

Legislative Analysis



USE TAX EXCLUSION FOR DONATED AUTOMOBILES

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 184 as passed by the Senate

Sponsor: Sen. Valde Garcia

Senate Committee: Finance

House Committee: Tax Policy

First Analysis (12-2-04)

BRIEF SUMMARY: The bill would amend the Use Tax Act to specify that the tax would not apply to the transfer of a motor vehicle to certain eligible individuals if the church had received the vehicle as a donation.

FISCAL IMPACT: The bill would reduce state use tax revenue by a small indeterminate amount.

THE APPARENT PROBLEM:

Earlier this session, the legislature and governor enacted numerous tax-related bills regarding the donation of a motor vehicle to a charitable organization that later sells the vehicle, below market value, to individuals for whom transportation is seen as a serious impediment to gainful employment [See Public Acts 301, 302, 312, and 313 of 2004]. Specifically, Public Act 311 (HB 5653) and Public Act 312 (SB 1001) excluded the sale of a vehicle by a charitable organization to an individual meeting certain eligibility criteria from the imposition of sales and uses taxes. Prior to the 2004 amendments, when a charitable organization sold a vehicle to an individual, the sale was subject to sales or use taxes, which many believed to be financially burdensome and a disincentive to purchasing the vehicle. The 2004 amendments, however, only applied vehicle sales involving charitable organizations and did not include similar donations by churches. Reportedly, many churches in the state take donated vehicles and later donate those vehicles to members or other individuals with a demonstrated need. When an individual receives the donated vehicle, he or she must pay the use tax, which many believe to be a financial burden.

THE CONTENT OF THE BILL:

The bill would amend the Use Tax Act to specify that the tax would not apply to the transfer of a motor vehicle from a regularly organized church or house of religious worship to a "qualified recipient" when that vehicle had been received by the church as a donation.

A "qualified recipient" would mean a person who was certified by the regularly organized church or house of religious worship as meeting the following criteria prior to October 1, 2005: (1) receives or would be eligible for public assistance under the Social Welfare Act; (2) possesses a valid Michigan operator's or chauffeur's license; (3) did not have

access to reasonably available public transportation, had no other reliable means to commute to his or her place of employment and would use the vehicle for that purpose; (4) had a demonstrated ability to maintain employment; needed a vehicle to retain his or her current employment or to accept a verified offer of employment in a position demonstrably superior to his or her current position, if the individual were working at least an average of 20 hours per week; and (5) needed the vehicle to accept a verified offer of employment of at least an average of 20 hours per week and could not begin employment in that position without an automobile, if the individual were not currently employed or were employed for less than an average of 20 hours per week.

After September 30, 2005 a "qualified recipient" would have to receive of be eligible for public assistance under the Social Welfare Act or have a total household income below 200 percent of the federal poverty level, and possess a valid Michigan operator's or chauffeur's license.

HOUSE COMMITTEE ACTION:

The House Committee on Tax Policy reported the bill as it was passed by the Senate.

ARGUMENTS:

For:

Vehicle donation programs, whether conducted by nonprofit charitable organizations or church-based charities, are particularly important in helping individuals obtain and retain gainful employment. Indeed, a November 2001 report by the Center on Budget and Policy Priorities notes, "[t]ransportation is frequently identified as a significant barrier to finding and maintaining employment for low-income families. Studies on families leaving welfare for work find that many do not own cars and do not have adequate transportation to and from work, child care, and other activities. Although employment may be plentiful in some regions, an increasing number of jobs are located in suburban areas that are inaccessible to workers who live in cities or rural communities. Public transportation – especially in rural areas – is often non-existent or inadequate. Even where public transit is available, it may not be conducive to the 'off-hour' shifts that many low-wage jobs require. Public transportation also can be problematic when a parent's job and child care provider are located at some distance from each other."

The imposition of the use tax on the donation of a vehicle to an individual lacking reliable transportation and/or gainful employment discourages such donations. Excluding these types of donations from the use tax removes a significant financial barrier to receiving a vehicle.

For:

The bill treats brings greater consistency between vehicle donation programs conducted by charitable organizations and similar activities undertaken by churches. Under current law, through the recent enactment of Public Acts 311 and 312, the sale of a motor vehicle by a charitable organization to individuals in need of reliable transportation (and meeting

other eligibility criteria) is exempt from the imposition of sales and use taxes. When a church transfers a vehicle for the same purpose, it is subject to the use tax. This, it is believed, is unfair. Individuals receiving a vehicle from a church should not have to pay the use tax.

POSITIONS:

The Department of Treasury supports the bill. (12-1-04)

Legislative Analyst: Mark Wolf
Fiscal Analyst: Jim Stansell

■ 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.