



DON'T TAX MY TRADE-IN!

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C O A L I T I O N

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Don't Tax My Trade-in!

Position Paper on Preserving Wisconsin's Vehicle Trade-in Credit

Since 1962 when Wisconsin first implemented a sales and use tax, Wisconsin consumers trading in a vehicle toward the purchase of another have been taxed only on the positive difference in value between the two vehicles*. The major rationale behind this tax treatment – applied by the vast majority of states that levy a sales tax – is that the consumer typically already paid sales tax on the trade-in when it was purchased. Taxing the value of the trade-in again, therefore, constitutes double taxation. (*This tax treatment also applies to boats, aircraft and other taxable, tangible personal property in this state.)

In the last two sessions of the Wisconsin Legislature, there has been serious discussion of eliminating our state's longstanding trade-in credit. The impetus has been the potential to increase the stream of revenue flowing into the state Transportation Fund. The 2006 final report of Wisconsin's Joint Legislative Committee on Transportation Needs and Financing identified 13 potential revenue options for an expansion of sources to supply an annual transportation-funding shortfall. One of these identified options – not explicitly recommended by the committee – was elimination of Wisconsin's sales tax credit for vehicle trade-ins.

The committee's report estimated the potential state revenue available from elimination of the trade-in credit at \$123 million per year. A sample of Wisconsin dealership sales by the state Department of Revenue yielded estimates that trade-in vehicles equaled about 23.6 percent of the sales price of new and used vehicles sold in 2005. On that basis DOR estimated that elimination of the trade-in credit could generate \$113.9 million in the 2008-09 state fiscal year.

Times are tight – nationwide and here in Wisconsin. Sales at most auto dealerships are down. The member organizations of our coalition are very concerned about the impact eliminating the trade-in credit would have on Wisconsin's dealerships and the customers these local businesses serve. We are also concerned that the significant funding shortage and structural deficit the state faces, the resulting search for new forms of revenue, and the potential availability of more than \$100 million per year will lead to serious consideration of eliminating the trade-in credit in the Legislature's next session.

Our Messages

These are the core messages we want to convey to state lawmakers about the possibility of eliminating Wisconsin's vehicle trade-in credit:

- ◆ **Stop this potential tax increase.**
- ◆ **Tax Wisconsin's consumers only on the net real value they receive.**
- ◆ **Preserve our state's trade-in credit.**

As state lawmakers analyze this matter, we urge them to consider the points that follow. These elaborate on the core messages above – messages we believe will ultimately hold sway on this issue:

- ◆ **Eliminating the vehicle trade-in credit would be a tax increase, not a good idea at any time.**
 - Times are especially tight now, and this would pick consumers’ pockets just when it will hurt the most.
 - Applying sales tax to a trade-in valued at \$10,000 would cost a vehicle buyer in Wisconsin \$500 to \$560 more in taxes (depending on the applicable county rate) than would be paid under current law.
 - The Department of Revenue has estimated that the state revenue that could be extracted by repealing the trade-in credit would exceed \$113 million per year – for a whopping increase of more than 23 percent in the state tax on vehicle sales.
 - Typically, the consumer already paid sales tax on the trade-in when it was purchased, so eliminating the trade-in credit constitutes double taxation.
 - This is not a time when constituents will be prone to accept this kind of tax increase. Lawmakers can expect strong constituent objection to this anti-consumer proposal.
- ◆ **Eliminating the vehicle trade-in credit would be anti-environmental.**
 - The high price of fuel and the growing concern about climate change are leading many consumers to consider buying newer, cleaner, more-efficient vehicles.
 - To make those purchases of new (or newer) primary vehicles possible, many buyers would trade in older, less-efficient vehicles.
 - The average age of a vehicle on Wisconsin’s roadways is already close to 10 years.
 - Adding hundreds of dollars in taxation to the cost of the vehicle-buying transaction can only be expected to dampen purchases of gas-electric hybrids, dual-fuel cars and trucks, and other vehicles with a reduced environmental impact.
 - This will slow down the pace at which we in Wisconsin are able to turn over our aging automotive fleet and replace it with cleaner, greener, more-efficient vehicles.
- ◆ **Eliminating the vehicle trade-in credit would hurt business.**
 - For the Wisconsin public and for many auto dealerships, times are tough enough already.
 - Eliminating the credit would chill vehicle sales and further depress a stagnant market.
 - By making new or newer vehicle purchases more expensive, eliminating the credit would suppress dollars from cycling through our economy in ways that support good jobs at dealerships and other local businesses they support in turn.
- ◆ **Eliminating the vehicle trade-in credit would hurt low-income families.**
 - Those who are economically disadvantaged tend to buy vehicles more frequently because vehicles in lower price ranges tend not to last as long.
 - Therefore, eliminating the trade-in credit would place an unfair burden on poorer people – particularly those must rely on a private vehicle to get to work or school.
 - Obtaining financing is already a significant challenge for low-income individuals; adding cost to the transaction through an increased tax will make a previously possible purchase deal cost-prohibitive for some.
- ◆ **The way Wisconsin treats trade-ins now is standard practice around the nation.**
 - The state Legislative Reference Bureau reported that of the 45 states that imposed a sales tax in 2006, 37 (including Wisconsin) did not tax vehicle trade-ins; one other state had a partial exemption, and yet another did not tax trade-ins made toward new-vehicle purchases.
 - Only six states subjected the value of vehicle trade-ins to sales tax in 2006; that number is now five because of the most recent change in this area – Maryland’s 2008 switch to provide a trade-in credit.

◆ **Don’t fill a leaking bucket!**

- Members of our coalition value good transportation. It is crucial for the success of our state’s economy and for the mobility of the people of Wisconsin.
- In the past few state budgets, however, an amount greater than \$1.1 billion in motorists’ registration fees and gas taxes has been siphoned from the Transportation Fund to pay for non-transportation spending.
- Although some of these funds have been backfilled through heavier use of borrowing, we can no longer regard the Transportation Fund as “segregated”; it is a leaking bucket.
- For the many reasons we’ve cited, we can’t in any case support a sales tax on trade-ins, ...
- But we certainly couldn’t trust that this \$100 million-plus in annual revenue would stay in the Transportation Fund and not be siphoned off.

◆ **We will get the word out.**

- We are in the process of building our coalition of allied organizations that will mount a campaign to help consumers understand the impact that eliminating the vehicle trade-in credit would have on them.
- We are asking legislators and legislative candidates to serve the consumers of Wisconsin by supporting the preservation of Wisconsin’s vehicle trade-in credit.