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ROLLING STOCK EXEMPTION

House Bill 4586 (Substitute H-1)
First Analysis (5-12-99)

Sponsor: Rep. Rick Johnson
Committee: Tax Policy

THE APPARENT PROBLEM:

Public Act 477 of 1996 exempted "rolling stock" (certain large trucks, trailers, and parts) from the use tax if purchased, rented, or leased outside of the state, and provided a partial exemption for qualified trucks and trailers purchased, rented, or leased in the state based on the percentage of miles driven in other states. (Related legislation provided a similar partial sales tax exemption based on out-of-state travel.) The justification for the exemptions was that it would put Michigan-based interstate truckers on equal footing with their competitors in neighboring states, which were said to exempt such transactions. These provisions carried a sunset date of May 1, 1999. Legislation has been introduced that would maintain the exemption for out-of-state transactions and expand the exemption for in-state transactions so that they would receive equal treatment.

THE CONTENT OF THE BILL:

The bill would amend the Use Tax Act to provide, as of April 30, 1999, that the tax would not apply to the storage, use, or consumption of rolling stock used in interstate commerce and purchased, rented, or leased by an interstate motor carrier.

(The act already contains the following definitions. The term "rolling stock" refers to a qualified truck, a trailer designed to be drawn behind a qualified truck, and parts affixed to either. The term "qualified truck" is defined so as to refer to a commercial motor vehicle power unit that has two axles and a gross vehicle weight rating in excess of 10,000 pounds or a commercial motor vehicle power unit with three or more axles. An "interstate motor carrier" is a person engaged in the business of carrying persons or property, other than themselves, their own employees, or their own property, for hire across state lines, whose fleet mileage was driven at least ten percent outside of the state in the immediately preceding tax year.)

MCL 205.94k

BACKGROUND INFORMATION:

Public Act 477 of 1996 (House Bill 5506) provided an exemption for the storage, use, or consumption of rolling stock used in interstate commerce and purchased, rented, or leased outside of the state by an interstate motor carrier. The legislation was retroactive and carried a sunset or expiration date: it applied for taxes levied after December 31, 1992 and before May 1, 1999. Claims for refunds of taxes already paid had to be made by June 30, 1997.

The act also provides a partial exemption for qualified trucks and trailers (but not parts) purchased, rented, or leased in the state by an interstate motor carrier and used in interstate commerce. The exemption equals the price of the product multiplied by the percentage of out-of-state usage (miles driven outside the state divided by total miles driven). This partial exemption was enacted for taxes levied after December 31, 1996 and before May 1, 1999. No refunds were involved because the exemption was not retroactive.

A related act, Public Act 576 of 1996 (House Bill 5567) amended the General Sales Tax Act to provide a partial sales tax exemption for sales of qualified trucks and trailers for taxes levied after December 31, 1996 and before May 1, 1999. The partial sales tax exemption was also based on the out-of-state usage percentage.

This means that under current law, an interstate trucking operation does not have to pay use taxes on trucks, trailers, and parts purchased, leased, or rented outside Michigan. An interstate trucking operation that purchases, leases, or rents trucks and trailers inside the state gets a partial tax exemption based on the percentage of miles driven outside the state. Parts acquired inside the state are not exempt. In all cases, the trucks involved are those with two axles weighing more than 10,000 pounds or trucks with three or more axles. (The bill proposes to treat in-state and out-of-state purchases the same.)

FISCAL IMPLICATIONS:

The House Fiscal Agency has estimated that the bill would reduce use tax revenues by $3.2 million annually. (HFA fiscal note on the bill as introduced dated 5-10-99)

ARGUMENTS:

For:

The bill would continue uninterrupted the current use tax exemption for rolling stock purchased, rented, or leased outside the state by interstate truckers. Otherwise, this exemption would have ended on May 1, 1999. The bill would also expand the current exemption for rolling stock purchased, rented, or leased inside the state by interstate truckers so as to provide the same treatment. These in-state transactions currently receive a partial exemption based on the percentage of miles trucks and trailers are driven out of the state. The stated justification for this tax treatment is to avoid putting trucking-related industries in Michigan at a competitive disadvantage with competitors in neighboring states, which are said to provide the same kind of exemptions. Related amendments to the act governing the sales tax are anticipated in the near future.

Response:

It should be noted that these exemptions apply to truckers in interstate commerce. They are not available to truckers who operate only inside the state, who conceivably might compete with interstate truckers for Michigan business.

POSITIONS:

The Department of Treasury supports the bill. (5-11-99)

The Michigan Trucking Association supports the bill. (5-11-99)

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.