



**House  
Legislative  
Analysis  
Section**

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## USE TAX ON DEMO VEHICLES

**Senate Bill 678 as passed by the Senate  
First Analysis (2-7-02)**

**Sponsor: Sen. Bill Bullard, Jr.**

**House Committee: Tax Policy**

**Senate Committee: Finance**

### ***THE APPARENT PROBLEM:***

The Use Tax Act allows automobile dealers to use a number of demonstration models on a tax-exempt basis. For new vehicles, the number of exempt vehicles is based on the number of new cars and trucks sold in the prior year, but cannot exceed 25 (See *Background Information*). Demonstration models that exceed the limit are subject to the use tax, but are taxed according to a method established by a 1979 letter of agreement between the Department of Treasury and the Michigan Automobile Dealers Association. The method, which applies to new cars and trucks, establishes the tax base for an extra demonstration vehicle on which the six percent use tax would be levied. Such a vehicle is valued for tax purposes at 2.5 percent of the vehicle's cost, plus \$30, for each month the vehicle is in inventory. (Thus, presumably, a \$10,000 vehicle would be valued at \$280 times the number of months in inventory; for one year this would be \$3,360.) A different method is employed for used vehicles, according to testimony before the House Tax Policy Committee. All used vehicles are eligible for the demonstration exemption, but the department requires a dealership to be able to document that the miles put on the vehicle are for exempt purposes. (It should be noted that vehicles purchased strictly for resale are exempt from the use tax.)

As mentioned earlier, the method of determining the tax base for an auto dealer's extra demonstration models represents a longstanding practice but is not in statute. Legislation has been introduced, with the agreement of the treasury department and the auto dealers, to put the methodology into statute, and to apply it to both new and used extra demonstrator vehicles.

### ***THE CONTENT OF THE BILL:***

The bill would amend the Use Tax Act to specify that the tax base of a new or previously owned car or truck held for resale by a dealer and not exempt under Section 4 (1) (c) is the purchase price of the car or truck multiplied by 2.5 per cent, plus \$30, per

month beginning with the month that the dealer uses the car or truck in a nonexempt manner.

MCL 205.93

### ***BACKGROUND INFORMATION:***

The use tax is a tax on the privilege of using, storing, or consuming tangible property. Section 4 (1) (c) of the Use Tax Act [MCL 205.94(c)] provides an exemption for property purchased for resale, demonstration purposes, or lending or leasing to a public or parochial school offering a course in driver education. For a dealer selling a new car or truck, the demonstrator exemption is based on the number of new cars and trucks sold in the prior year, with two allowed for a dealer selling 25 or fewer vehicles; seven for a dealer selling 26 to 100 vehicles; 20 for a dealer selling 101 to 500 vehicles; and 25 for a dealer selling 501 or more vehicles.

### ***FISCAL IMPLICATIONS:***

The House Fiscal Agency notes that the bill would have no fiscal impact because the arrangement being put into statute has been used by the Department of Treasury for many years. (Fiscal note dated 2-5-02)

### ***ARGUMENTS:***

#### ***For:***

Representatives of auto dealers and of the Department of Treasury agree that the bill would put into statute the current method of determining the use tax base of demonstration vehicles in excess of the number (up to 25) that a dealership is allowed to maintain tax exempt. Putting this arrangement into statute, say auto dealers, will allow the industry and the treasury to formalize new audit guidelines so as to clarify the documentation required of dealerships to qualify for this tax treatment. Also, the statutory provision provides auto dealers the comfort of greater predictability in tax treatment.

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***POSITIONS:***

The Department of Treasury supports the bill. (2-6-02)

The Auto Dealers of Michigan, LLC, supports the bill. (2-6-02)

Analyst: C. Couch

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■ 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.