

Path to Prosperity

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Lower Auto Excise Taxes Change The Deal on New Cars

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By Martin Sheehan

Sales of new automobiles are a chief component of the American economy. New car sales are reported monthly and are a key measure of the nation's economic health. This is why the federal government is investing tens of billions of tax dollars in long-term automotive research and development, and spending more tens of billions of dollars to ensure the shorter-term survival of America's automakers.

The automobile business is important to Maine's economy as well. According to the Maine Automobile Dealers Association, approximately 6,000 people are employed at 134 licensed new car dealers across Maine^[1]. A review of typical transaction costs and discussions with several Maine automobile dealers make it clear that a major obstacle to new vehicle purchases is Maine's high automobile Excise Tax, which is heavily weighted to new vehicles. This tax, which is assessed at the beginning of a major purchase, is a significant impediment because in the typical purchases of Maine's most popular vehicles, the tax bill is equal to nearly two typical monthly vehicle payments. If you're selling cars... this is often the "deal killer."

For example, the Toyota Corolla is the most popular new vehicle registered in Maine for the 2008 and 2009 model years, as of January 26, 2009^[2]. The LE model with an automatic transmission has a Manufacturer's Suggested Retail Price (MSRP) of \$17,470. (This MSRP is important, because it is the figure used to assess Maine's Automobile Excise Tax.) According to Edmunds.com, the typical negotiated "True Market Value" price for this model in southern Maine is \$15,124^[3]. Assuming the purchaser negotiates a \$4,000 trade-in value on their old car, the net transaction cost is \$11,124. Maine's 5% Sales Tax is assessed on this amount, which adds \$556 to the price paid for a gross cost of \$11,680. The buyer has used their trade-in as the down payment, and will finance the purchase for 60 months at 7.0% interest. According to Bankrate.com, this yields a monthly payment of \$231^[4].

The buyer is ready to sign the deal. She's moving into a brand new car that gets much better mileage than her trade-in. It has a new car warranty, will be reliable and has an array of airbags, anti-lock brakes and other safety features that her old car did not have. This is a happy and proud moment for her, and the first time she's ever been able to afford the payments on a new car... then she asks "what about when I register the car, I've already paid the Sales Tax... so that doesn't cost much, does it?"

When this enthusiastic young buyer learns that Maine's Auto Excise Tax adds \$419 to the \$35 State Registration fee, she is deflated. She can just afford the \$231 month payments, but does not have \$454 in ready cash to pay the extra taxes. She does need to replace her old car, so she stands up, shakes her head and says "I guess I have to go out and look at used cars again."

The Maine Heritage Policy Center has reviewed figures for eight of the most popular new vehicles registered in Maine for the 2008 and 2009 model years, as of January 26, 2009^[1]. This spreadsheet, detailing transaction costs, estimated monthly payments and five years of Auto Excise Taxes, is attached to this report. This spreadsheet also contains the same data for the same vehicles with lower Auto Excise Taxes, as recommended in LD 974. The striking number to note is that the lower Auto Excise Tax changes the amount due for the initial registration from almost two monthly payments to less than one monthly payment. This will obviously make a new car purchase much more affordable for Maine people.

Over the course of five years, the savings with the lower Auto Excise Taxes continues, making the purchase of a new car a much more realistic decision for Maine people. In fact, using the typical monthly payment amount as a benchmark across eight of the most popular vehicles in Maine, the five-year Auto Excise Tax currently equals about five monthly car payments. When these rates are reduced according to this recommendation, the five-year Auto Excise Tax is reduced to only two monthly payments.

This proposal to reduce Maine's high Auto Excise Tax offers a state-based incentive for new car purchases, which will help a vital, struggling sector of the Maine economy. It makes new, safer, more efficient cars affordable for more Maine people. It also has the real potential of having a minor impact in Auto Excise Tax revenues because the lower Auto Excise Tax per new car will be partially offset by the increase in new car sales resulting from the greatly reduced cost of making a new car purchase.

LD 974 "An Act To Decrease the Automobile Excise Tax and Promote Energy Efficiency" cuts Maine's high Excise Tax rates in the first year of registration from 2.4 percent to 1.2 percent; in the second year from 1.75 percent to 0.8 percent and from 1.35 percent to 0.4 percent for the third and subsequent years. This law also eliminates the Sales Tax and the first three years of Auto Excise Taxes on hybrid, hydrogen, electric and other high-tech vehicles and high-mileage (40+ mpg Highway) vehicles. If the Maine Legislature does not approve this proposed legislation, it will be on the ballot for a vote of the people on November 3, 2009.

Notes and Sources

- [1] Maine Automobile Dealers Association web site. www.maineautodealers.com
- [2] Report from Maine Bureau of Motor Vehicles, Vehicle Services Division, January 26, 2009.
- [3] Manufacturers' Suggested Retail Prices (MSRP) and "True Market Value" prices from www.edmunds.com
- [4] Typical Monthly Payments based on negotiated price plus 5% Sales Tax; minus a trade-in value of \$4,000; and this total being borrowed on a 60-month loan at an even 7.0% interest rate, as calculated at www.bankrate.com

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Path to Prosperity is a special series of publications by The Maine Heritage Policy Center which focus on Maine's overspending and the resulting tax burden that threaten long-term, stable, sustainable prosperity. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.

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Review of Maine's Popular Vehicle, Purchase and Tax Costs. Current and Proposed Tax Rates.

Current

	A 2009 Totota Corolla LE 4 Cyl A	B 2009 Toyota Camry LE 4 cyl A	C 2009 Ford Focus SE 4 cyl A	D 2009 Chevrolet Impala LT 6 cyl A	E 2009 Subaru Forester 2.5X 4 cyl A	F 2009 Chevrolet Silverado LT 8 cyl A	G 2009 Ford F150 STX 8 cyl A	H 2009 Honda Accord LX 4 cyl A
MSRP	\$17,470	\$22,370	\$17,910	\$25,395	\$21,890	\$27,465	\$25,340	\$22,375
True Mkt Val \$	\$15,124	\$18,964	\$15,909	\$21,060	\$20,796	\$24,300	\$21,892	\$19,843
Trade-In	-\$4,000	-\$4,000	-\$4,000	-\$4,000	-\$4,000	-\$4,000	-\$4,000	-\$4,000
Net Cost	\$11,124	\$14,964	\$11,909	\$17,060	\$16,796	\$20,300	\$17,892	\$15,843
Sales Tax	\$556	\$748	\$595	\$853	\$840	\$1,015	\$895	\$792
Gross Cost	\$11,680	\$15,712	\$12,504	\$17,913	\$17,636	\$21,315	\$18,787	\$16,635
PAYMENT (60 mos @ 7%)	\$231	\$311	\$248	\$355	\$349	\$422	\$372	\$329
Yr 1 Excise Tax	\$419	\$537	\$430	\$609	\$525	\$659	\$608	\$537
Yr 2 Excise Tax	\$306	\$391	\$313	\$444	\$383	\$481	\$443	\$392
Yr 3 Excise Tax	\$236	\$302	\$242	\$343	\$296	\$371	\$342	\$302
Yr 4 Excise Tax	\$175	\$224	\$179	\$254	\$219	\$275	\$253	\$224
Yr 5 Excise Tax	\$114	\$145	\$116	\$165	\$142	\$179	\$165	\$145
Excise Tax; 5 Yrs	\$1,249	\$1,599	\$1,281	\$1,816	\$1,565	\$1,964	\$1,812	\$1,600
Extra Payments	5.4	5.1	5.2	5.1	4.5	4.7	4.9	4.9

Proposed

	A 2009 Totota Corolla LE 4 Cyl A	B 2009 Toyota Camry LE 4 cyl A	C 2009 Ford Focus SE 4 cyl A	D 2009 Chevrolet Impala LT 6 cyl A	E 2009 Subaru Forester 2.5X 4 cyl A	F 2009 Chevrolet Silverado LT 8 cyl A	G 2009 Ford F150 STX 8 cyl A	H 2009 Honda Accord LX 4 cyl A
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PAYMENT (60 mos @ 7%)	\$231	\$311	\$248	\$355	\$349	\$422	\$372	\$329
Yr 1 Excise Tax	\$210	\$268	\$215	\$305	\$263	\$330	\$304	\$269
Yr 2 Excise Tax	\$140	\$179	\$143	\$203	\$175	\$220	\$203	\$179
Yr 3 Excise Tax	\$70	\$89	\$72	\$102	\$88	\$110	\$101	\$90
Yr 4 Excise Tax	\$70	\$89	\$72	\$102	\$88	\$110	\$101	\$90
Yr 5 Excise Tax	\$70	\$89	\$72	\$102	\$88	\$110	\$101	\$90
Excise Tax; 5 Yrs	\$559	\$716	\$573	\$813	\$700	\$879	\$811	\$716
Extra Payments	2.4	2.3	2.3	2.3	2.0	2.1	2.2	2.2
TAX SAVINGS	\$690	\$884	\$707	\$1,003	\$865	\$1,085	\$1,001	\$884
Fewer Payments	3.0	2.8	2.9	2.8	2.5	2.6	2.7	2.7