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MOTOR CARRIER EXEMPTION

House Bill 4924 as introduced
Sponsor: Rep. Lingg Brewer

House Bill 4925 as introduced
Sponsor: Rep. Kirk A. Profit

Committee: Tax Policy
First Analysis (2-24-98)

THE APPARENT PROBLEM:

Representatives of Michigan trucking businesses say that most states in the region exempt the "rolling stock" (trucks, trailers, and parts) of for-hire truckers from the sales tax, including Wisconsin, Illinois, Ohio, Indiana, Missouri, Pennsylvania, and West Virginia. Michigan, however, has no such exemption. (There is a partial exemption for trucks in interstate commerce; see Background Information.) With the federal deregulation of interstate trucking, say trucking spokespersons, competition in the industry has become more intense, and domestic truckers cannot afford to be at a disadvantage compared to competitors in neighboring states. A company operating in a border state can easily service customers in Michigan from facilities across the border and enjoy a six percent advantage over Michigan-based carriers on trucks, trailers, and parts, say trucking officials. This also discourages companies from purchasing rolling stock in Michigan. Legislation has been introduced to address this.

THE CONTENT OF THE BILLS:

The bills would provide for a sales tax and a use tax exemption for tangible personal property sold to a motor carrier if the property was directly used in providing services by that motor carrier. House Bill 4924 would amend the General Sales Tax Act (MCL 205.54q). House Bill 4925 would amend the Use Tax Act (MCL 205.94) and refers to tangible personal property stored, used, or consumed by a motor carrier.

The term "motor carrier" would refer to a person engaged in transporting property for hire on highways, streets, roads, alleys, or thoroughfares of any kind.

BACKGROUND INFORMATION:

Two acts passed in the 1995-96 legislative session addressed sales and use taxes on rolling stock (trucks, trailers, and parts) engaged in interstate commerce. Public Act 576 of 1996 (House Bill 5567) provided a partial exemption from the sales tax for certain trucks and trailers engaged in interstate commerce based on their percentage of use in other states. Public Act 477 of 1996 (House Bill 5506) exempted from the use tax trucks, trailers, and parts used in interstate commerce and purchased, rented, or leased out of state. It also provided a use tax exemption for trucks, tractors, and trailers purchased, rented, or leased in the state based on its percentage of out-of-state use. The Department of Treasury had issued a position paper in 1984 allowing interstate carriers domiciled in Michigan to get refunds of sales and use taxes paid on rolling stock based on the percentage of their out-of-state mileage. However, a 1995 state court of appeals decision said there was no statutory authority for such tax treatment.

FISCAL IMPLICATIONS:

The Department of Treasury has estimated that exempting trucks, trailers, and parts would result in a reduction in state revenues of $20 million annually. The department says that, as written, the bills go beyond that, and would exempt all of a motor carrier's tangible personal property. This would have a "very sizeable, but unknown revenue impact." (See House Fiscal Analysis fiscal note dated 12-15-98)

ARGUMENTS:

For:

The bills will put Michigan for-hire truckers on an equal footing with competitors in surrounding states as regards the sales and use tax treatment of rolling stock. Trucking is a fiercely competitive, low-profit business. While collectively it is a large industry, with some 250,000 people in the state employed in trucking related jobs, trucking is also an industry of small businesses, with 70 percent of interstate carriers running fewer than seven trucks. Not only will the elimination of sales and use taxes on trucks and parts provide Michigan truckers equity with out-of-state companies, but it will provide equity with other forms of transportation: railroads, commercial airlines, and commercial vessels enjoy sales tax exemptions on transportation property and repair parts. The bills also will encourage purchases from Michigan-based companies selling rolling stock and encourage the use of Michigan-based repair facilities. Without these exemptions, some truckers might close Michigan facilities and operate over the border (in Ohio or Indiana). This would hurt property tax and income tax collections.

Against:

The bills carve out a special exemption for one industry. How can this be defended when other kinds of enterprises must pay these taxes even though they may have competitors in other states with different tax structures? Not only do the bills raise the spectre of the "slippery slope" but they will result in a significant loss of revenue to the state, including to the school aid fund.

POSITIONS:

The Michigan Trucking Association supports the bills. (2-18-98)

The Department of Treasury is opposed to the bills. (2-18-98)

The Michigan Education Association has indicated its opposition to the bills. (2-18-98)

Analyst: C. Couch

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.