

State tax cap falls short - Increase in used car prices has defeated potential savings

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The increase in used car and truck prices is driving down some of the property tax savings from a newly expanded state cap on local tax rates that applies to more than 70 Connecticut cities and towns.

Gov. Ned Lamont and the state legislature built up expectations when they lowered the statewide cap on motor vehicle taxes, saying many more vehicle owners could benefit from the tax break.

The old cap applied to just eight cities and towns, plus another five special taxing districts in four communities. The revised cap expanded the number to 74 of the state's 169 municipalities and offered tax relief to the owners of more than 1 million vehicles.

Like car dealers promising unbeatably low prices in TV ads, Lamont and Democratic legislators ballyhooed how car, truck and motorcycle owners across the state would collectively save \$100 million since May.

Now, as property tax bills are coming due in July, some taxpayers are grumbling and Republicans on the campaign trail are pouncing Lamont and Democrats because the tax savings are not as big as expected in some cases - never mind that taxpayers in capped cities and towns still are getting a break.

The reason for the consternation and political finger-pointing is new and used car prices have skyrocketed over the last couple of years, and tax bills reflect the rise in values.

"Believe it or not, one of the greatest investments in the last two years has been your car," Lamont said. "With a used car, those values have gone up quite a bit."

Over the last year, taxpayers have seen an average increase of 26% to the assessed values of their vehicles, according to the Lamont administration.

TAX ASSESSORS AND TAX COLLECTORS in capped communities are hearing from frustrated taxpayers who are saving less than they had anticipated, said Bristol Tax Assessor Tom DeNoto, president of the Connecticut Association of Assessing Officers.

"To the credit of Bristol taxpayers, they have been pragmatic about it," he said.

Despite any increases in vehicle values, DeNoto has been telling city taxpayers the revised state cap is still lowering the tax rate on vehicles in Bristol 15% compared to last year's rate.

He said vehicle owners would be paying that much more on top of any increases related to higher vehicle values because Bristol's tax rate fell below the previous state cap.

"If your used car doubled in value, and all we did was give you a 20% savings, I'm afraid it went up," Lamont said.

But the governor said he expects an overwhelming majority of vehicle owners in capped towns and cities will get some kind of break.

DeNoto said colleagues in the 95 towns and cities above the new state cap are fielding complaints from upset taxpayers because the value of older vehicles are increasing amid the tight new and used auto markets.

"There are some people that are surprised they have seen some general increases depending on the town that they live in," he said.

SHOPPING FOR A NEW OR USED CAR remains a challenge in Connecticut like elsewhere because of a variety market forces and worldwide developments.

Car dealers in the state are starting to see some early signs of a letup, and wider auto industry forecasts indicate prices for used vehicles are expected to decline through the second half of 2022.

This is little comfort to vehicle owners suffering from tax bill shock now.

"Prices from the COVID-19 pandemic right through the recent past have escalated, and we are starting to see it stabilize," said Jeff Aiosa, president of Carriage House Mercedes-Benz of New London and a director of the 270-member Connecticut Automotive Retailers Association "Clearly it has had an effect on taxable assets. That's where the heartburn comes in with the consumer."

Vehicle taxes in Connecticut are based price appraisal guides from the National Automobile Dealers Association.

"Those values have gone up," Alosa said.

He recounted a recent conversation with a Carriage House customer who purchased a used car of a different make a couple of years ago that increased 70% in value.

"Now, that's extraordinary. We've heard an average of 30% or 40%. Now, in his particular case, he had to sell the car," Alosa said.

While the used market is starting to stabilize, he said, demand is still exceeding supply.

"We do see a little bit of an adjustment. It is hard to say if that is the new norm, or if we are going to see perhaps things decline more," Alosa said.

New vehicle prices remain at near record and record monthly highs, he said..

"New car prices are averaging in the \$47,000 to \$48,000 transaction price. The average income someone in this country is hovering over \$50,000. So, that is almost a year to work for the purchase of a new car," Alosa said

The average transaction price in May was \$47,148, according to Kelley Blue Book. This was \$5,613 higher than May 2021.

TAX RELIEF FOR VEHICLE OWNERS is on the horizon because Lamont and the legislature adopted a new assessment based on a vehicle's manufacturer's suggested retail price and its age.

The current system can result in large surprise bills for residents whose used car went up in value or who appear on a supplemental grand list more than a year after purchasing a vehicle

This new assessment method will take affect for the upcoming assessment year that commences on Oct. 1, and it will be used to determine the vehicle tax bills that will come due next July.

Lamont had proposed to the change, and it was a last-minute addition to the \$24.2 billion budget bill that governor's office and the Democratic majority negotiated.

Going forward, tax assessors will be required to calculate the value of vehicles based on a percentage of their MSRP based on a 20-year sliding depreciation schedule.

Cars up to one year old will be taxed at 80% of MSRP, and then the percentage declines in increments with the age of the vehicle, and finally vehicles that 20 or more years old will be valued at no less than \$500.

"I'd like to get rid of this car tax at some point, but in the meantime we're making it a lot more palatable for more people," Lamont said.

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