



Representative Steve Hambley (69th District)

Chairman Shaffer, Vice Chair Scherer, Ranking Member Rogers, and members of the House Ways and Means Committee, thank you for allowing us to present House Bill 216 to you today. As my joint sponsor, Representative Brinkman has ably described, HB 216 would extend the current used for new vehicle tax credit to also encompass used vehicles traded in for other used vehicles. Ohio already provides this type of credit on used boat purchases. First and foremost, at its heart, the proposed credit is a consumer benefit and a matter of fairness to the tax payers of Ohio.

Permit me to address one persistent question: what is the tax expenditure to the state and counties should this change in tax policy be enacted?

To weigh the fiscal impact on the state and the counties, we should consider the fees generated by an increasing number of re-titled and registered vehicles over time, the net sales and use tax revenue that may be foregone, and just as importantly, the impact on consumer behavior that this credit would have. We have been working with interested parties and Legislative Services Commission staff to obtain appropriate data from various statewide and national sources to answer these questions. As of today, there is no official Fiscal Note for this legislation from LSC. However, I would like to offer the following information for your consideration that provides some context for the answers that they and interested parties will be providing to the committee on HB 216.

Motor Vehicle Registration and Title Fees

Presented in the following table is a breakdown of the various vehicle registration and title related fees that would likely apply in the consideration of the fiscal impact of HB 216. Depending on the nature of the transaction – replacement plates, transfer plates, out of state vehicle purchase, temporary tag, certificates of title, etc – the local total will vary but the statewide aggregate will likely be somewhat minimal. Obviously, if the change in tax policy results in a greater propensity for consumers to buy used vehicles more frequently over time – given a tax incentive to trade in and buy used – there would be a commensurate gain in title and registration fees for the state and counties on an annual basis.

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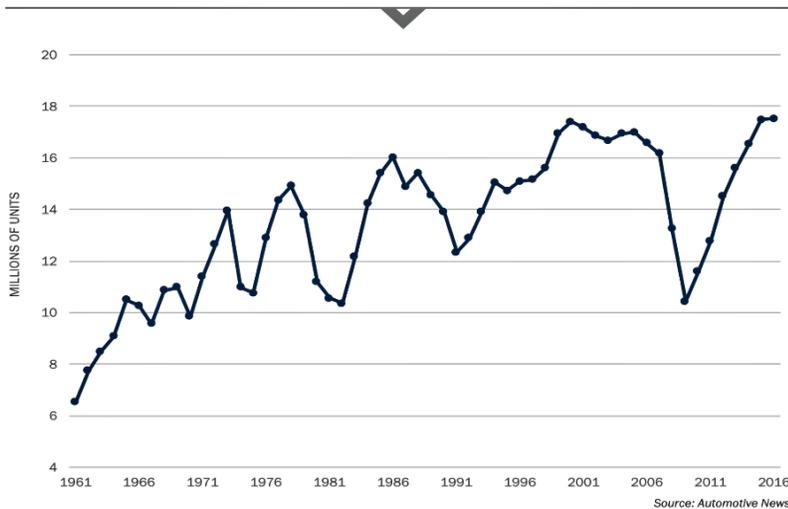
Registration Fees		Title Related Fees	
Plate/Registration Transfer	\$4.50	Out-of-State Inspection	\$5.00
Duplicate/Replacement Sticker	\$4.50	Cancellation of Lien	No Fee
Replace/Exchange 1 Plate	\$10.50	Certificate of Title	\$15.00
Replace/Exchange 2 Plates	\$11.75	Duplicate Certificate of Title	\$15.00
Replacement Registration	\$4.50	Replacement Certificate of Title	\$15.00
Temporary Tag	\$18.50	Lien Notation (on existing title)	\$15.00
Out-of-State Vehicle Inspection	\$3.50	Lien Notation (with title transfer)	\$15.00
Restricted Plate (with current registration)	\$11.75	Late Fee	\$5.00
Retain License Plate Number	\$10.00	Memorandum Certificate	\$5.00

Source: (Revised 01/01/2017) Ohio Bureau of Motor Vehicles

Some Important National Trends

The following graphics provide an indication of the industry trends that are similarly reflected in the market conditions of new and used motor vehicle sales in Ohio.

NEW CAR AND LIGHT-DUTY TRUCK SALES



Observation: While the trend of new car and light-duty truck sales has been cyclical, the long term trend over the last 50 years has been upward.

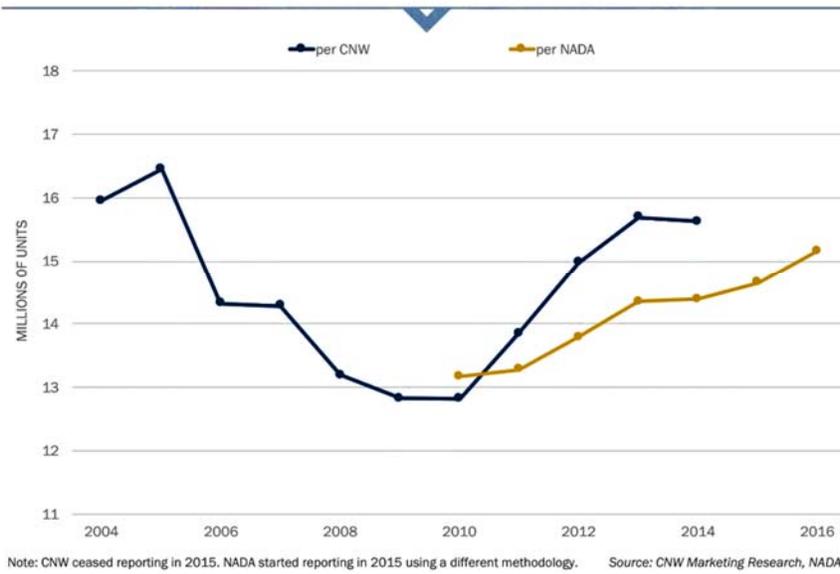
Observation: Over the last two decades, used vehicle values while also sensitive to economic cycles have been trending upward.

MANHEIM USED VEHICLE VALUE INDEX



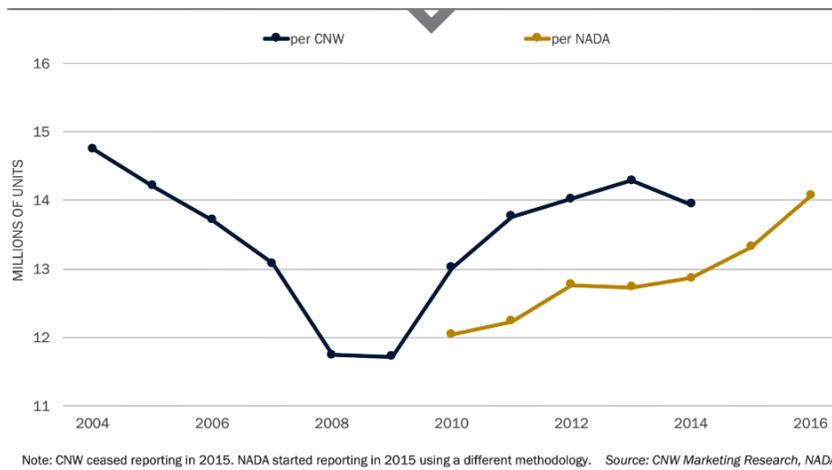
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USED VEHICLE RETAIL SALES BY FRANCHISED DEALERS

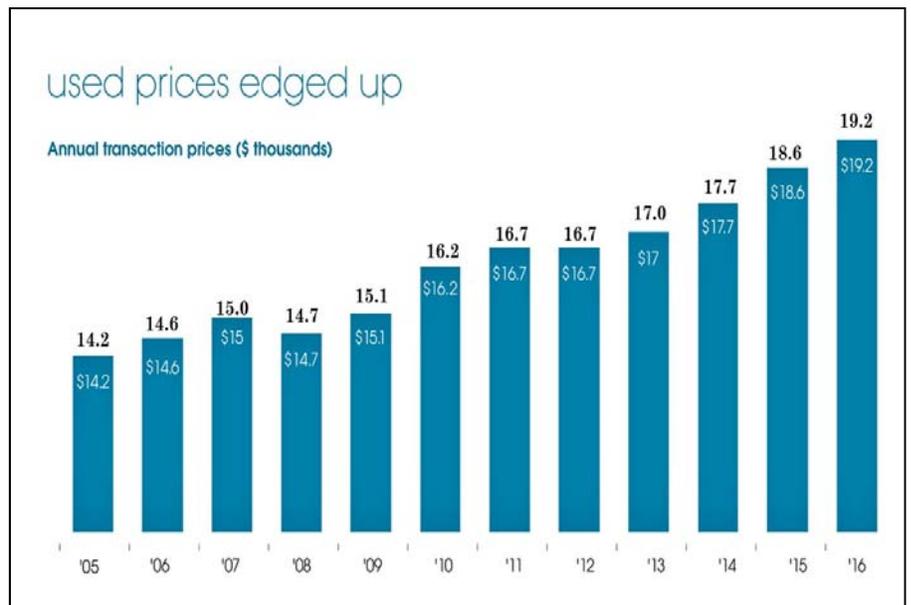


Observation: While trending downward from 2004 to 2010, used vehicle sales by franchised dealers as well as independent dealers have been increasing steadily since 2010.

USED VEHICLE RETAIL SALES BY INDEPENDENT DEALERS

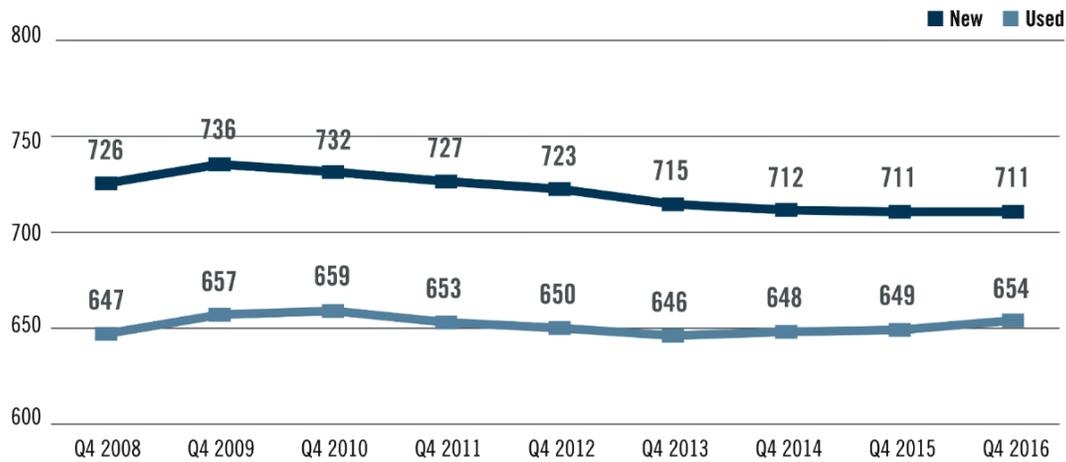


Observation: Even when used vehicle sales were declining from 2005-2010, retail used vehicle prices have been trending upward to an historic high in 2016. Source: Edmunds Used Vehicle Market Report 2017.



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Average Loan Credit Scores by Vehicle Type



Source: Experian Automotive

Observation: While consumers from all socioeconomic groups buy new and used vehicles, there is little doubt that individuals with lower credit scores on average pay more for financing a used vehicle. Consequently, those struggling with lower credit scores would benefit significantly from a reduction in purchase costs for good and more dependable used vehicles.

Ohio Car Sales Data

Review of the car sales data for 2015 and 2016 provided to our office from the Ohio Department of Public Safety revealed the following:

Year	New Car Dealers Selling New Cars			New Car Dealers Selling Used Cars			Used Car Dealers Selling Used Cars		
	Number of Titles	Purchase Price (\$ thousands)	Used Car Trade In Amount (\$ thousands)	Number of Titles	Purchase Price (\$ thousands)	Used Car Trade In Amount (\$ thousands)	Number of Titles	Purchase Price (\$ thousands)	Used Car Trade In Amount (\$ thousands)
2015	644,974	\$ 22,367,122	\$ 3,062,748	755,568	\$ 9,616,715	\$ 25,673	625,999	\$ 4,154,785	\$ 15,269
2016	633,351	\$ 22,377,981	\$ 2,894,676	760,641	\$10,090,167	\$ 28,408	630,227	\$ 4,273,065	\$ 21,751
Change	-2%	0%	-5%	1%	5%	11%	1%	3%	42%

One of the points to consider from this aggregate sales data is that the national trends previously identified are reflected in the Ohio’s used and new car market. Notable conclusions are:

- Used cars sales from new and used car dealers are increasing in number
- Average selling prices of used cars are increasing
- In aggregate used car trade in amounts are increasing
- While nationally 3 of 4 automotive sales involve a used vehicle, Ohio reflects a similar pattern where used car title transactions by dealers outnumber new car transactions by well over two to one.

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Both national and state motor vehicle sales data demonstrate that there are certainly differences between new and used vehicle sales. Some published explanations identify changes in consumer preferences, increasing number of vehicle sales into rental, decreasing purchasing power of potential buyers, and changes in the used car retail values.¹ No doubt market changes are significantly based upon a myriad of variables and independent decisions of consumers. The decisions of those consumers looking to buy a durable good would likely be influenced to a significant degree by a change in their tax liability.

Increase in the Number of Used Vehicles Being Sold

In answering the question of fiscal impact and understanding what the consumers of Ohio might predictably do, I would offer one of the most famous and certain laws in economics - the law of demand. It is in short, the higher (lower) the price of a good, the less (more) consumers will purchase.

Those interested in the study of Microeconomics, in order to estimate consumers' sensitivity to changes in price, have used for nearly a century a defined mathematical technique that measures the "price elasticity of demand." Simply stated, it measures the proportionate change in demand for a product given a change in the price of that product. If a 1% drop in the price of a product results in a 1% increase in demand for the product, the price elasticity of demand is said to be one. Reportedly, hundreds of studies have been published over the years calculating long-run and short-run price elasticities of demand for a variety of durable and non-durable goods. Estimated price elasticities of demand for automobiles, encompassing both new and used, in the short-run range from 1.2 to 1.5, while in the long-run amounts to 0.2.²

The point is simple and clear. There is a positive and proportional change in the demand for the durable good (automobile) with a reduction in the price of that durable good. The question comes down to is this - how much of a positive and proportional change? The answer is less simple and significantly more debatable.

Some studies have pointed out the durability of the automobile, as well as secondary markets (i.e, used car sales) can play a significant role in the changes in demand for automobiles and therefore the price elasticity due to effective consumer cost reductions.³ LSC as well as interested parties will certainly do their best to provide an estimate of the fiscal impacts of HB 216, hopefully relying upon both microeconomic and macroeconomic data.

While a straightforward calculation of the price elasticity of demand can likely be performed with varying levels of confidence, remember the change in price (derived from

¹ *2017 Used Car Market Report*, Cox Automotive, Mannheim Press (2017);

² *Price Elasticity of Demand*, Patrick L. Anderson, Richard D. McLellan, Joseph P. Overton, and Dr. Gary L. Wolfram (Nov. 13, 1997).

³ *Do Sales Tax Credits Stimulate the Automobile Market?* Jiawei Chen, Susanna Esteban, and Matthew Shum, (February 17, 2010).

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the sales tax credit) results not only in a change in the unit demand but also the value of the transaction. State and county government taxing revenues, for all intents and purposes are based upon the reported retail values not just the unit demand. Hence as the predicted number of used vehicles being re-titled increases (reflective of national trends, change in tax policy, increased competitive standing of Ohio dealerships relative to surrounding states already providing the used vehicle sales tax credit, etc) and the average taxable values of those vehicles involved in the transaction likewise increase (reflective of national trends, more efficient repatriation of casual sales tax revenues by the dealerships, etc), the amount of sales and use tax generated will also increase to offset the apparent loss of revenue from the proposed sales tax credit. Will those offsets be sufficient to totally replace the gross loss of revenue from the tax credit?

That is a question with a debatable if not indeterminate answer. I am sure the question will be part of the discussion by Ways & Means Committee members weighing the testimony of many interested parties, as well as the LSC. I would contend, however, that it is NOT the most important question before us. In my opinion, the question that matters the most is WHY we want to change state taxing policy regarding used vehicles.

In answering that question, let me summarize why I request your support for the Used for Used Trade-In Credit in HB 216:

- The credit is a consumer benefit that will help the working poor afford better, more reliable, lower polluting, more gas efficient, vehicles.
- The credit recognizes that the consumer already paid the sales and use tax on the trade-in vehicle.
- Incentivizes consumers to trade in vehicles at dealerships thereby addressing “underreporting” in the casual market and justifiably generate more sales tax revenue to the state and counties.
- 33 states, including all of Ohio’s contiguous neighbors offer a used for used vehicle trade-in credit. This puts Ohio consumers and Ohio dealerships at a disadvantage.
- Ohio already provides this type of credit on used boat purchases.

My thanks to the chair and the members of the committee for allowing us to present sponsor testimony on House Bill 216 today. Representative Brinkman and I are available for any questions. Thank you.