

Path to Prosperity

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Maine's Automobile Excise Tax Hurts the Poor and Elderly

By J. Scott Moody

It is interesting to note that twenty-two states and the District of Columbia do not assess any Automobile Excise Tax, that Maine's Automobile Excise Tax is the seventh-highest in America, and third-highest in New England. The current rates for this tax (based on the MSRP "sticker" price instead of the actual transaction price) are 2.4 percent for the first year; 1.8 percent the second year; 1.4 percent for the third year; 1.0 percent for the fourth year; 0.7 percent for the fifth year and 0.4 percent for the sixth and subsequent years. For a vehicle with a \$28,000 sticker price, this adds up to \$2,044 paid in Auto Excise Taxes for the first five years of ownership. This is in addition to the Maine Sales Tax, which is 5 percent paid on the transaction price for all new and used vehicles.

Maine's Auto Excise tax is a flat tax, in that the rates apply indiscriminately to all car owners without regard to income or other factors. According to data from Maine Revenue Services, the Auto Excise Tax is also the least "exportable" tax, meaning that 100 percent of these tax revenues are paid by Maine residents.

The combination of high Auto Excise Tax rates, the flat nature of this tax, the application to Maine residents only and the demographics of Maine, a lower-income state with an aging population, means that this regressive tax has the greatest impact on those least able to afford more taxes.

Data from the 2007 Consumer Expenditure Survey, published by the U.S. Department of Labor's Bureau of Labor Statistics, shows that Maine's Automobile Excise Tax most hurts the poor and elderly. **Chart 1** shows that consumers who are in the lowest 20 percent of income-earners spend 4 percent of their income on new cars, which is a greater percentage than the remaining 80 percent.

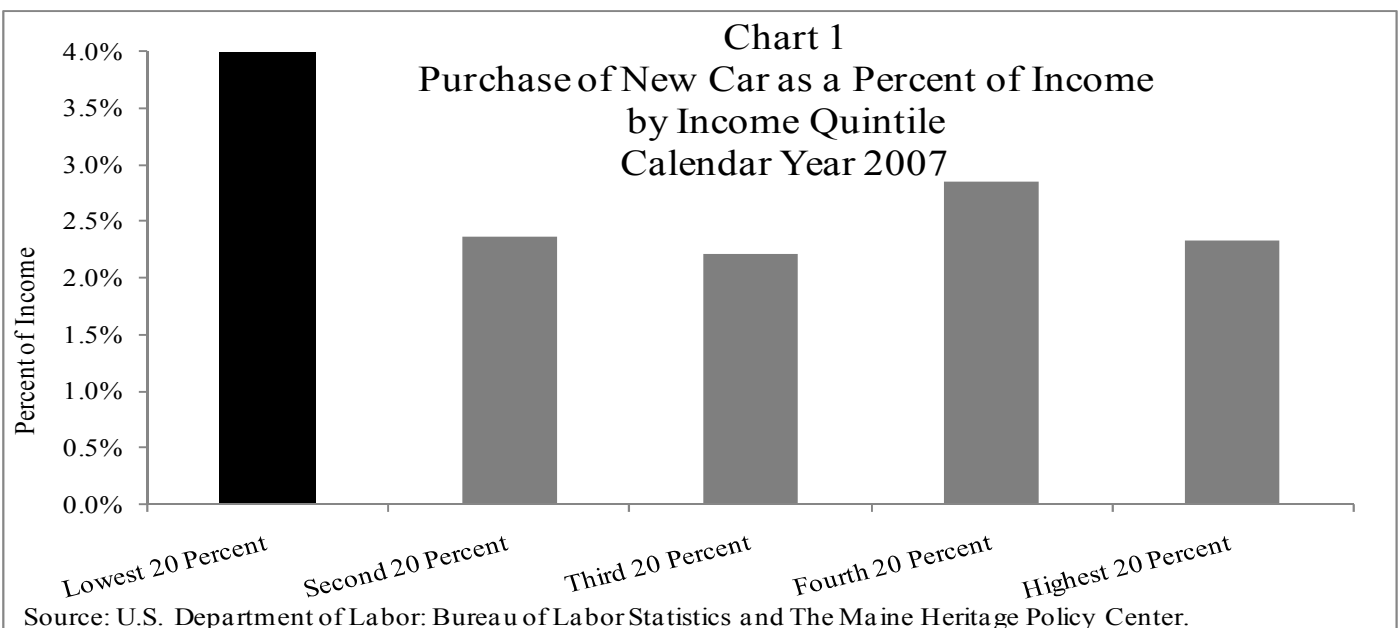
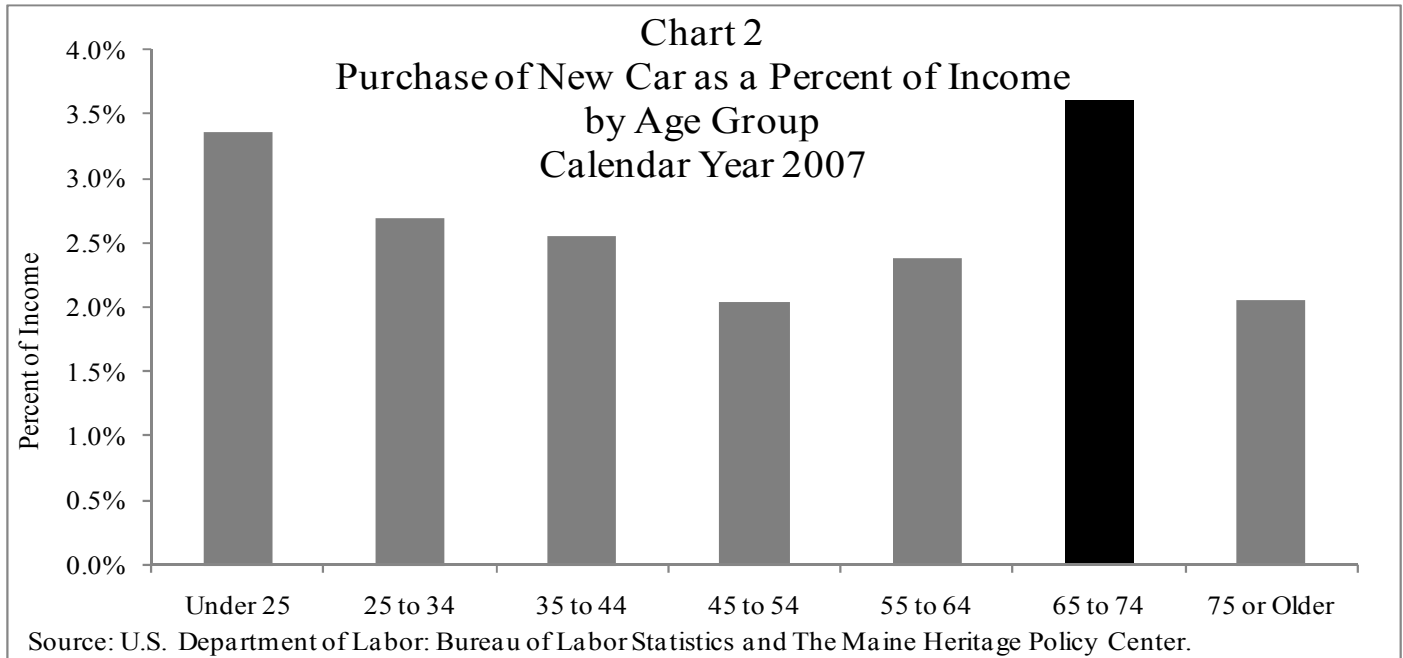


Chart 2 shows that consumers between the ages of 65 and 74 spend 3.6 percent of their income on new cars, which is a greater percentage than any of the other age groups.



As Maine lawmakers review new options for shifting the tax burden away from those on whom it has the greatest negative impact, the revised Auto Excise Tax, proposed in LD 974, is an obvious starting place. This change would put newer, safer and more fuel-efficient vehicles within the budgets of thousands more Maine families.

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.

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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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