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USE TAX EARMARKING

House Bill 4153 (Substitute H-1)
First Analysis (9-11-03)

Sponsor: Rep. Jerry Kooiman
Committee: Transportation

THE APPARENT PROBLEM:

In Michigan, car sales help fund mass transit. However, car leases do not. In 1978 the legislature earmarked 4.6 percent of each sales tax dollar paid on the purchase of a car for mass transit statewide. In 1999, that generated $41.6 million—revenue that is set side to fund forms of mass transit such as the city, suburban, and rural bus systems that operate in every county throughout the state.

In 1978, few people leased cars. Now, however, leases account for about 30 percent of all new-car transactions. (*Grand Rapids Press* 3-14-01 and *Detroit Free Press* 2-15-02) When cars are leased, a sales tax is not levied. Instead of a sales tax, the levy on a leased vehicle is a use tax. The use tax rate is the same as the sales tax rate—6 percent on the car price. However, no portion of the use tax on the leased car goes to fund mass transit. See *BACKGROUND INFORMATION* below.

Although vehicles sales and leases are two different financing methods, both achieve the same consumer purpose. Consequently, many business and community leaders throughout the state who support mass transit have argued that to be consistent with the intent of the 1978 law, and given the change in car-shopping patterns, the use tax law should also be changed, so that a portion of the use tax revenue also is earmarked for mass transit.

THE CONTENT OF THE BILL:

House Bill 4153 would amend the Use Tax Act to earmark use tax collections on the sale or lease of motor vehicles and vehicle-related items. If enacted, the bill would take effect January 1, 2006.

The bill specifies that in each fiscal year, of the total collections of the use tax imposed at a rate of four percent directly or indirectly on the sale of motor vehicles, on the lease of motor vehicles, and on the sale of the parts and accessories of motor vehicles by new and used car businesses, used car businesses, accessory dealer businesses, and gasoline station businesses (as classified by the Department of Treasury), the following amounts would be deposited in the following funds: a) not less than 27.9 percent of 25 percent of the total collections into the Comprehensive Transportation Fund, and b) the balance to the general fund.

Currently under the law, all money received and collected under the Use Tax Act is deposited by the Department of Treasury to the credit of the general fund, to be disbursed only through appropriations by the legislature. However, the collections from the use tax imposed at the additional rate of two percent approved by the electors March 15, 1994 are deposited in the state School Aid Fund.

MCL 205.111

BACKGROUND INFORMATION:

Use tax revenues are split between public schools (33 percent), and the general fund (67 percent). In contrast, sales tax income goes to the public schools (73 percent), local governments (24.3 percent), the general fund (1.6 percent), and mass transit (1.1 percent).

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, if this bill were to take effect during Fiscal Year 2003-04, it would earmark an estimated $16-$20 million for the Comprehensive Transportation Fund. It also would decrease the revenue in the General Fund by the same amount. (7-1-03)

ARGUMENTS:

For:

This legislation would guarantee badly needed revenue for Michigan's city, suburban, and rural bus systems whose state support has declined significantly during the past two fiscal years. During the last legislative session when a similar bill was reported out of the House Transportation Committee, support from every region of the lower and upper peninsulas' of the state was evident. At that time, more than 110 local organizations comprising local chambers of commerce, business leaders, local government leaders, transit authorities, area offices on aging, universities, non-profit organizations, and charitable agencies submitted written letters and resolutions to express their communities' support for the bill.

Against:

The bill could reduce revenue in the state's general fund by as much as $20 million at a time when state government's financial health is already in jeopardy.

Response:

The bill was amended in committee to ensure that it would not go into effect until January 1, 2006. The bill should be supported to demonstrate to local transit systems that there is support for this change in policy, as soon as the state's economy turns around.

POSITIONS:

The following organizations indicated support for the bill to the House Committee on Transportation on 6/26/03: Michigan Public Transit Association, the Michigan Municipal League, the Detroit Regional Chamber of Commerce, the Grand Rapids Chamber of Commerce, and the ATU Transit Union.

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