Legislative Analysis

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TAX BENEFITS FOR DONATED AUTOS

Senate Bill 1001 as passed by the Senate
Sponsor: Sen. Bill Hardiman

Senate Bill 1003 as passed by the Senate
Sponsor: Sen. Tom George

House Committee: Tax Policy
Senate Committee: Finance

First Analysis (7-6-04)

BRIEF SUMMARY: The bills would provide an exemption from the use tax and a credit against the income tax for cars donated to a charitable organization and provided to persons with a demonstrated need.

FISCAL IMPACT: Senate Bills 1001 and 1003 would reduce use tax and income tax revenue, on an annual basis, by an estimated $0.5 million. Most of the revenue change would affect General Fund/General Purpose revenue, while a small amount would affect School Aid Fund revenue. [The bills are part of a package with House Bills 5653 and 5463, which would amend the sales tax and single business tax, respectively.]

THE APPARENT PROBLEM:

Several charitable organizations in the state, including Mel Trotter Ministries in Grand Rapids and several Goodwill Industries, operate a "Wheels to Work" program, a program whereby the charitable organization takes donated vehicles, has them repaired, and resells them below market value to individuals for whom the lack of reliable transportation is seen as a serious barrier to employment and, ultimately, self-sufficiency. While the program has been successful in providing transportation to individuals in need, state tax law, particularly the sales and use taxes, can be a barrier to individuals who purchase donated vehicles. When an individual purchases a used vehicle from a charitable organization, he or she pays sales tax (often, the organization has a dealer license and, therefore, sells the vehicle at retail). Some view the imposition of the tax on purchasers as being financially burdensome and a disincentive in purchasing that vehicle.

THE CONTENT OF THE BILL:

Senate Bill 1001 (Use Tax Act)

The bill would amend the Use Tax Act (MCL 205.94y) to specify that the act would not apply beginning on October 1, 2005 to the storage, use, or consumption of a "qualified automobile" that is provided to a "qualified recipient" by the Family Independence

Agency or a charitable organization. To be exempt from taxation, the automobile would have to be inspected by a certified mechanic, insured, and registered to a qualified recipient. The bill is tie-barred to House Bill 5653.

Senate Bill 1003 (Income Tax Act)

The bill would amend the Income Tax Act (MCL 206.269) to provide a nonrefundable credit equal to one-half of the fair market value of an automobile donated by the taxpayer to a charitable organization that intends to provide that automobile to a "qualified recipient". The value of a passenger vehicle would be the lesser of (1) the value as determined by the charitable organization, or (2) the value as determined by an appropriate appraisal guide published by the National Automobile Dealers Association. The credit would be capped at $50 for a single return and $100 for a joint return, and would be available for tax years beginning after December 31, 2004, and prior to January 1, 2010. The bill is tie-barred to House Bill 5653.

HOUSE COMMITTEE ACTION:

The House Committee on Tax Policy reported the bills as passed by the Senate.

BACKGROUND INFORMATION:

Both bills are tie-barred to House Bill 5653. That bill, which recently passed the Senate, would amend the General Sales Tax Act to permit a "qualified organization" that is subject to the tax to exclude from including in the "gross proceeds" that determine tax liability, the sale of an "eligible automobile" to a "qualified recipient", beginning January 1, 2005. The final bill in the package is House Bill 5463, which provides a business that donates an automobile with a nonrefundable single business tax credit equal to one-half of the fair market value, capped at $100.

In addition, Senate Bills 1001 and 1003 are similar to House Bills 5426 and 5501, respectively. However, Senate Bill 1001 pushes back the effective date to 2005, and Senate Bill 1003 cuts the maximum allowable income tax credit in half.

ARGUMENTS:

For:

The income tax credit and use tax exemption offered by these bills aim to encourage the expansion of "wheels to work" programs offered in the state. Programs of this sort 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."

To that end, the income tax credit will provide an incentive for individuals to donate a motor vehicle for use in these types of programs. Under federal tax law, an individual can receive a deduction on his or her income tax for such a donation. However, that deduction is "below the line", meaning that it is deducted after the calculation of the Adjusted Gross Income (AGI), which is the starting point on the state tax form. The use tax exemption is necessary to provide some tax relief for individuals who are receiving or qualify for assistance from the Family Independence Agency when they receive a vehicle through a "wheels to work" program.

Response:

The income tax credit provided by Senate Bill 1003 should be based solely on the value of the vehicle, not on the status (married or single) of the tax payer. If a married couple filing jointly and a single individual donate cars equal in value, why should the married couple receive a larger tax break?

Rebuttal:

This is a standard feature of credits in the Income Tax Act.

Against:

Notwithstanding the apparent merits of the underlying cause, these credits and exemptions further erode the base of the sales, use, single business, and income taxes. Rather than proliferating exemptions and credits that complicate the state tax code and shift tax burdens, the legislature should work toward simplifying the tax and lowering the overall rate, thereby providing tax relief to all taxpayers in the state.

POSITIONS:

The Goodwill Association of Michigan indicated that it supports the bills. (2-18-04)

The Department of Treasury is neutral on the bills. (3-31-04_

(Note: The positions listed above are based on the similar House versions of the bills as they were reported from committee.)

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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.