



California New Car Dealers Association

April 26, 2010

The Honorable Lois Wolk
Chair, Senate Revenue & Taxation Committee
State Capitol, Room 4032
Sacramento, California 95814

***Re: SBx6 5 (Hollingsworth – Sales Tax Exclusion for
Trade-in Vehicles***

Position: SUPPORT

Hearing: Senate Revenue & Taxation Committee, May 12, 2010

Dear Senator Wolk:

The California New Car Dealers Association (CNCDA) is a statewide trade association that represents the interests of over 1100 franchised new car and truck dealer members. CNCDA members are primarily engaged in the retail sale and leasing of new and used motor vehicles, but also engage in automotive service, repair and part sales. We are writing to express our support for SBx6 5, which provides a much needed incentive to modernize California's vehicle fleet and stimulate additional new vehicle sales by exempting from the definition of "gross receipts" the allowance given by a new motor vehicle dealer for a used car traded in by a purchaser of a new car.

CNCDA supports SBx6 5 for the following reasons:

- The bill removes numerous tax inequities. The original purchaser of a vehicle is required to pay sales tax on the initial purchase price; the purchaser is also required to pay a vehicle license fee ("VLF" -- an ad valorem tax) at the time of purchase for the first year of ownership and is required to pay an additional VLF *each year thereafter*. When a used vehicle is traded in for the purchase of a new vehicle, that year's VLF has already usually been paid and the trade-in customer does not get to recapture any pro-rated portion thereof; the value of the trade-in vehicle is not deducted from the sale price of the new vehicle; and, the dealer is required to collect sales tax again when the trade-in vehicle is retailed to another customer.
- California is one of few states with double taxation. California is currently one of very few states that impose sales tax on the value of a trade-in vehicle. The vast majority of the other states deduct

the value of the trade-in vehicle for purposes of determining the taxable gross receipt on the sale of a new vehicle.

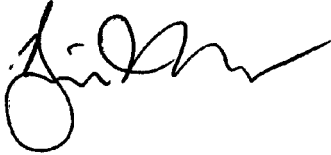
- The recent sales tax and VLF increases have further suppressed vehicles sales. Since last year, the cost of new car purchases in California increased 1.5% (1% increase in the sales tax effective April 1, 2009 and a ½% hike in the VLF effective on May 19, 2009). Basic economic principles dictate that when the price of a good goes up, fewer are sold and consumers will look elsewhere to spend their precious financial resources. During the worst retail automotive market in over a generation, new car sales in 2009 were down 28.3% compared with 2008 and at 1,038,271 vehicles sold last year it was the lowest sales volume in California since 1975 when there were 17 million fewer Californians!
- SBx6 5 creates a monetary incentive for used vehicle owners to purchase new, clean vehicles. The benefits to the state from this additional stimulus are many:
 - 2010 new car sales are projected to exceed barely over 1.1 million new vehicles sold in California, *less than ½ the number of four years ago*. Stimulating new car sales will dealers, employees and consumers at a time when the industry is struggling and consumers need an incentive to return to showrooms. This means a precipitous drop in sales tax revenue—*conservatively estimated in the hundreds of millions of dollars*—for the state and local jurisdictions, many of whom depend on such revenues for a majority of their funds to support police, fire and other necessary local services.
 - Increased new car sales should generate more *net* sales tax revenue, even after the value of a trade in is deducted.
 - The increased sale of new motor vehicles will also benefit the state economy as a whole through the creation of more jobs and overall commerce in the new car industry (2007 retail sales by our dealer members exceeded \$96 *billion*).
 - This year approximately 5.8 million California vehicles will be at least 15 years old. These older vehicles will represent about 25% of the vehicle fleet, but will account for 75% of the pollution from automobiles. Accelerating fleet modernization by incentivizing consumers to trade-in older vehicles via sales tax incentives can improve air quality, reduce global greenhouse gas emissions from vehicles and enhance the effectiveness of the state's new motor vehicle emissions programs by bringing more low-emission vehicles into the on-road fleet earlier.
 - Additional trade-ins of used vehicles to new car dealers could also generate additional sales tax revenue when those used vehicles are resold by new car dealers to the public. It is commonly known that many private-party used car transactions result in significant under-reporting and under-payment of sales tax because private party used car buyers often “fudge” when reporting the actual price they paid for a used car. Previously under-reported sales taxes would be captured with new car dealer transactions, resulting in an increase in sales tax revenues which could more than offset any losses from removing trade-ins from the definition of “gross receipts.”
 - Finally, encouraging consumers to trade in their used vehicles to new car dealers, instead of selling them in private-party transactions, will ensure that each of those vehicles will have passed a safety and smog inspection prior to resale to another California consumer

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because licensed dealers are required to inspect and correct safety and emission problems prior to resale to consumers.

For all of the reasons stated above, we respectfully urge your "AYE" vote on SBx6 5. Should you or your staff have any questions or comments, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in black ink, appearing to read "Brian Maas". The signature is fluid and cursive, with a large initial "B" and a long, sweeping underline.

Brian Maas
Director of Government Affairs

BWM:ef

cc: The Honorable Dennis Hollingsworth
Members of the Senate Revenue & Taxation Committee
Meg Svoboda, Consultant, Senate Revenue & Taxation Committee
Therese Twomey, Senate Republican Caucus
Ralph Simoni, California Advocates, Inc.