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Senate Bill 184 (Substitute S-1 as reported)
Sponsor: Senator Valde Garcia
Committee: Finance

Date Completed: 6-10-04

RATIONALE

Michigan residents who receive used vehicles from church-based charities that provide them free of charge are required to pay the State's use tax when the vehicles are registered to them. According to a 2001 Michigan Court of Appeals decision (*Morman v Treasury*, Docket No. 222585), the State's 6% use tax applies to gratuitous transfers unless the transfer is specifically exempt. The transfer of an automobile from a charity is not exempt, however. Since the amount of the use tax is based upon the donated vehicle's value, the recipient of a donated car, who is usually in a difficult financial position, must sometimes come up with hundreds of dollars to cover the use tax payment. Some people believe that the donation of vehicles from church-based charitable organizations to qualified recipients should be exempt from the State's use tax.

CONTENT

The bill would amend the Use Tax Act to provide that, beginning January 1, 2005, the use tax would not apply to the transfer of a motor vehicle from a "regularly organized church or house of religious worship", that received the vehicle as a donation to a "qualified recipient". As defined in the bill, "regularly organized church or house of religious worship" would mean a religious organization exempt from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

Under the bill, "qualified recipient" would mean a person who was certified by the regularly organized church or house of religious worship as meeting the following criteria: He or she was receiving or would be eligible for public assistance under the Social

Welfare Act; possessed a valid Michigan operator's or chauffeur's license; was financially capable of meeting any loan payment, insurance payment, or other expenditure associated with the vehicle; 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; 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, 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.

Proposed MCL 205.94w

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

A significant number of Michigan's poor residents do not own cars and live in areas that are not served by public transportation or where it is impractical to take public transportation to work. Often these individuals without reliable transportation live in areas where jobs are available but cannot take the jobs or are unable to move to better-paying employment because they lack the necessary means to get to those

jobs. Several Michigan churches have stepped in to help these residents by refurbishing donated vehicles and providing them, free of charge, to those who demonstrate a need, an ability to hold down a job, and the financial resources to pay for the vehicle's registration, insurance, and maintenance. By exempting the transfer of an automobile given to a "qualified recipient" by a church or house of religious worship, the bill would remove one of the financial burdens associated with receiving the vehicle and make it easier for the qualified recipients to find and retain work.

Response: Most of the charities currently providing free vehicles to the State's disadvantaged residents provide them both to the working poor and to those unable to work due to health issues, who need the vehicles to get to and from their doctors' appointments or therapy. The bill should provide a use tax exemption also for residents unable to work due to health issues.

Opposing Argument

Not all Michigan organizations involved in the distribution of donated used cars to disadvantaged residents are run by churches or houses of worship. It would be unfair to give the use tax exemption on the donated vehicles only to those who receive them from church-based organizations.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

This bill would reduce use tax revenue an estimated \$0.1 million on a full-year basis. This loss in use tax revenue would reduce General Fund/General Purpose revenue by \$0.07 million and School Aid Fund revenue by \$0.03 million. This bill would not have any direct impact on local governments.

Fiscal Analyst: Jay Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.