

## **MICHIGAN VEHICLE CODE REGISTRATION TAX RATES**

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**House Bill 5897**

**Sponsor: Rep. George Cushingberry**

**Committee: Transportation**

**Complete to 6-10-10**

### **A PRELIMINARY SUMMARY OF HOUSE BILL 5897 AS INTRODUCED 2-24-10**

House Bill 5897 would amend the Michigan Vehicle Code (1949 PA 300) to do all of the following:

- Increase various vehicle registration tax rates.
- Change the list price "bands" under which most cars and light trucks are taxed under Section 801(1)(p).
- Change the treatment of historic license plates under Sections 803a and 803p.
- Change the treatment of registration transfers in Section 809(1).
- Increase the Transportation Administration Collection Fund (TACF) registration service fee in Section 801(3) from \$5.75 to \$7.75.
- Increase the transfer of registration fee in Section 809 from \$8.00 to \$30.00, and change the earmarking of transfer fee revenue.

MCL 257.801, 257.803a, 257.803p, 257.809

### **BACKGROUND INFORMATION:**

Vehicle registration taxes represent one of the two major sources of constitutionally-dedicated state transportation revenue – the other major source being motor fuel taxes. Registration taxes, established in the Michigan Vehicle Code (Public Act 300 of 1949), generated \$872 million in transportation revenue in FY 2008-09.

Sections 224 and 225 of the Michigan Vehicle Code provide for the registration of motor vehicles and give authority for the vehicle registration program to the Michigan Secretary of State. Registration taxes are assessed and collected when vehicle owners obtain new registration license plates from the Secretary of State, or renew registration tabs.

Vehicle registration taxes can be considered more of a "retail" tax as compared to the motor fuel taxes. They are collected primarily at 141 Secretary of State branch offices, as well as on-line or by mail. Section 205 of the Michigan Vehicle Code requires at least one branch office in each county, as well as branch offices within certain cities, and a branch office in the state Capitol complex.

Baseline registration tax revenue consistently increased year-on-year until FY 2006-07, when it peaked at \$907.8 million.<sup>1</sup> Baseline registration tax revenue declined in FY 2007-08 and is expected to decline again to an estimated \$861.5 million in the current year.<sup>2</sup>

There is not a single registration tax. There are in fact a number of different registration taxes established in Sections 801 through 810 of the Michigan Vehicle Code. A number of factors determine the tax rate and base on which the tax is applied: the vehicle model year, the list price of the vehicle, the weight of the vehicle, the use of the vehicle, and in some cases some characteristic of the vehicle owner.

As described in **Exhibit 1**, page **10**, there have been three major registration-related amendments to the Michigan Vehicle Code since 1983.

## **DETAILED ANALYSIS:**

House Bill 5897 amends several sections of the Michigan Vehicle Code. The changes are described in detail as follows:

### **Section 801(1)(p) – Registration of Cars and Light Trucks**

#### ***Background***

As noted above, the tax rate and tax base applicable to a particular vehicle is determined by either some characteristic of the vehicle, the vehicle owner, or the use of the vehicle. In terms of number of registrations and revenue collected, the largest registration category is that of cars and light trucks, established in Section 801(1)(p) of the Michigan Vehicle Code.<sup>3</sup> Specifically, this subsection is applicable to vehicles weighing 8,000 lbs or less (other than commercial trucks), 1984 model year or newer. The tax applicable to these vehicles is an *ad valorem* tax; the tax is based on the manufacturer's list price.

The subsection lists various tax amounts applicable to different of manufacturer's list price "bands." Under current law, the initial band is for vehicles with a list price from \$0 to \$6,000, with the applicable tax of \$30.00.<sup>4</sup> The subsection then shows vehicle list prices in \$1,000 bands up to the \$29,000 to \$30,000 band, and related registration taxes for each band. Under current law, for every additional \$1,000 in vehicle list price over \$30,000, the maximum listed tax of \$148.00 is increased by \$5.00.

The tax category established for a vehicle at the time of initial registration remains with the vehicle record for the life of the vehicle. For example, a 1990 Saab with a list price of \$24,000 will always be taxed based on the \$24,000 to \$25,000 list price band, even when the vehicle is 20 years old.

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<sup>1</sup> In nominal terms, registration tax revenue peaked in FY 2003-04 at \$978.5 million. However, FY 2003-04 revenue included approximately \$90 million in one-time trailer fee revenue. For a history of registration revenue, as well as other state transportation tax revenue from FY 1996-97 through the present, see "MTF Revenue Analysis" on the House Fiscal Agency website.

<sup>2</sup> Michigan Department of Treasury, Office of Revenue and Tax Analysis estimated dated **1/11/2010**.

<sup>3</sup> We estimate that ad valorem registration taxes associated with cars and light trucks generate approximately \$600 million in revenue, approximately two-thirds of all registration tax revenue.

<sup>4</sup> While it is unlikely that there are any new vehicles with a list price under \$6,000, it is possible that there are a few registered vehicles from the 1980's which were originally listed at that price.

The tax rates listed for each list price band in Section 801(1)(p) are for the initial 12-month registration period. The tax is reduced for subsequent registrations, as follows:

The tax for the second registration (2nd year) is 90% of the first registration  
The tax for the 3rd registration (3rd year) is 90% of the second registration  
And the tax for the 4th and all subsequent registrations is 90% of the 3rd year registration. As a result, the actual tax paid in the 4th and subsequent years is 73% of the tax required at the initial registration. See **Figure 1** for an example of how these provisions are applied.

**Figure 1**

**Passenger Registration Taxes under Section 801(1)(p)**

**Example of the impact of annual reduction in first-year registration tax**

First-year tax	\$103	Tax for a vehicle in the \$20,000 to \$21,000 tax category
2 <sup>nd</sup> year registration	\$93	90% of first year
3 <sup>rd</sup> year registration	\$83	90% of second year
4 <sup>th</sup> year registration	\$75	75% of third year

The registration tax for this vehicle would remain at \$75 for the life of the vehicle.

***Impact of House Bill 5897***

House Bill 5897 would amend Section 801(1)(p) to change the list price bands, and the related tax rates. This analysis will not duplicate the various current and proposed list price categories or proposed tax rates; the current and proposed bands/rates are shown in the bill. This analysis will simply compare eight selected examples below:

<u>List Price</u>	<u>Current Initial Tax</u>	<u>Proposed Initial Tax</u>
\$ 10,001	\$ 53.00	\$ 60.00
\$ 12,001	\$ 63.00	\$ 75.00
\$ 15,001	\$ 78.00	\$ 90.00
\$ 18,001	\$ 93.00	\$ 105.00
\$ 24,001	\$ 123.00	\$ 135.00
\$ 30,001	\$ 153.00	\$ 165.00
\$ 40,001	\$ 203.00	\$ 210.00
\$ 50,001	\$ 253.00	\$ 255.00

As noted above, the list price bands in Section 801(1)(p) currently top out at \$30,000. Under current law, for every additional \$1,000 in vehicle list price over \$30,000, the maximum listed tax of \$148.00 would be increased by \$5.00. For example, the tax for a \$40,000 vehicle would be \$198.00 (\$148.00 plus \$50.00).

Under House Bill 5897, the tax classifications shown in the Michigan Vehicle Code would top out at \$51,000 with a tax of \$255.00. For each \$1,000 of list price greater than \$50,000, the tax of \$255.00 would be increased by \$5.00.

House Bill 5897 would retain the reduction of the registration tax rates for the second, third, and fourth year registrations in the same manner as current law.

Under House Bill 5897, these annual reductions in the applied tax rates would be partially offset by annual increases in base tax rates. Under new subsections 5 through 9

of the bill, the base tax rates established in Section 801(1)(p) would be increased as follows:

From March 1, 2010 to December 31st 2010 the base tax rates would be increased by 10%

From January 1, 2011 to December 31st 2011 the base tax rates would be increased by 30%

From January 1, 2012 to December 31st 2012 the base tax rates would be increased by 50%

From January 1, 2013 to December 31st 2013 the base tax rates would be increased by 70%

From January 1, 2014 to December 31st 2014 the base tax rates would be increased by 90%

Motor homes and vehicles with a list price of \$12,000 or less would be exempt from the increased tax rates; they would continue to pay the original base tax rates.

Note that the bill, if enacted into law, would have an effective date sometime after March 1, 2010. If the effective date were sometime in 2010, registration taxes listed in the bill would automatically be increased by 10%. Or to put it another way, the actual registration tax rate for 2010 registrations would be 110% of the rates listed in the bill. If the effective date of the bill were not until sometime in 2011, the listed rates would automatically be increased by 30%, i.e. the actual registration taxes would be 130% of the rates listed in Section 801(1)(p).

This annual increase in registration tax rates would also apply to motorcycle registrations, as described more fully below.

#### **Section 801(1)(n) – Motorcycle Registrations**

While House Bill 5897 does not increase the base registration tax rate for motorcycles (currently \$23.00), new subsections 801(5) through 801(9) would provide for annual step increases in the tax rate in the same manner as for passenger cars and light trucks, i.e. a 10% increase in 2010, 30% in 2011, 50% in 2012, 70% in 2013, and 90% in 2014.

#### **Other Registration Categories**

House Bill 5897 would add a new subsection, 801(9) to provide for an annual 5% increase to current baseline registration taxes for various registration categories. The first increase would be effective October 1, 2011 with 5% rate increases each year through October 1, 2014. The specific registration categories subject to these annual increases are listed below:

#### **Section 801(1)(a)**

Motor vehicles including vans and pickup trucks 1983 model year and older. These vehicles are taxed based on a schedule of empty weights.

#### **Section 801(1)(c) and Section 801(1)(d)**

Road tractor, truck, truck tractor owned by a farmer used exclusively in connection with farm operation, or to transport a farmer's family; milk haulers, from farm to first point of delivery; wood harvesters hauling raw wood to processing (not processed lumber or

Christmas trees). The tax rate for these vehicles is currently 74 cents per hundred weight (empty truck).

We note that the tax schedule currently used by the Department of State branch offices includes 80 separate weight schedules up to 9,950 lbs – the tax for vehicles weighting over 9,950 has to be calculated.

**Subsection 801(1)(e)**

Hearse or Funeral Ambulance. The current tax rate is \$1.17 per hundred weight (empty weight).

**Subsection 801(1)(f)**

Municipal, State Institution, University, Volunteer Fire, Non-profit Private College. The current tax rate is \$5.00 per year per vehicle.

**Subsection 801(1)(g)**

Buses & vans of certain schools, including church Sunday school, non-profit youth organization, rehabilitation facility, or any senior center motor vehicle. The current tax rate is \$10.00 per year per vehicle.

**Subsection 801(1)(i)**

Vehicles owned and operated by ecclesiastical or charitable corporations, Boy Scouts, Girl Scouts, or the Red Cross. The current tax rate is 65 cents per hundred weight.

**Section 801(1)(j)**

Large trucks and commercial trucks under 8,000 lbs (not used for towing), excluding pickups and vans covered under Section 801(1)(p).

This category includes privately-owned trucks of all body types in excess of 8,000 lbs not used commercially; and commercial trucks 8,000 lbs or less not used to tow another vehicle, such as panel trucks, delivery vehicles, stake trucks.

These vehicles are taxed based on a schedule of empty weights

**Section 801(1)(k)**

Larger commercial trucks and tractor-trailer combinations, including commercial trucks 8,000 lbs or less towing a trailer, and any commercial truck 8,001 lbs or greater.

These vehicles are taxed based on a schedule of elected Gross Vehicle Weight.

**Section 801(1)(l)**

Trailers, including pole trailers, semitrailers, and trailer coaches. Trailers are taxed based on a schedule of empty weights. Note that the tax and subsequent tax increase would apply to new trailer registrations. Trailer registrations would remain "permanent" unless there was a change in ownership.

**Section 801(1)(m)**

Commercial vehicles used for the transportation of passengers for hire; taxed based on a schedule of empty weights.

## **Section 801(1)(q)**

Wreckers; currently taxed at a rate of \$200 per year

## **Historic Vehicle Registration Plates**

### ***Background***

The Michigan Vehicle Code currently provides for two kinds of historic registration plates:

*Department-issued plates:* Section 803a authorizes the Secretary of State to issue a registration with the designation "historic vehicle." Under current law, the registration tax is \$30.00 and is valid for ten years. The plate is transferable with payment of an \$8.00 transfer fee.

The Department of State indicates that there are 50,561 department-issued historic plates in its system.

*Authentic historic plates:* Section 803p allows owners of historic vehicles to use plates issued in the same year as the vehicle's model year. The act allows the owner to purchase a plate from someone else – e.g. from a yard sale, the internet, or second hand store – restore it, and use it as a valid Michigan registration plate. The registration tax for these plates is currently \$35.00 and is effectively permanent with respect to the owner; the plate is valid until the vehicle is sold to another owner.

The Department of State indicates that there are 60,550 authentic historic plates in its system.

The Section 20a of the Michigan Vehicle Code defines "historic vehicle" as a vehicle over 25 years old and "owned solely as a collector's item and for participation in club activities, exhibitions, tours, parades, and similar uses, including mechanical testing, but is not used for general transportation."

### ***Impact of House Bill 5897***

House Bill 5897 would amend Section 803a, regarding department-issued historic plates, to change the current \$30 *decennial* fee to a \$30 *annual* fee. The bill would also change the expiration date for historic plate registrations under this section from April 15 to the vehicle owner's birthday.

House Bill 5897 would also amend Section 803p, regarding authentic historic plates, to change the current \$35 *permanent* fee to a \$30 *annual* fee. The bill would make this change effective for registrations after January 1, 2012 – it would effectively "grandfather" the permanent registrations with respect to current owners. The bill would prohibit the transfer of historic plates to a new owner, and would create an expiration date, the vehicle owner's birthday, for historic plate registrations under this section.

We do not estimate of how many department-issued or authentic historic registration plates would be processed if House Bill 5897 were enacted. To the extent that the bill would "grandfather" current permanent authentic plate registrations, there would be no new registration of these vehicles without a change in vehicle ownership. It is possible that many of the currently valid historic plates would never be renewed. Some vehicles



may have been destroyed. In some cases, owners may elect to trailer or store historic vehicles rather than renew a registration plate each year.

### **Transfer of Registration and Proration of Registration Plates**

In purchasing a new vehicle, many people trade in or dispose of another registered vehicle and transfer the registration from the old vehicle to the new vehicle. Frequently the newer vehicle has a higher manufacturer's list price than the trade-in vehicle and would be subject to a higher registration tax under Section 801(1)(p). However, under current law owners may simply pay an \$8.00 fee when transferring vehicle registrations from a trade-in vehicle to the new vehicle. The increased registration tax is not prorated under current law. The increased registration tax, i.e. the tax applicable to the new vehicle list price, is currently not assessed until the second registration on the owner's birthday.

The Department of State has indicated that current registration transfer provisions result in deferral of tax revenue, i.e. deferral of taxes normally due upon registration until the owner's birthday, as well as tax avoidance through manipulation of these provisions by some vehicle owners.

House Bill 5897 would amend Section 809 (1) of the Michigan Vehicle Code in order to provide for the proration of registration taxes upon transfer of registration plates from one vehicle to another. Specifically, the bill states that "if the registration fee for the vehicle to which the registration is being transferred is greater than the fee paid upon registration of the vehicle from which the registration was removed, the difference in fee shall be paid by the applicant."

Note that this section refers to a registration "fee" for what in Section 801(1) is a registration "tax." Section 801(1) appears to make a distinction between registration "taxes" and registration service "fees" in Section 801(3) and elsewhere.

### **Registration and Transfer of Registration Service Fees**

In addition to the changes in registration tax rates, and other registration tax changes discussed above, House Bill 5897 would also increase the registration service fee under Section 801(3)(b), and the transfer of registration fee under Section 809.

*Registration service fee* – In addition to the registration taxes established in Section 801(1), Section 801(3) currently provides for an additional registration fee of \$5.75 for credit to the Transportation Administration Collection Fund (TACF). House Bill 5897 would increase this registration fee from \$5.75 to \$7.75. This fee currently generates approximately \$43 million per year. The proposed 34% fee increase would, all other factors held constant, generate an additional \$15 million for the TACF.

*Transfer of registration fee* – As noted above, Section 809 currently provides for an \$8.00 transfer of registration fee. Under current law, this fee is earmarked for the TACF. House Bill 5897 would increase this fee to \$30.00, and, effective March 1, 2010, earmark the \$22.00 fee increase to the Michigan Transportation Fund. The current \$8.00 transfer fee generated \$7.4 million in FY 2008-09. The proposed 275% increase in this fee would, all other factors held constant, generate an additional \$20.3 million in revenue for the Michigan Transportation Fund.

For additional information on registration service fees and the TACF, see our memo on the Transportation Administration Collection Fund on the House Fiscal Agency website.

## **FISCAL IMPACT:**

Revenue from vehicle registration taxes, as well as motor fuel taxes, is dedicated to transportation in Article IX, Section 9 of the 1963 Michigan Constitution.

Section 10 of Public Act 51 of 1951 (Act 51) creates the Michigan Transportation Fund (MTF) as the collection and distribution fund for this constitutionally dedicated revenue. Vehicle registration tax revenue, along with motor fuel tax revenue, is credited to the MTF and distributed in accordance with the provisions of Act 51 to other state transportation funds and program accounts, and to local road agencies (county road commissions and cities and villages).

Additional registration tax revenue generated from the enactment of House Bill 5897 would be credited to the MTF and then distributed in accordance with the provisions of Act 51 as follows:

- 10% to the Comprehensive Transportation Fund (CTF) for public transportation programs including capital and operating assistance to the state's 79 local public transit agencies.
- 39.1% of the MTF balance (after the 10% CTF allocation) to the State Trunkline Fund (STF) for construction and preservation of state trunkline roads and bridges and administration of the Michigan Department of Transportation (MDOT).
- 39.1% of the MTF balance (after the 10% CTF allocation) to 83 county road commissions for construction and preservation of county road systems.
- 21.8% of the MTF balance (after the 10% CTF allocation) to 533 incorporated cities and villages for construction and preservation of municipal street systems.

Vehicle registration taxes generated \$872 million in transportation revenue in FY 2008-09 for credit to the MTF. Total MTF revenue from all sources was \$1.839 billion in FY 2008-09.

We have not estimated the impact on transportation revenue of the changes proposed in House Bill 5897. There are a number of variables affecting registration tax revenue. Examples of some of these variables are discussed below.

Under current law, the ad-valorem registration revenue applicable to passenger cars and light trucks has tended to increase faster than the increase in registration transactions. For example, baseline registration tax revenue increased by 19.5% between FY 1998-99 and FY 2002-03 while the number of registrations increased by only 4.4%. The increase in registration tax revenue appears to have been due to two factors: increases in vehicle manufacturer's list prices due to general inflation and the inclusion of more "options" (stereo systems, GPS, air conditioning systems) in the base price, as well as the



willingness of owners to trade up to more expensive vehicles over time. As the list prices of registered vehicles increased over time, more vehicles moved into higher tax bands.

This relationship did not obtain in FY 2007-08 when the reduction in registration revenue of 3.04% was slightly more than the 3.02% reduction in registration transactions. Nor was it observed in FY 2008-09 when registration revenue fell by 1.37% while transactions only fell by .69%.

It is possible that the steady increase of registered vehicle list prices is a thing of the past, at least in the short term. Some economists predict a period deflation with generally stable or falling prices. At the same time, in periods of economic uncertainty consumers may elect trade-down to less expensive vehicles.

We also note that one factor in the application of vehicle registration taxes is complexity. Under current law there are a number of registration categories based on some characteristic of the vehicle, the vehicle owner, or the use of the vehicle. In addition, within the registration tax categories there are multiple tax schedules. For example, the tax schedule for farm vehicles used by Department of State branch offices includes 80 separate weight schedules up to 9,950 lbs with the tax for vehicles weighting over 9,950 lbs hand-calculated.

This complexity increases the likelihood of errors in the application of proper tax rates. The Office of Auditor General May 2009 performance audit of Department of State Cash Receipts and Branch Office Customer Service (OAG Report 231-0200-08) identified examples of incorrect application of tax rates or miscalculation of tax due.

House Bill 5897 would provide for annual increases in tax rates. These increases, coupled with the four-year reduction in tax rates for passenger cars and light trucks under Section 801(1)(p), would require annual adjustment of Department of State computer programs. Computer programming is a significant part of the Department of State's costs related to collecting vehicle registration taxes.

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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.

## **EXHIBIT 1**

### **Registration-related amendments to the Michigan Vehicle Code since 1983**

#### **Public Act 165 of 1983**

- Replaced a weight-based registration tax for passenger cars with an ad valorem tax – a tax based on the manufacturer's vehicle's list price – for vehicles registered after September 30, 1983

The tax rates established in PA 165 of 1983 have not been changed, although as the price of new vehicles increases, more cars fall into the higher tax categories.

#### **Public Act 80 of 1997**

- Increased rates for commercial trucks under Section 801(1)(k) by 30%
- Moved pickup trucks and vans from the weight schedule to the ad valorem tax schedule

This bill was part of the transportation bill package that included the increase in the motor fuel tax on gasoline.

#### **Public Act 152 of 2003**

- Changed the annual trailer registration tax to a permanent trailer tax

This provided a one-time increase in MTF revenue in 2004 as trailers were renewed at the new higher rate for permanent registrations. Revenue from trailer registrations fell in subsequent years.

- Created the Transportation Administration Collection Fund (TACF) and reclassified a number of service fees which had previously been credited to the MTF, for credit to the TACF

- Created a new \$3.00 title application service fee which was distributed in part to the TACF and in part to a new Traffic Law Enforcement Safety Fund for Michigan State Police programs
- The Legislature subsequently dedicated two additional service fees to the TACF (registration transfer, and expedited title fees) which had not been included in PA 152 as originally enacted.

At the same time that PA 152 redirected some service fees from the MTF to the TACF, **Public Act 151 of 2003** amended Act 51 to limit the MTF reimbursement of Department of State MTF collection costs to \$20.0 million. The intent of the two acts was to provide for the Department of State's costs of collecting registration taxes from two sources: TACF revenue (from the TACF service fees), and an MTF interdepartmental grant (IDG) not to exceed \$20.0 million.

Our original fiscal analysis of the two bill package indicated that the bills would increase baseline MTF revenue by \$4.1 million annually. The bills also effectively reduced the MTF share of Department of State operations by \$16.7 million by providing that much in new service fee revenue to the TACF annually. In addition, by capping restricted fund revenue used to support Department of State operations, the bills have effectively increased General Fund support for the department, and reduced MTF support.