

Understanding Rhode Island's Motor Vehicle Tax March 2017

Summary of Rhode Island's Car Tax

The Motor Vehicle Tax (commonly known as the "Car Tax") is a property tax collected by each Rhode Island municipality based on the value of each motor vehicle owned. There are three components that determine how much each individual car is taxed: valuation, tax rate and exemption.

The **valuation** of the motor vehicle is set by the Vehicle Value Commission, a state-wide body appointed by the Governor.ⁱ In all but three Rhode Island towns (Portsmouth, Richmond and Scituate) each car of a certain year, make, and model are assigned the same value.ⁱⁱ The Commission relies on the National Automobile Dealers Association book value to set the rate, a practice that has been criticized since the valuation ignores both mileage on the vehicle, and the condition of the vehicle. Both these omissions tend to disadvantage low-income Rhode Islanders less able to own and operate low-mileage vehicles in top condition. Changing the valuation (as the Governor's proposal does) disproportionately helps owners of older, less valuable vehicles, including many lower-income residents.

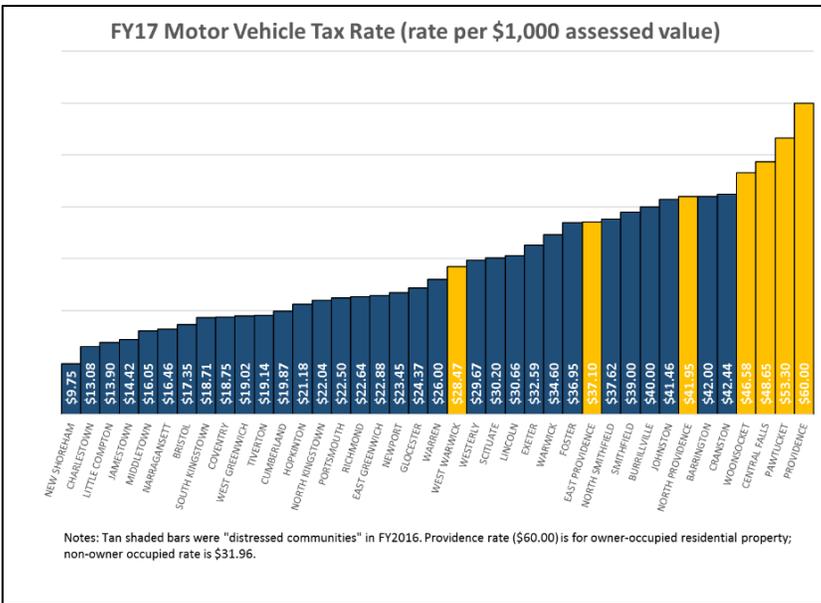


Figure 1

The **tax rate** is determined by each municipality. In FY2017, the rate ranges from \$9.75 per \$1,000 value of the car in New Shoreham to \$60.00 per \$1,000 in Providence, evident in Figure 1.

The third component, the **exemption level**, also varies by municipality. Currently state law requires municipalities to exempt \$500 of the vehicle value. Exemption levels range from the minimum \$500 in fifteen municipalities to \$6,000 (in seven municipalities) which had been the state-required minimum until 2011 (when fiscal distress resulting from the Great Recession caused the state to reduce the required minimum). The state reimburses the localities for the revenue lost by applying the

\$500 minimum exemption. The current cost is \$10 million in general revenue. Increasing the exemption level would disproportionately help owners of less valuable vehicles, since the exemption amount represents a much larger share of a less valuable vehicle's value. However, owners of lower-value motor vehicles in municipalities that already have a relatively high exemption might not benefit at all from a statewide increase in the exemption.

Rhode Island's car tax structure -- particularly the exemption that excludes some low value vehicles from any motor vehicle tax -- is unique in New England. In neighboring Massachusetts, there is a statewide rate of \$25 per thousand dollars of assessed value (which is determined based on a declining scale as a percentage of the model year list price of the vehicle). Like Rhode Island, neighboring Connecticut allows each town to set its own rates. In both Maine and New Hampshire, both the rate and the valuation decline with the vehicle's age.

Issues to Consider When Reducing the MVT

The Governor's FY 2018 budget proposal recommends changing the valuation process, such that each vehicle would be valued not at 100 percent of NADA book value (as is the case in all but three Rhode Island municipalities currently), but instead at 70 percent of NADA book value, approximating the "average trade-in value". The new process would take effect in FY 2019 at an estimated cost of \$68 million.

The Speaker of the House has indicated he would like to phase out the motor vehicle tax completely over the next five years. While the details of his proposal have not yet been released, both his proposal and the Governor's budget proposal raise several important policy issues that must be considered.

These issues fall into three categories: impact on the state; impact on Rhode Island taxpayers, and impact on Rhode Island Cities and Towns. We explore each in turn below:

1. Impact on the state of Rhode Island

a) **Loss of revenue:** The aggregate FY 2016 Motor Vehicle Tax (MVT) revenues collected by Rhode Island's 39 cities and towns totaled \$215.4 million. Under the Governor's proposal, state-aid to offset the loss of revenue from changes to the MVT would cost approximately \$58 million a year going forward (in addition to the \$10 million in state aid that currently goes to Rhode Island municipalities for MVT relief). If the MVT was completely phased out over the next five years (presumably in equal increments), as the Speaker suggests, it would cost Rhode Island \$51.1 million in the first year (\$41.1 million plus the current \$10.0 million), rising each subsequent year, and \$215.4 (\$205.4 million plus current \$10.0 million) when the phase out is fully implemented. Figure 2 shows state aid to municipalities for MVT relief currently, and under the Governor's and House Speaker's proposals.

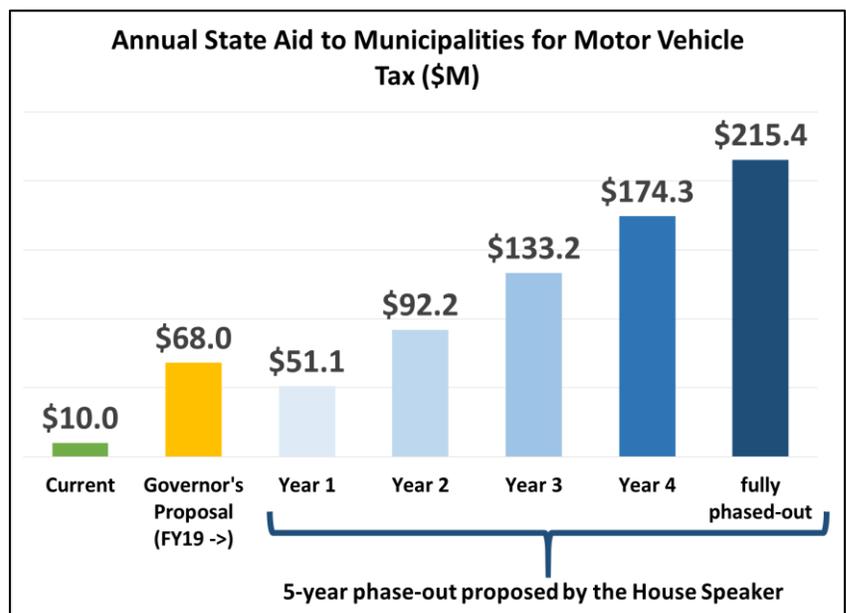


Figure 2

2. Impact on Rhode Island Taxpayers

a) **Wide variance in current MVT results in disparate impact of proposed changes:** As currently structured, the MVT impacts owners of motor vehicles very differently depending on which municipality they live in. As seen in Figure 1, the **MVT rate** ranges from to \$9.75 per \$1,000 value in New Shoreham to \$60.00 per \$1,000 value in Providence. Interacting with the rate is the size of the **exemption** which also varies widely, from \$500 to \$6,000. Setting the exemption to a high level shelters those with less valuable cars from the MVT.

	Town	Motor Vehicle Tax/\$1,000	Car Value Exempt from MVT	Current MVT on \$3000 car	MVT with 30% Reduction in Valuation	Savings with Governor's Proposal	Current MVT on \$40,000 car	MVT with 30% Reduction in Valuation	Savings with Governor's Proposal
Top Six	PROVIDENCE	\$60.00	\$2,000	\$60	\$6	\$54	\$2,280	\$1,560	\$720
	PAWTUCKET	\$53.30	\$500	\$133	\$85	\$48	\$2,105	\$1,466	\$640
	CENTRAL FALLS	\$48.65	\$1,250	\$85	\$41	\$44	\$1,885	\$1,301	\$584
	WOONSOCKET	\$46.58	\$1,000	\$93	\$51	\$42	\$1,817	\$1,258	\$559
	CRANSTON	\$42.44	\$500	\$106	\$68	\$38	\$1,676	\$1,167	\$509
	BARRINGTON	\$42.00	\$2,000	\$42	\$4	\$38	\$1,596	\$1,092	\$504
Bottom Six	NARRAGANSETT	\$16.46	\$6,000	\$0	\$0	\$0	\$560	\$362	\$198
	MIDDLETOWN	\$16.05	\$3,000	\$0	\$0	\$0	\$594	\$401	\$193
	JAMESTOWN	\$14.42	\$6,000	\$0	\$0	\$0	\$490	\$317	\$173
	LITTLE COMPTON	\$13.90	\$6,000	\$0	\$0	\$0	\$473	\$306	\$167
	CHARLESTOWN	\$13.08	\$500	\$33	\$21	\$12	\$517	\$360	\$157
	NEW SHOREHAM	\$9.75	\$1,000	\$20	\$11	\$9	\$380	\$263	\$117

Table 1 Impact of Current & Proposed MVT Varies Across Rhode Island Municipalities

Table 1 provides examples for a car valued at \$3,000 and a car valued at \$40,000 of how the rate and exemption level impact car owners in 12 Rhode Island municipalities (those with the highest and lowest MVT rates). Figure 3 shows the rate and exemption level for the six Rhode Island municipalities with the highest - rates. Because the status quo treats motor-vehicle owners very differently depending on where they live, the disparate impact of changes to the status quo must also be considered.

b) **The Car Tax is generally considered to be a regressive tax**, meaning that low and middle income earners pay a larger share of their income towards it than do higher income earners. According to the Institute on Taxation and Economic Policy (ITEP), the bottom fifth of Rhode Islanders pay on average 5.0 percent of their household income on all property taxes, those in the middle fifth pay 4.5 percent, and those with incomes in the top 1 percent pay just 2.8 percent towards property taxes.ⁱⁱⁱ The MVT comprises a relatively small share of that total. ITEP analysis shows that with both the Governor's proposal and a complete phase-out, lower income families (those in the lower 40 percent of household incomes) would receive 18 percent of the total tax reduction, while the wealthiest families (the top 20 percent of household incomes) would get about a third (34 percent) of total tax reduction. As seen in Figure 4, the group that would benefit most would be middle income families (those in the middle 20 percent of household incomes), which receive 26 percent of the total tax reduction.^{iv}

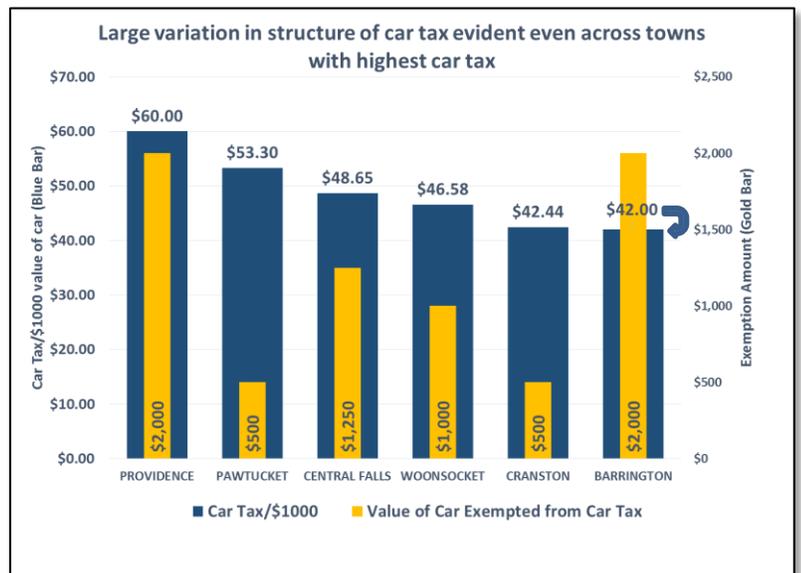


Figure 3

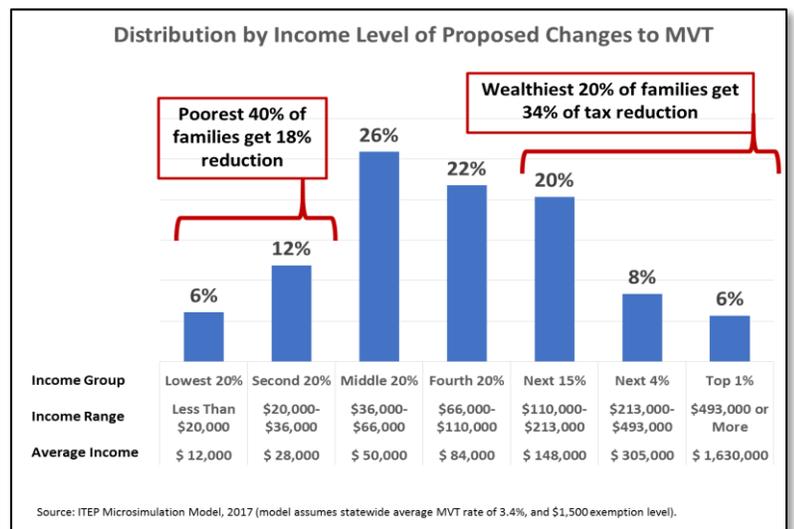


Figure 4

As seen in Figure 5, the dollar impact of reducing the MVT as recommended in the Governor's budget ranges from a \$27 tax reduction for the average family in the bottom 20 percent income group, to a \$498 tax reduction for the average family in the wealthiest 1 percent category. With complete elimination of the MVT, those numbers would increase to \$99 and \$1,849 respectively.

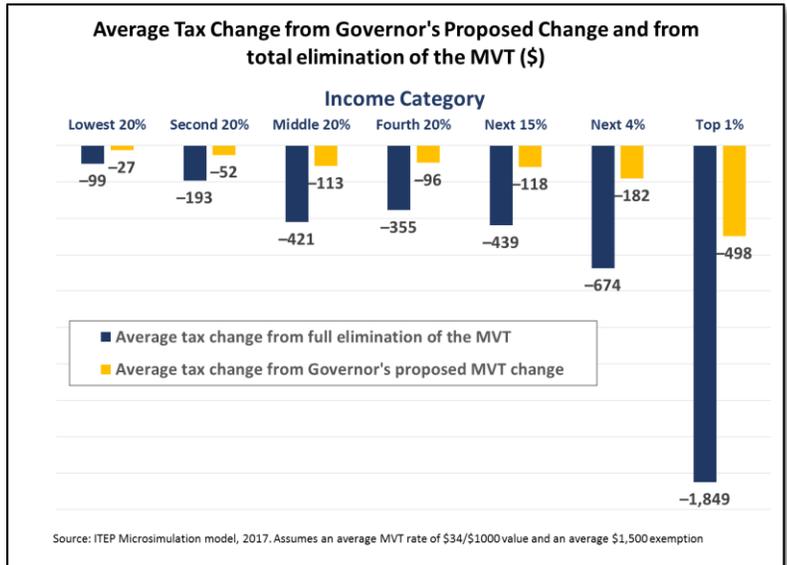


Figure 5

c) Rhode Islanders who do not own vehicles would get no benefit from proposed changes.

Those Rhode Islanders who cannot afford a motor vehicle don't currently pay the MVT (and therefore would not benefit from changes that reduce the tax). US Census Bureau data show that many workers lack access to even a single vehicle. This ranges from 0.0% of workers in Exeter and Foster to 10.8 percent of workers in Newport, as seen in Figure 6.

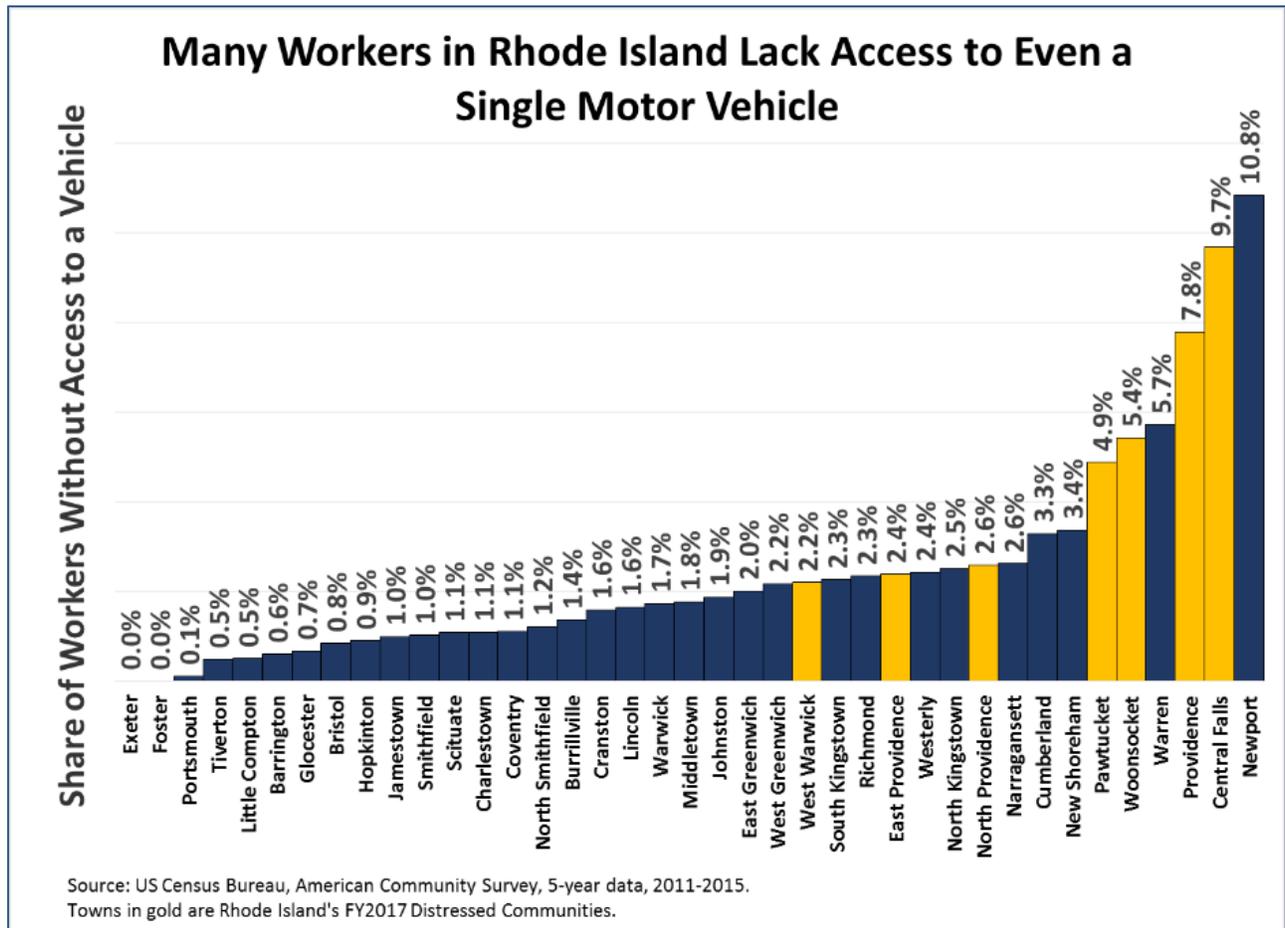


Figure 6

d) Impact by Race/Ethnicity Rhode Island's minority populations are more heavily concentrated in those cities and towns that have higher MVTs. In Figure 7, we see that four-fifths (81 percent) of Rhode Island's Latino population, three-quarters (76 percent) of Rhode Island's Black population, and 61 percent of Rhode Island's Asian population are concentrated in the six cities/towns with the highest MVT rates. It is not clear, however, that Rhode Island's minorities would disproportionately benefit from reducing or eliminating the MVT, since Rhode Island's minorities are much more likely to live in households without access to a motor vehicle. Black and Latino Rhode Islanders lack access to a vehicle at rates more than double the rate for White Rhode Islanders.^v

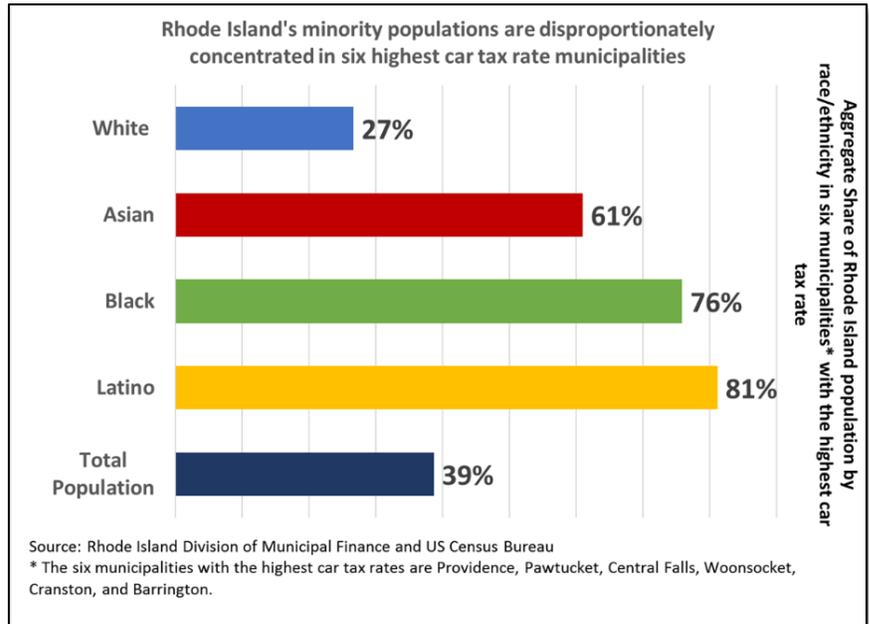


Figure 7

3. Impact on Rhode Island Cities and Towns

The Motor Vehicle Tax generates a relatively small but significant amount of revenue for Rhode Island's municipalities, ranging from 1.6 percent of all property tax revenues in New Shoreham to 14.9 percent in Burrillville (Figure 8). On average, the MVT accounts for 9 percent of local property taxes.

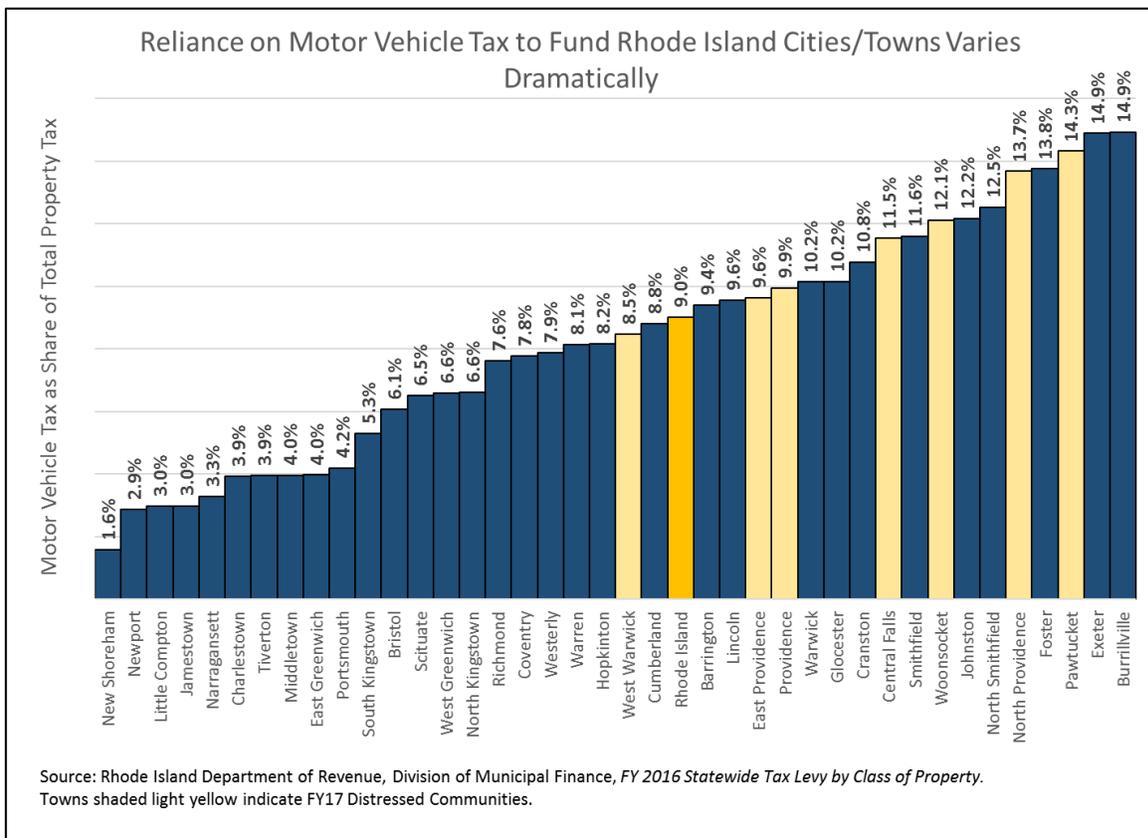
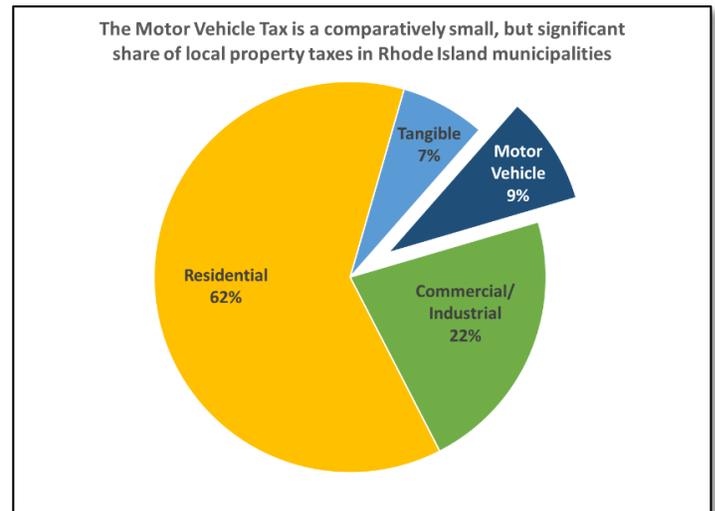


Figure 8

By comparison, residential property taxes account for 62 percent of local property tax revenue, and commercial/industrial property taxes account for 22 percent of the total (Figure 9).

The proposals currently being explored for changing the MVT in Rhode Island hold municipalities harmless by increasing state aid to compensate for lost revenues. Whether over time those municipalities increase other taxes to take advantage of the “tax room” created by rolling back the MVT remains to be seen.



Conclusion

Because Rhode Island’s Motor Vehicle Tax is so complicated, any attempt to revise the tax needs to be informed by a full appreciation of those complexities, and an understanding that the many layers of complexity are interrelated in ways that matter considerably to the well-being of the state, Rhode Island municipalities, and Ocean State residents and taxpayers.

Given Rhode Island’s comparatively high overall property tax rates, reducing those rates through changes to the Motor Vehicle Tax has merit. In weighing the various options for reducing the MVT, two factors rise above the others for consideration. The first is the impact on state revenues, and the resulting effect on the programs and services that make our state and communities strong and vibrant places to live. The second is to ensure that in paring back the MVT, we do so in a way that reduces taxes for those whose needs are greatest – low and middle-income families – while ensuring that Rhode Island’s wealthiest residents continue to pay a fair share. Both the Governor’s and House Speaker’s proposals result in Rhode Island’s wealthiest twenty percent of families reaping a windfall representing one third of the overall tax break, and should be revised to provide a more equitable tax benefit to all Rhode Islanders that responsibly balances that benefit against the need to preserve vital state revenues.

ⁱ Membership of The Vehicle Value Commission consists of seven members: the Director of the Department of Revenue, five local tax officials, and one motor vehicle dealer.

ⁱⁱ Motor vehicles in Portsmouth, Richmond & Scituate are assessed at 70%, 80%, & 95%, respectively, of the retail value of the motor vehicle. Motor vehicles in all other municipalities are assessed at 100% the retail value of the motor vehicle in question.

ⁱⁱⁱ The Institute on Taxation and Economic Policy, *Who Pays: A Distributional Analysis of the Tax Systems in all 50 States*, http://www.itep.org/whopays/states/rhode_island.php.

^{iv} ITEP’s analysis assumes a statewide exemption of \$1,500, and a statewide 3.4 percent MVT rate. In Rhode Island municipalities with an exemption higher than \$1,500, a larger share of the tax cut goes to wealthier families (and a smaller share to lower income families); in municipalities with a lower exemption than \$1,500, a larger share of the tax cut goes to lower income families (and a smaller share to wealthier families).

^v 14.1 percent of Black Rhode Islanders, 13.2 percent of Latino Rhode Islanders, and 5.4 percent of White Rhode Islanders lack access to a motor vehicle. Source: Economic Progress Institute and IPUMS analysis of US Census Bureau, American Community Survey, 5-year data, 2011-2015.