Legislative Analysis

HOUSE FISCAL AGENCY
Mary Ann Cleary, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

"SALES TAX ON THE DIFFERENCE"

Senate Bill 89 (As Passed by the House/Enrolled)
Sponsor: Sen. Dave Robertson
House Committee: Tax Policy
Senate Committee: Finance
Complete to 10-23-13

A SUMMARY OF SENATE BILL 89 (H-7) AS PASSED BY THE HOUSE/ENROLLED

The bill would amend the General Sales Tax Act (MCL 205.51) to exempt the following from the sales tax:

- Beginning December 15, 2013, up to $2,000 of the agreed-upon value of a trade-in when used as part payment of the purchase price of a new motor vehicle, used motor vehicle, new recreational vehicle, or used recreational vehicle. The agreed-upon value would have to be separately stated on the invoice, bill of sale, or similar document given to the purchaser.

- Beginning January 1, 2015, and each January 1 thereafter, the exemption limit would be increased by an additional $500 each year, unless the recently enacted Medicaid expansion legislation is repealed.

- Beginning in January 1 in the year in which the exemption exceeds $14,000, and each January 1 thereafter, there would be no limitation on the agreed-upon value used as part payment.

- Beginning November 15, 2013, credit for the agreed-upon value of a titled watercraft used as part payment of the purchase price of a new titled watercraft or used titled watercraft if the agreed-upon value is separately stated on the invoice, bill of sale, or similar document given to the purchaser.

FISCAL IMPACT:

As passed by the House, Senate Bill 89 would reduce sales tax revenue in FY2013-14 by an estimated $24.6 million. This would decrease revenue earmarked to the School Aid Fund, which receives roughly 73.3% of sales tax revenue, by approximately $18 million. Constitutional revenue sharing, to which approximately 10% of all sales tax revenue is dedicated, would decline by about $2.5 million.

In FY2014-15, the incremental $500 increase in the cap can be expected to reduce sales tax revenue by an estimated additional $6 million. However, each successive $500 increment would be expected to reduce revenue by more than the prior increment as both the total number of vehicle sales and prices of vehicles increase over time. When fully phased-in after 24 years, the estimated annual cost could fall somewhere in the $250.0 million to $450.0 million range.

BACKGROUND INFORMATION:

Michigan has reciprocal agreements with a number of states whereby Michigan and the reciprocal state each collect and retain sales tax on vehicles purchased in their respective state, even in instances when the vehicle will be titled and registered in the other state.

For sales in Michigan of vehicles that will be registered and titled in a reciprocal state, Michigan collects the lesser amount of sales tax due calculated under Michigan law and under the law of the reciprocal state.[1] The calculation of the sales tax due under the laws of the reciprocal state will include a trade-in allowance if provided under the reciprocal state's law. The sales tax collected by the state of purchase will generally be used as a credit against any applicable use tax owed to the state where the vehicle will be titled. Wisconsin, Illinois, Indiana, and Ohio each provide for a trade-in allowance.[2]

Generally speaking, under the reciprocity agreements with the state, Michigan sales of motor vehicles that will be titled and registered in those states will be based on the trade-in allowance allowed under the laws of those states. The Department of Treasury offers these examples for Michigan sales of vehicles that will be registered and titled in a reciprocal state.

Example A: Vehicle to be titled and registered in Iowa.		
#1	$10,000.00	
	-3,000.00	(Trade-in allowed in Iowa)
	$7,000.00	
	x 5%	(Sales tax rate in Iowa)
	$ 350.00	Iowa sales tax
#2	$10,000.00	(No trade-in allowed in Michigan)
	x 6%	(Sales tax rate in Michigan)
	$ 600.00	Michigan sales tax
In Example A, the Michigan sales tax due is $350.		

Example B: Vehicle to be titled and registered in Illinois.		
#1	$10,000.00	(No trade-in presented on purchase)
	x 6.25%	(Sales tax rate in Illinois)
	$ 625.00	Illinois sales tax
#2	$10,000.00	(No trade-in allowed in Michigan)
	x 6%	(Sales tax rate in Michigan)
	$ 600.00	Michigan sales tax
In Example B, Michigan sales tax due is $600.00.		

Source: Department of Treasury's *Instructions for Collecting Vehicle Sales Tax from Buyers Who Will Register and Title Their Vehicle in Another State*, Revised September 2013

In Example A above, if the vehicle was purchased in Iowa and titled in Michigan, the purchaser would pay $350 in Iowa sales tax at the time of purchase and an additional $250 in Michigan use tax at the time it was registered and titled (representing a use tax liability of $600 less a credit for the $350 in Iowa sales taxes already paid).

Legislative Analyst: Mark Wolf
Chris Couch
Fiscal Analyst: Jim Stansell

[1] See the Department of Treasury's *Instructions for Collecting Vehicle Sales Tax from Buyers Who Will Register and Title Their Vehicle in Another State*, September 2013, http://www.michigan.gov/documents/485_72279_7.pdf. See, also, Chapter 8 (Sales Tax) of the Department of State's *Dealer Manual*, http://www.michigan.gov/documents/sos/Dealer_Manual_Chapter_8_186065_7.pdf.

[2] Under Ohio Revised Code Section 5739.01, the trade-in allowance is available only for the purchase of new vehicles.