

**TESTIMONY OF
CHASE HEWITT, STAFF ATTORNEY FOR THE OFFICE OF TAX POLICY
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: Wednesday, April 26, 2023, at 1:00pm

LD 1168 – *An Act to Adjust Motor Vehicle Excise Tax Rates*
LD 1381 – *An Act to Create Fairness in Maine's Motor Vehicle Excise Tax by
Basing the Tax on the Sale Price*
LD 1486 – *An Act to Exempt Tractor Trailer Trucks from the Excise Tax*
LD 1524 – *An Act to Eliminate the Excise Tax on Recreational Vehicles and
Permit Municipal Adoption of Fees to Cover the Cost of Municipal Services to
Campgrounds and Recreational Vehicle Parks*

Senator Grohoski, Representative Perry, and members of the Taxation Committee – good afternoon, my name is Chase Hewitt, Staff Attorney for the Office of Tax Policy, Maine Revenue Services. I am testifying at the request of the Administration Against *LD 1168, An Act to Adjust Motor Vehicle Excise Tax Rates; LD 1381 – An Act to Create Fairness in Maine's Motor Vehicle Excise Tax by Basing the Tax on the Sale Price; LD 1524 – An Act to Eliminate the Excise Tax on Recreational Vehicles and Permit Municipal Adoption of Fees to Cover the Cost of Municipal Services to Campgrounds and Recreational Vehicle Parks; and Neither For Nor Against LD 1486 – An Act to Exempt Tractor Trailer Trucks from the Excise Tax.*

The 123rd Legislature charged Maine Revenue Services with convening a study group to review the structure and administration of the motor vehicle excise tax; resulting in the report titled “The Structure and Administration of the Motor Vehicle Excise Tax.” The members of the Study Group were unanimously of the

opinion that the only fair and consistent way to impose the excise tax is to base it on the MSRP, as is done currently. The report goes on to state that basing the tax on purchase price would “build tremendous inequity into the system, primarily because different purchasers are able to negotiate different prices for the same model vehicle, but also because it is not always possible to verify the validity of purchase and sale agreements.”

Because individual complaints frequently relate to the high initial year tax rate of 24 mills, the study group spent much of its time considering ways in which the Legislature could reduce the top rate without causing a significant reduction in municipal revenues. The former Administration proposed LD 1521 to the 128th Legislature, which would have reduced the rate of the vehicle excise tax for the first and second years and increased the rate for the following four years in a revenue neutral manner.

Turning to the specifics of the bills before you today, LD 1168 changes the excise tax on motor vehicles and camper trailers from a 6-year phase-down of the tax from 24 mills to 4 mills to a 10-year phase-down of the tax from 35 mills to 10 mills and exempts from taxation the first \$15,000 of the vehicle's value that is used to calculate the tax. The Administration raises two concerns with the proposal as written: First, Maine residents may interpret the proposal as a registration exemption for vehicles worth less than \$15,000, or to mean that such vehicles could be registered free of charge. Second, the new rates would result in a relatively significant increase in excise tax for vehicles with a suggested retail price over \$25,000. For example, the owner of a \$35,000 car would owe around

45% more in vehicle excise tax over the new 10-year phase down period than they would during the same period under existing law.

LD 1381 requires that the excise tax on vehicles, special mobile equipment and camper trailers registered in the State be based upon purchase price instead of the maker's list price. Current law also requires the State to reimburse a municipality for the difference in the amount of excise tax that would have been collected by the municipality on each commercial motor vehicle or bus using the maker's list price instead of the actual purchase price, and this bill applies that requirement to all vehicles registered and taxed by the municipality using the actual purchase price.

The types of commercial motor vehicles described in the bill only include a portion of those described in Title 29-A. As such, it is unclear how other types of commercial motor vehicles should be treated. Additionally, it is unclear whether the "purchase price" is the purchase price paid by the current owner or the first owner in the case of a used vehicle.

LD 1524 provides a motor vehicle excise tax exemption for certain recreation vehicles (RVs) and permits municipalities to impose fees on exempt RVs and campgrounds or parks that host those RVs. The fees must be calculated to produce annual revenues that would offset the revenue lost by the municipality due to the excise tax exemption. The bill also authorizes municipalities to impose a fee on campgrounds for permission to construct or to lease land to another person or entity to use docks, floats, piers, boat lifts and riprap that occupy space that is within 100 feet from the shoreline of a great pond.

It's not clear whether a nonresident who registered their RV in their home state would be subject to the proposed fee because they would be exempt under both 36 M.R.S. section 1483(15) and the newly created section 1483(17). Additionally, towns may be unable to create a fee schedule that would accurately offset the excise tax revenue loss because they may not know what portion of their current excise tax collections are tied to these particular types of RVs and because the fee is based on usage and other factors that will not be known in advance.

Finally, LD 1486 exempts trucks and truck tractors registered for more than 26,000 pounds from the excise tax. The proposed deletion of the first phrase in section 1482(1)(3) would impose excise tax on Class A special mobile equipment manufactured prior to 1996, which are currently exempt.

The exemption proposed in section 1482(8) of the bill would be more appropriate in section 1483 (Exemptions) rather than section 1482 (Excise tax). Vehicles exempt from excise tax under section 1483 are also exempt from personal property tax pursuant to section 655(1)(K) – raising questions of Business Equipment Tax Exemption (BETE) applicability and State reimbursement of lost revenue. In addition, many other states offer excise tax reciprocity; it is possible that an excise tax exemption for the targeted vehicles in the bill could lead to another state imposing their excise on those vehicles for the privilege of using their roads, even if the vehicle is registered in Maine.

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.