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STATE OF MAINE
ONE HUNDRED AND SEVENTH LEGISLATURE
COMMITTEE ON ENERGY

February 13, 1976

Senator Jerrold B. Speers, Chairman
Legislative Council
State House
Augusta, Maine 04333

Dear Senator Speers:

In accordance with House Paper 1728, directing the Committee on Energy to study the subject matter of L.D. 1746, "AN ACT Adjusting the Maine State Sales and Use Tax on Passenger Motor Vehicles in Accordance with Engine Efficiency", We enclose herein the final report of the Committee.

Respectfully submitted,

John B. Roberts
Senate Co-Chairman, Energy Committee

Robert M. Farley
House Co-Chairman, Energy Committee

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Report Of The Committee

On Energy

On Its Study Of

An Automobile Conservation Tax

February 13, 1976

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The Joint Standing Committee on Energy was directed by the Legislative Council during the Regular Session of the 107th Legislature to study the bill, LD 1517, entitled "An Act Adjusting the Maine States Sales and Use Tax on Passenger Motor Vehicles in Accordance with Engine Efficiency" and to report its findings together with any proposed recommendations and necessary implementing legislation to the next regular or special session of the Legislature.

LD 1517, presented to the Committee on Energy during the regular session of the 107th Legislature proposed to levy a sales tax upon new automobiles according to the number of passenger miles per gallon attained by each automobile. The number of passenger miles would be derived from the number of miles per gallon attained by each automobile as determined by the Environmental Protection Agency and multiplied by the number of passengers that each automobile can carry, but not to exceed 5 passengers.

The passenger miles standard was rejected because it discriminated against smaller automobiles that are gas conserving and encouraged the use of larger automobiles that are not necessarily gas conserving. For example, under LD 1517 an owner of a 2 passenger MG which attains 35 miles per gallon or 70 passenger miles per gallon would pay a tax that is 60 percent greater than the present tax whereas the owner of a chevolet station wagon which attains 14 miles per gallon would pay a tax that is 30 percent greater than the present tax rate. Furthermore, a passenger miles standard does not ensure car pooling, and such a standard could

promote energy waste.

The New England Governor's energy policy establishes a target date of 1985 by which New England will reduce its dependence on oil by 20 percent. Currently 81 percent of New England's energy needs compared to the national average of 47 percent are supplied by petroleum. Foreign oil comprises the bulk of petroleum used in New England. New England energy prices are 35-40 percent higher than the national average which is due, in part, to the high costs of oil.

Maine is the third largest user of petroleum in New England in regard to the total consumption of oil.

OIL CONSUMPTION IN NEW ENGLAND

1974-1985

(in millions of Barrels)

	1974	1985 (Fstimated)
Connecticut	99	152.4
Maine	43.3	66.7
Massachusetts	197.3	303.7
New Hampshire	24.2	37.2
Rhode Island	25.2	38.8
Vermont	12.4	19.1
Total	221.4	617.9
20 Percent Savings		494.3

Statistics provided by the Federal Energy Administration point out that Maine is tied with Massachusetts for second place in regard to the dependence of each New England State upon petroleum as an energy source. In 1973, 85 percent of Maine's and Massachusett's energy supply was derived from petroleum. Maine compared very favorably, however, with the other states in regard to the percentage of its total petroleum supply that is used for gasoline. Seventeen percent of Maine's petroleum supply is used as gasoline compared to 20 percent for Massachusetts and 28 percent for Vermont.

In 1974, roughly 38,000 new automobiles were sold in Maine compared to approximately 48,000 new car sales in 1973. Approximately 35,500 of of the 38,000 automobiles sold in Maine were domestic cars. According to statistics provided by the Polk Institute to the Division of Motor Vehicles, roughly 30 percent of the automobiles sold in Maine in 1974 were gasoline conserving automobiles (18 mpg - city driving).

One means to reduce the United State's New England's dependence on oil is to initiate a gasoline conservation program. Presently, gasoline comprises 21 percent of the energy used in New England compared to the national average of 18 percent. The United States Congress recently enacted legislation that requires automobile manufactures to increase the miles per gallon attained by new automobiles. The following schedule has been established:

MODEL YEAR	Average fuel economy of the Total Fleet Manufactured (in miles per gallon)
1978	18.0
1979	19.0
1980	20.0
1981-1984	To be determined by the Secretary of Transportation
1985	27.5

Critics of the legislation, led by Senator Ribicoff of Connecticut, pointed out that "the weakness of this measure is that it is a fleet standard applying across an entire manufacturer's line of cars. There is no gas guzzler provision. If a manufacturer meets the required mileage standards computed for his entire fleet... he...can continue to produce his most inefficient models.... The provision saves virtually no gasoline in this decade and even in 1985 would only save 500,000 barrels a day..."

The Joint Standing Committee On Energy analyzed the feasibility of adding a sliding scale surtax to the present sales and excise taxes levied on automobiles which would be based on the Environmental Protection Agency (EPA) miles per gallon standard for each automobile. The Energy Committee also studied the feasibility of adding a surcharge to the registration fee of each automobile which would be based on the EPA miles per gallon standard. Another alternative analyzed by the Committee concerned a tax (sales or excise) to be levied according to the weight and engine size of each automobile.

The following schedule of surcharges was devised to study the feasibility of taxing automobiles according to the miles per gallon of gasoline attained by each automobile.

Miles Per Gallon, City Driving EPA Standard	Rate Schedule
25 MPG +	10% Rebate on Sales Tax, Excise Tax, Registration Fee
21-24.9 MPG	No Change
17.1-20.9 MPG	10% Surtax on Sales Tax, Excise Tax, Registration Fee
13.1-17 MPG	20% Surtax on Sales Tax, Excise Tax, Registration Fee
10.1-13 MPG	30% Surtax on Sales Tax, Excise Tax, Registration Fee
10 MPG or less	40% Surtax on Sales Tax, Excise Tax, Registration Fee

The proposed surcharge schedule was sent to the Division of Motor Vehicles, the Bureau of Taxation, The Maine Automobile Dealers' Association, and the Maine Municipal Treasurers-Collectors Association for criticism and suggestion. A public hearing was held on December 11, 1975 to obtain testimony from all interested groups in regard to the proposal.

A Surcharge Imposed upon a Sales Tax

A sales tax surcharge, according to Robert W. Meskers of the Maine Bureau of Taxation, would create administrative problems for the Sales Tax Division of the Bureau and for Maine automobile dealers. In addition, the proposed schedule would require a "redesign of the sales and use tax return and would significantly complicate audit procedures."

The sales tax surcharge would not necessarily tax the full price of the new automobile. The sales tax is presently applied to the net amount paid for the motor vehicle following the trade-in of another motor vehicle. For example, a $6,000 automobile in the 10 MPG or less class would be subject to a $120 surcharge without a trade-in. The same automobile with a $1,000 trade-in would be subject to a $20.00 surcharge.

Another problem concerns the purchase by Maine residents of automobiles out-of-state. There are several methods that can be used to escape payment of the sales tax. In addition, the motor vehicle purchasers certificate, completed by the purchaser does not often provide the information necessary to levy a tax on the actual price paid for the new automobile.

Mr. William Hood, Director of the Maine Automobile Dealers' Association (MADA) opposes a sales tax surcharge because the public is choosing gasoline conserving autombiles without a surcharge incentive. In addition, the MADA points out that the proposal would discriminate against purchases of automobiles which are gasoline wasteful, but owners of older gasoline wasteful automobiles would not be adversely affected by the schedule.

A study conducted by the MADA in regard to consumer automobile purchasing patterns in the Augusta market shows that the percentage of full size automobile sales has fallen from 24.3 percent in 1973 to 14.4 percent in 1975. The percentage of intermediate size automobile sales in the Agusta market has declined from 23.2 percent in 1973 to 17.5 percent in 1975, and the percentage of

small size automobile sales has decreased from 38.6 percent in 1974 to 35.2 percent in 1975. The percentage of foreign automobiles sales in the Augusta market has increased 10 percent from 18.2 to 28.2 percent between 1974 and 1975. A significant portion of foreign automobile sales is gas conserving automobiles.

The sales tax surcharge would also require automobile dealers to determine the correct amount of tax to charge and to segregate motor vehicle sales into size categories to report to the sales tax division. The administration of the tax by the automobile dealers would be difficult to enforce unless an enforcement staff of auditors was hired.

Despite the results of the MADA study of the automobile sales market in Augusta, FEA statistics indicate that gasoline consumption is beginning to increase at levels approaching the pre-Arab Embargo levels. Between 1974 and 1975, gasoline consumption increased 3 percent compared to average increases of 5 percent per year prior to 1973.

A Registration Fee Surcharge

A second alternative is to levy a surcharge in addition to the registration fee based on a miles per gallon standard. In the opinion of George Whalen,Chief of Public Services of the Motor Vehicle Division, a registration fee surcharge based on a miles per gallon standard would be difficult to administer. In addition, the registration fee surcharge would, in the schedule, range from a $1.5- rebate to a $6.00 maximum increase. The rate

of increase would have to be much greater than the one proposed in the schedule to change consumer purchasing patterns.

The administration of the proposed registration surcharge may be difficult because the registration process is very decentralized. Roughly 255 communities register one-half of the automobiles registered each year in Maine. Every individual involved in the registration process would have to be informed of the various surcharges to be imposed on more than 150 new automobile makes sold in Maine. In addition, there may be problems in regard to transfer fees. There are roughly 1000 transfers each week in Maine.

While the automobile registration process is decentralized and the surcharge would be imposed upon automobiles manufactured in 1975 and thereafter, the EPA provides booklets that give the miles per gallon of each automobile. The difficulty would be in the future because each type of automobile may attain different gas mileage from one year to the next.

An Excise Tax Surcharge

An excise tax surcharge based upon a miles per gallon standard would be administered by the municipal tax collectors and the revenues generated by the surcharge would remain in each community. According to the Bureau of Taxation there would be roughly a $578,00 increase in revenues derived form the proposed schedule that would remain in the municipalities.

An excise tax surcharge may create some administrative problems on the local level. Presently, the excise tax is based upon

the age and value of the automobile. A surcharge based on the miles per gallon standard would require local tax collectors to calculate a total tax from two divergent standards.

On the other hand, local tax collectors could easily derive the surcharge fee from the EPA booklet which provides the mileage per gallon of gasoline for every automobile sold in the United States. The calculation would be merely a process of addition.

A Surcharge based on Engine Size and Weight

An alternative to a miles per gallon standard as formulated by the Environmental Protection Agency is a standard based on engine size and the weight of an automobile. The alternative is a response to the criticism of the EPA standard that the latter is not scientifically derived and that the standard is based exclusively on flat level driving.

The engine/automobile weight standard, however, may also be deficient as a legal standard. "In several cases", according to the Office of Energy Resources, "cars that both weigh more and have a larger engine achieve as good or better gas mileage than" cars with smaller engines and less weight. Furthermore, federal laws regarding gasoline conservation use the miles per gallon standard devised by the EPA. In order to maintain continuity and ease of administration, the Office of Energy Resources suggests that the EPA fuel economy standard be used for State legislation concerning gasoline conservation.

CONCLUSION

Consumers often purchase goods based on price. In the case of automobiles, consumer purchases are, many times, based on the amount of the down payment and monthly payments or the investment cost. As a result, the public, in general, may not use operating costs as a factor in its automobile purchase decisions. Regulated price increases in gasoline have greatly moderated the increase in operating costs. Consequently, gasoline conservation in Maine has declined since the Arab embargo in 1973, and increased gasoline consumption has begun to approach pre-embargo years.

Despite increased gasoline consumption in Maine, there is evidence that some people are considering operating costs in their car purchase decisions. The Maine Automobile Dealers' Association survey of the new automobile market in Augusta indicates that the purchase of intermediate and full size domestically manufactured automobiles has declined roughly 15 percent between 1973 and 1975. A significant portion of the decrease in the sales of intermediate and full size American cars is attributable to the 10 percent increase in the sale of foreign automobiles between 1973 and 1975.

CRITERIA FOR AN AUTOMOBILE GASOLINE CONSERVATION TAX

In order for the New England States to meet the target of the New England Governor's energy conservation program and to supplement reduced supplies of oil by 1985, major conservation efforts will be required of each state. One type of conservation program is to reduce the sale of gasoline wasteful automobiles by a tax incentive. Evidence presented to the Committee on Energy indicat-

es, however, that the tax imposed on gasoline wasteful cars would have to be significant to alter consumer purchasing patterns.

In addition to substantial taxes levied on automobiles that consume large amounts of gasoline per mill,a tax schedule, in order to produce optimum results would have to be progressive over several years in regard to mileage categories and tax rates. Since automobiles produced in the future will continually obtain better gas mileage, the mileage categories and tax rates should progress at the same rate as or exceed the production of the automobile manufactures.

Recommendation of the Majority

The following members of the Joint Standing Committee on Energy recommend that no legislation be enacted in regard to an automobile conservation tax:

Senators	Representatives
John B. Roberts, Chairman	Robert M. Farley, Chairman
Howard M. Trotzky	Edward C. Kelleher
Alton E. Cianchette	Lawrence P. Greenlaw
	Philip R. Bennett, Jr.
	Patrickt T. Jackson, Jr.
	Charlotte Z. Byers
	Lena C. Durgin
	Glen W. Torrey

The majority of the Committee point out that a surtax may be difficult to administer and that the operating costs of automobiles will change consumer purchasing patterns. The survey of the Maine Automobile Dealers Association of the Augusta automobile market shows that there is a consumer trend toward gasoline conserving automobiles.

Recommendation of the Minority

A minority of the Joint Standing Committee on Energy recommends that an excise surcharge be enacted to serve as a incentive for consumers to purchase gasoline conserving automobiles. The minority of the Committee point out that immediate conservation of oil is essential to reach the goal of the New England Governor's Energy Policy of a 20 percent reduction in the use of oil by 1985. Since gasoline conservation is much easier to conserve than other types of petroleum, an automobile conservation tax is appropriate at the present time.

The following members of the Energy Committee propose that the attached legislation be enacted by both houses of the Legislature:

Representatives

Richard Davies
Laurence E. Connolly Jr.

Be it enacted by the People of the State of Maine as follows:

AN ACT to Increase the Excise Tax on Motor Vehicles According to Their Consumption of Gasoline.

36 MRSA § 1482, sub-§ 1, ¶ C, as last amend by PL 1973, c. 588, §§ 12, 13, is amended to read:

(4) In addition to the excise tax imposed by this paragraph, there is levied a tax surcharge in the following amounts according to the gasoline consumption of each automobile with a seating capacity of not more than eight persons:

"If the fuel mileage rating (in miles per gallon) of the automobile is—	And the model year is—			
	1977	1978	1979	1980 or thereafter
	then the amount of the tax is—			
20 or more				0
19 or more but less than 20			0	$100
18 or more but less than 19		0	$100	200
17 or more but less than 18	0	$100	200	300
16 or more but less than 17	$100	200	300	450
15 or more but less than 16	200	350	450	650
14 or more but less than 15	350	500	650	850
13 or more but less than 14	550	700	900	1,100
Less than 13	800	1,000	1,200	1,400

Miles per gallon for each model type shall be the final economy figure established for each model type by the Environmental Protection Agency in compliance with Section 503 of P.L. 94-163, the 1976 Energy Policy and Conservation Act. This tax surcharge will be imposed on all automobiles manufactured in model year 1977 and thereafter.

Fiscal Note

Using an estimate of 40,000 cars to be sold and assuming that 80% of these will have an E.P.A. rating of at least 17 M.P.G., results in 8,000 automobiles that would be subject to this surcharge with the following possible breakdown.

M.P.G.	No. of Automobiles	Surcharge		Revenue
16	3,000	@ $100	=	$ 300,000
15	2,000	@ 200	=	400,000
14	2,000	@ 350	=	1,600,000
13	1,000	@ 550	=	550,000
				$2,850,000

Revenue from the Excise Tax is retained by the municipalities for their own use.

Statement of Fact

This bill provides a per car excise tax surcharge beginning with cars manufactured in model year 1977. The amount of tax is determined by each car's fuel economy. This legislation grew out of the Joint Standing Committee on Energy 1976 study, An Automobile Conservation Tax. This study stated in part:

> The New England Governor's energy policy establishes a target date of 1985 by which New England will reduce it dependence on oil by 20 percent. Currently 81 percent of New England's energy needs compared to the national average of 47 percent are supplied by petroleum. Foreign oil comprises the bulk of petroleum used in New England. New England energy prices are 35-40 percent higher than the national average which is due, in part, to the high costs of oil.
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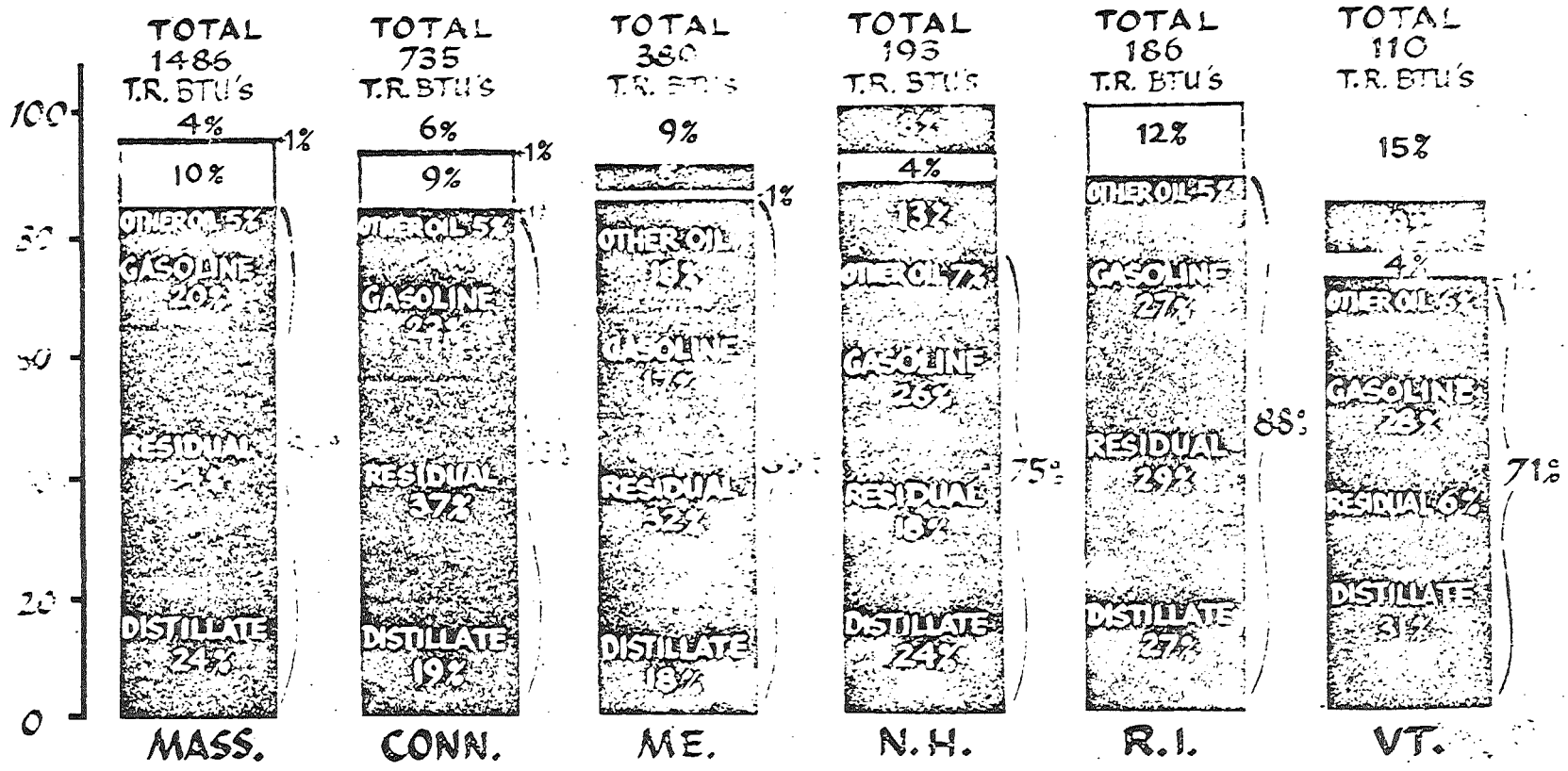
APPENDIX

NEW ENGLAND STATES
SOURCES OF ENERGY
1973
PERCENTAGE DISTRIBUTION



SOURCES OF ENERGY
1974