Legislative Analysis

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TAX BENEFITS FOR DONATED AUTOS

House Bill 5624 (Substitute H-1) and 5653 (Substitute H-1)
Sponsor: Rep. Mike Nofs

House Bill 5463 (Substitute H-2)
Sponsor: Rep. David Robertson

House Bill 5501 (Substitute H-1)
Sponsor: Rep. Alexander Lipsey

Committee: Tax Policy
First Analysis (4-1-04)

BRIEF SUMMARY: The bills would provide credits against and exemptions from various taxes for donating a care to a charitable organization or purchasing a car donated to a charitable organization.

FISCAL IMPACT: The bills would reduce use tax, sales tax, single business tax, and income tax revenue by an estimated $1 to $2 million annually. Most of the revenue change would affect General Fund/General Purpose revenue, while a small amount would affect School Aid Fund revenue.

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 the 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 burdensome and a disincentive in purchasing that vehicle.

THE CONTENT OF THE BILLS:

House Bills 5426 (Use Tax) and 5653 (Sales Tax)

House Bill 5426 would amend the Use Tax Act (MCL 205.94y) to specify that the use tax would not apply beginning on October 1, 2004 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 5426.

House Bill 5653 would amend the General Sales Tax Act (MCL 205.54bb) to permit a "qualified organization" that is subject to the tax to exclude from including in its "gross proceeds" used to determine its tax liability, the sale of an "eligible automobile" to a "qualified recipient," beginning October 1, 2004. The terms "qualified organization", "eligible automobile", and "qualified recipients" would have the same definition as defined in House Bill 5426. (This means the organization does not have to collect sales tax when selling an automobile.)

Under both bills, the recipient of the automobile would have to (1) be receiving or be eligible for public assistance; (2) hold a valid state driver's license; (2) be financially capable of meeting the expenses related to the automobile; (3) have no reliable means (other than the automobile) to commute to and from work; (4) have a demonstrated ability to maintain employment; (5) if employed, be employed for at least an average of 20 hours per week and need an automobile to maintain employment or accept a better position of employment; and (6) if unemployed or employed for less than an average of 20 hours per week, need the automobile to accept a verified offer of employment for at least 20 hours per week.

House Bills 5463(Single Business Tax) and 5501 (Income Tax)

The bills would amend the Single Business Tax Act (MCL 208.37f) and the Income Tax Act (MCL 206.269), respectively, 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" (as defined in House Bill 5426). The value of a passenger vehicle would be the lesser of (1) the value as determined by the charitable organization, or (2) an appropriate appraisal guide published by the National Automobile Dealers Association.

The SBT credit would be capped at $200 and the income tax credit would be capped at $100 for a single return or $200 for a joint return. The income tax credit would be available for tax years beginning after December 31, 2004, and the SBT credit would be available for tax years beginning after December 31, 2003. Both bills are tie-barred to House Bill 5653.

ARGUMENTS:

For:

The tax credits and exemptions offered under this package of bills aim at encouraging the expansion of "wheels to work" programs offered in the state. Programs of this sort are particularly important to help 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 SBT and income tax credits in the bills will provide incentives for individuals and business (such a automobile dealerships and rental agencies) that donate vehicles for use in these types of programs. Under federal tax law, an individual can receive a deduction on his or her income tax. However, that deduction is "below the line", meaning that it is deducted after the calculation of Adjusted Gross Income (AGI), which the starting point on the state tax form. The sales and use tax exemptions are necessary to provide some tax relief for individuals who are receiving or qualify for assistance from the Family Independence Agency. In many instances, the cost of vehicle alone can be a financial burden. However, when an individual purchases or obtains title to the vehicle, he or she must also pay sales or use taxes.

Response:

The income tax credit provided by House Bill 5501 should be based solely on the value of the vehicle, not on the status (married or single) of the taxpayer. 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)

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