipalities to $6,000 (in seven municipalities) which had been the state-required minimum until 2011 (when fiscal distress resulting from the Great Recession caused the state to reduce the required minimum). The state reimburses the localities for the revenue lost by applying the $500 minimum exemption. The current cost is $10 million in general revenue. Increasing the exemption level would disproportionately help owners of less valuable vehicles, since the exemption amount represents a much larger share of a less valuable vehicle's value. However, owners of lower-value motor vehicles in municipalities that already have a relatively high exemption might not benefit at all from a statewide increase in the exemption.

	Town	Motor Vehicle Tax/$1,000	Car Value Exempt from MVT	Current MVT on $3,000 car	Current MVT on $10,000 car	Current MVT on $40,000 car
Top Six Tax Rates	PROVIDENCE	$60.00	$2,000	$60	$480	$2,280
	PAWTUCKET	$53.30	$500	$133	$506	$2,105
	CENTRAL FALLS	$48.65	$1,250	$85	$426	$1,885
	WOONSOCKET	$46.58	$1,000	$93	$419	$1,817
	CRANSTON	$42.44	$500	$106	$403	$1,676
	BARRINGTON	$42.00	$2,000	$42	$336	$1,596
Bottom Six Tax Rates	NARRAGANSETT	$16.46	$6,000	$0	$66	$560
	MIDDLETOWN	$16.05	$3,000	$0	$112	$594
	JAMESTOWN	$14.42	$6,000	$0	$58	$490
	LITTLE COMPTON	$13.90	$6,000	$0	$56	$473
	CHARLESTOWN	$13.08	$500	$33	$124	$517
	NEW SHOREHAM	$9.75	$1,000	$20	$88	$380

Table 1

Table 1 shows the current MVT structure in twelve municipalities – those with the highest and lowest rates currently, and the amounts currently owed by those owning cars valued at $3,000, $10,000, and $40,000. These same amounts represent the amount of the MVT tax cut for people owning cars of those values when the phase-out is fully implemented in 2014.

[2] Motor vehicles in Portsmouth, Richmond & Scituate are assessed at 70%, 80%, & 95%, respectively, of the retail value of the motor vehicle. Motor vehicles in all other municipalities are assessed at 100% the retail value of the motor vehicle in question.

Fiscal Year	Year of Phaseout	DOR "Yr"	MVT Revenues ($M)	Valuation	Rate Cap	Exemption Floor	Additional Annual Cost of MVT Phaseout ($M)	Aggregate Annual Cost of MVT Phaseout ($M)
FY2017		Current	$220.6	100%	N/A*	$500	$0.0	$0.0
FY2018	Year 1	*Y0*	$195.4	95%	$60	$1,000	$25.2	$25.2
FY2019**	Year 2	*Y1*	$170.4	90%	$50	$2,000	$25.0	$50.2
FY2020	Year 3	*Y2*	$136.7	85%	$35	$3,000	$33.7	$83.9
FY2021	Year 4	*Y3*	$104.6	80%	$35	$4,000	$32.1	$116.0
FY2022	Year 5	*Y4*	$75.3	75%	$30	$5,000	$29.3	$145.3
FY2023	Year 6	*Y5*	$43.4	70%	$20	$6,000	$31.9	$177.2
FY2024	Year 7	*n/a*	$0.0	*n/a*	*n/a*	*n/a*	$43.4	$220.6

Table 2: Source: Rhode Island Department of Revenue, "MV Tax Phase Out Proposal". Note current MVT revenues already reflect the impact of $10 million in state aid to municipalities to partially offset the MVT.
**There is not currently a cap on the MVT rate, but Providence's $60/$1000 of car value is the highest rate currently*
***FY2019 is the first year in which all three components – valuation, rate, and exemption – are adjusted.*

Table 2 shows how each of these three components – **valuation, rate, and exemption** – are adjusted by the proposed bill, and the annual cost of the proposal.

Figure 1 shows the Year 2 (FY2019) share of each municipality's total MVT savings during the phase-out period (from FY2018 to FY2024). Figure 2 shows the annual share of MVT savings in the 7th and final year of the phase-in (FY2024). In comparing these two charts, we see that Rhode Island's distressed communities (which collectively account for a very high share of Rhode Island's low income residents) benefit the most in FY2019, the first year in which all three components of the MVT are adjusted. The distressed communities of North Providence, Cranston, Woonsocket, Pawtucket, and Providence achieve between 13 percent and 19 percent of their total 7-year savings in FY2019, compared to a state average of 11 percent.

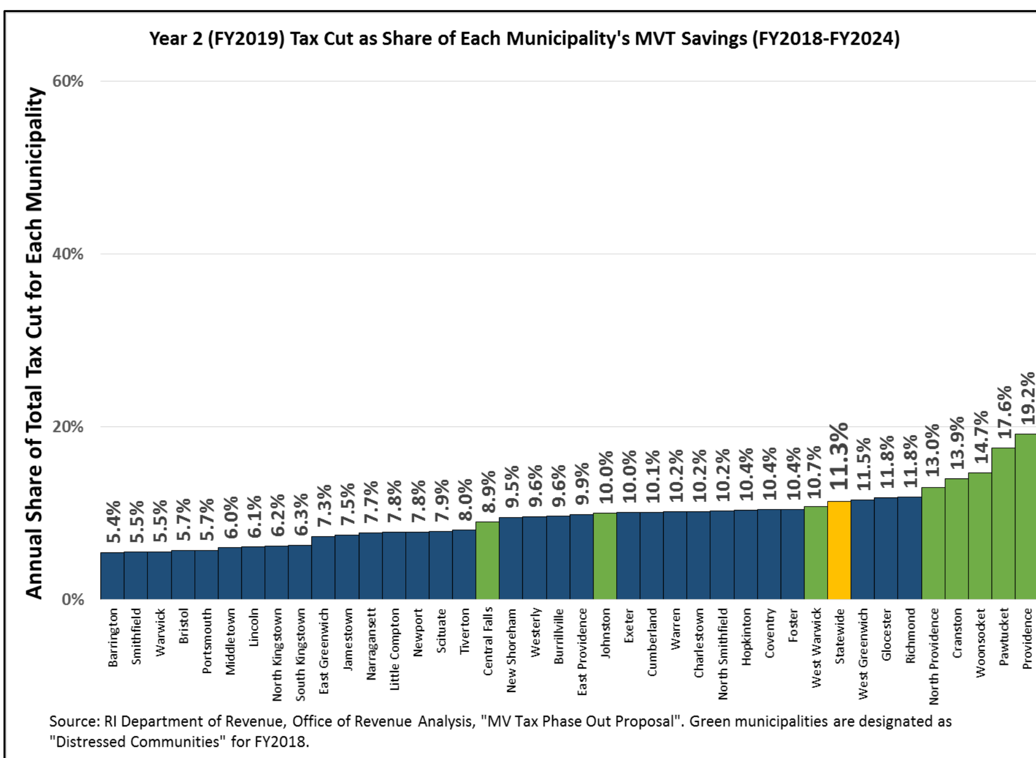

Figure 1

By the final year of the proposed phase-out, the municipalities that have the largest proportion of their overall MVT reduction (including four municipalities – Tiverton, Little Compton, Narragansett, and Jamestown – with more than half of their overall MVT reduction) are among Rhode Island's wealthiest communities, while Rhode Island's distressed communities receive much smaller shares of their overall MVT reduction. In the final year of the phase-out, the statewide share of overall MVT reduction is 20 percent.

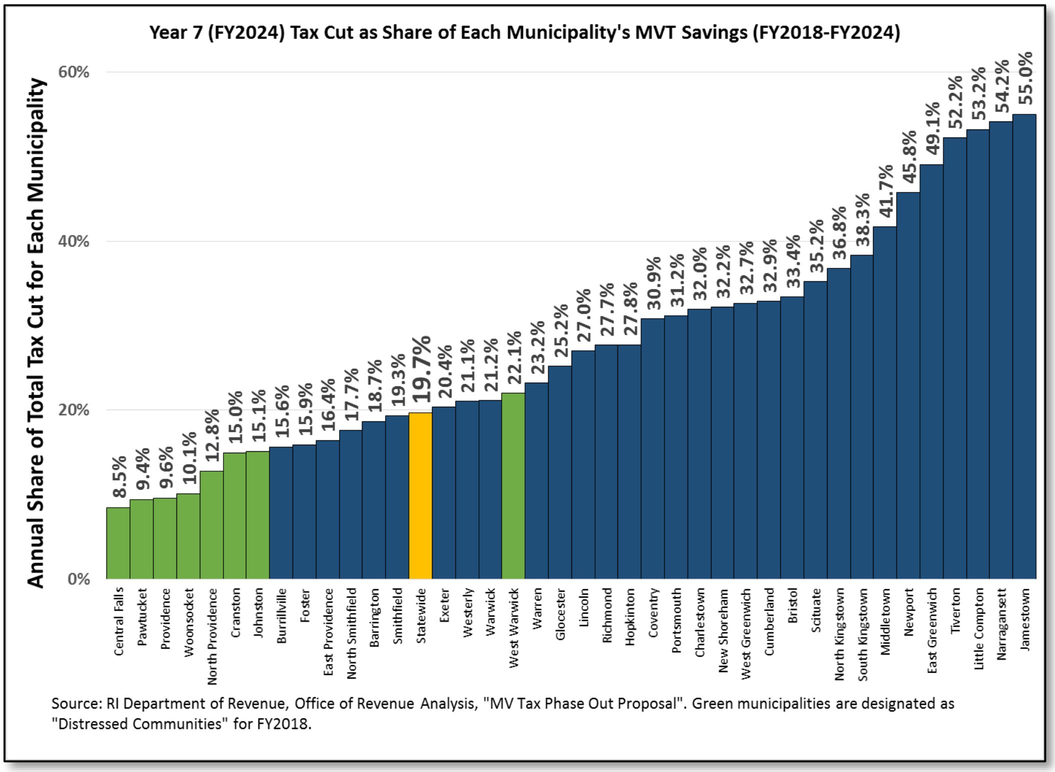

Figure 2