

**TESTIMONY OF
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DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: *Tuesday, March 7, 2023*

LD 713 – “RESOLUTION, Proposing an Amendment to the Constitution of Maine to Dedicate a Portion of Sales and Use Taxes from All Motor Vehicle Sales and Motor Vehicle-related Sales to the Highway Fund for Road and Bridge Capital Improvements”

Senator Grohoski, Representative Perry, and members of the Taxation Committee – good afternoon, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am here today at the request of the Administration to testify Against LD 713, *“RESOLUTION, Proposing an Amendment to the Constitution of Maine to Dedicate a Portion of Sales and Use Taxes from All Motor Vehicle Sales and Motor Vehicle-related Sales to the Highway Fund for Road and Bridge Capital Improvements.”*

LD 713 proposes to amend the Constitution of Maine to dedicate 50% of the revenue from sales and use taxes imposed on sales of motor vehicles and sales related to motor vehicles to the Highway Fund, beginning in July 2024. This bill raises concerns from the perspectives of tax policy, impact on other revenue fund transfers, tax administration, and ease of taxpayer compliance. As to concerns about balanced tax policy, this proposal would reduce on an ongoing basis approximately \$200 million a year of General Fund revenues and present a possible conflict with dedicated funds for the Multimodal Transportation Fund. In addition, motor vehicle sales represent one of the most volatile sources of our sales

tax base. While transferring 50% of vehicle sales to the Highway Fund may provide a significant increase to transportation funding in some years, there will be other periods where this revenue will decline significantly as it did during the 2007-09 recession.

Further, there are several concerns with the lack of clarity of the language of the proposed Constitutional amendment. These points should be addressed prior to any enactment of the Resolution, as once an amendment to the Maine Constitution has been ratified, the language cannot easily be changed.

First, as drafted, it is unclear if the phrase “sales of motor vehicles and sales *related to* motor vehicles” includes the rental or lease of a motor vehicle; if it does, the resulting sales tax revenue would also be included in the 50% transfer to the Highway Fund. This provision should be clarified in the bill. Further, if rental or lease of a motor vehicle is included in that phrase, there would be a conflict with required revenue transfers into the Multimodal Transportation Fund, which under current law includes 100% of the sales tax revenue derived from the short-term rental of automobiles.

Second, the phrase “sales related to motor vehicles” should be defined to clarify whether it includes sales of mechanical parts of a motor vehicle, vehicle accessories, and equipment that is attached to a vehicle – for example, a snowplow attached to a pickup truck.

Next, it is unclear if the intention of the bill aligns with the use of the term “motor vehicle” which is defined under the sales tax law to include all-terrain vehicles and snowmobiles, which are not typically operated on the public roads and highways.

Further, retailers of items related to the sale of motor vehicles are not limited to auto repair shops or automobile dealerships; for example, motor vehicle oil and windshield wiper fluid may be purchased at big-box retail stores. Maine Revenue Services would need to add at least one line to the sales tax return to allow retailers to report those sales separately from the retailer's other taxable sales that are subject to the general rate, which could prove burdensome for those retailers.

Finally, use tax reported on a Maine income tax return is not itemized by item type, and so MRS currently has no way to identify the amount of use tax reported on an income tax return that should be included in the proposed revenue transfer.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.