

Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536

**SFA****BILL ANALYSIS**

Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

Senate Bill 544 (Substitute S-1 as passed by the Senate)  
Senate Bill 545 (Substitute S-2 as passed by the Senate)  
Sponsor: Senator Mike Rogers  
Committee: Finance

Date Completed: 5-7-99

### **RATIONALE**

Tax exemptions for the purchase, storage, use, or consumption of certain equipment used in interstate trucking expired recently. Under the General Sales Tax Act, a portion of the tax did not apply to sales of certain equipment purchased in Michigan, based upon the amount of miles the equipment was used outside the State versus in-State. A similar partial exemption was provided under the Use Tax Act, for equipment purchased, rented, or leased in the State and used in interstate commerce. (As a rule, the use tax applies to items purchased outside the State and brought into Michigan for storage, use, or consumption.) The Use Tax Act further provided a full exemption from the tax for certain equipment purchased, rented, or leased outside the State. All of the exemptions expired May 1, 1999. This means, then, that an interstate motor carrier, domiciled in Michigan, that purchases equipment in Michigan after May 1 is subject to a 6% sales tax; and the 6% use tax applies to equipment purchased outside the State, or rented or leased within or outside the State.

Reportedly, the majority of the states, including those adjacent to Michigan, do not tax sales of trucks and trucking equipment. It has been pointed out that while the partial exemptions were useful in reducing the tax burden, they did not offer the same advantages to Michigan trucking firms as those in states with no tax on equipment. Further, because there was a full use tax exemption for certain equipment purchased, rented, or leased outside the State by Michigan interstate trucking firms, the tax structure discouraged purchases from Michigan equipment companies. It has been suggested that rather than simply reinstate the previous credits, both Acts be amended to provide a full, standard exemption for certain equipment used in interstate trucking.

### **CONTENT**

Senate Bill 544 (S-1) would amend the General Sales Tax Act to exempt from the tax sales of "rolling stock" purchased by an interstate motor carrier and used in interstate commerce. Under the bill, "rolling stock" would be a qualified truck (a commercial motor vehicle power unit, with dimensions as

specified in the Act), a trailer designed to be drawn behind a qualified truck, and parts affixed to either the truck or the trailer.

Senate Bill 545 (S-2) would amend the Use Tax Act to provide that after April 30, 1999, 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.

Under the Acts, an "interstate motor carrier" is a person in the business of transporting persons or property, other than themselves, their employees, or their own property, for hire across state lines; total fleet mileage must include at least 10% driven outside the State.

The bills provide that they would be effective for taxes levied after April 30, 1999.

MCL 205.54g (S.B. 544)  
205.94k (S.B. 545)

### **BACKGROUND**

The partial exemption provided for trucking equipment has a lengthy history. In 1984, the Department of Treasury issued a position statement that it would from that point allow a partial exemption to interstate carriers domiciled in Michigan, for taxes paid on rolling stock used in interstate commerce, based on the percentage of out-of-State mileage each carrier traveled. In 1995, in a dispute over partial refunds for sales taxes paid on the purchase of equipment used in interstate trucking, the Michigan Court of Appeals ruled that there was no statutory authority for the Department's treatment of truck and trailer purchases (*Gainey Transportation Service, Inc. v Department of Treasury*, 209 Mich App 504). In 1996, then, both the General Sales Tax Act and the Use Tax Act were amended to allow the partial exemption from 1996 to May 1, 1999. Under either Act, the tax does not apply to the product of the out-of-State usage percentage, and the gross proceeds otherwise taxable under the Act from the sale of a qualified truck or a trailer designed to be drawn behind a qualified truck, purchased by an interstate motor carrier and used in interstate commerce. The Use Tax Act also was amended to

provide a full exemption for certain equipment obtained outside the State, retroactive to 1993.

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

Through a variety of methods, Michigan trucking firms have for many years received a partial exemption from sales and use taxes for purchases or leases of equipment, from in-State businesses, used in interstate commerce. Further, since 1993 equipment purchased or leased outside the State by Michigan firms engaged in interstate trucking has been exempt from the use tax. Because trucking equipment is very expensive, the exemptions have provided vital tax relief for purchasers; however, the exemptions have now expired. This could have serious consequences for Michigan interstate trucking firms. Even before the expiration of the partial exemption, Michigan trucking companies were at a competitive disadvantage because, reportedly, the majority of states including those adjacent to Michigan do not tax sales of trucks and trucking equipment. This means, then, that while both in-State and out-of-State trucking firms compete for the same freight, Michigan companies must pay more for their equipment purchases, if they get their equipment in the State. If they purchased or leased their equipment from a firm in another state, they avoided the use tax; however, this put Michigan equipment distributors at a competitive disadvantage to those in other states. By providing a full exemption for rolling stock, the bills would remove a disincentive for Michigan interstate trucking companies to purchase new equipment, and would standardize the exemption under each Act so that there would be no disadvantage to purchasing or leasing equipment from a Michigan firm.

Legislative Analyst: G. Towne

## **FISCAL IMPACT**

These bills would: 1) eliminate the May 1, 1999, sunset of the current exemption on interstate motor vehicles, and 2) expand the current exemption. Continuing the current exemption would cost an estimated \$9 million in FY 1998-99 and \$24 million in FY 1999-2000. The Senate Fiscal Agency has not yet completed its analysis of the fiscal impact of expanding the current exemption, but the Department of Treasury estimates that expanding the current exemption as proposed in these bills would reduce sales and use tax revenue an additional \$4.2 million in FY 1998-99 and \$10.7 million in FY 1999-2000.

Fiscal Analyst: J. Wortley

A9900\544a

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.