

Legislative Analysis



MOTOR VEHICLES: SALES TAX ON THE DIFFERENCE

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House Bill 4373

Sponsor: Rep. Marc Corriveau

House Bill 4514

Sponsor: Rep. Terry Brown

Committee: Tax Policy

Complete to 4-3-07

A SUMMARY OF HOUSE BILLS 4373 & 4514 AS INTRODUCED 3-1-07 AND 3-22-07

House Bills 4373 and 4514 would amend the General Sales Tax Act (MCL 205.51) and Use Tax Act (MCL 205.92), respectively, to provide a trade-in allowance for new vehicle sales and leases, so that the sales or use tax would be imposed on the difference between the new vehicle's sales (purchase) price and the prior vehicle's trade-in value. A "new" motor vehicle would be one that has been driven less than 300 miles.

FISCAL IMPACT:

The bill would reduce sales and use tax revenue by an estimated \$175 million on an annual basis.

BACKGROUND INFORMATION:

Michigan briefly allowed a trade-in allowance (against the sales and use taxes) for new and used vehicle sales and leases in the past—from January 1, 1984 to February 1, 1985 (see Public Acts 218 and 219 of 1982). As first enacted, Public Act 218 (sales tax) provided the tax break indefinitely. However, concerns about the potential loss of revenue led to the enactment of subsequent legislation to end the tax break on February 1, 1985.

Section 11 of the General Sales Tax Act (MCL 205.61) states that in a taxable sale at retail of a motor vehicle where another vehicle is used as partial payment of the purchase price, the value of the trade-in is that value agreed to by the parties to the sale as evidenced by the signed statement executed under Section 251 of the Michigan Vehicle Code (1949 PA 300, MCL 257.251).

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