

Legislative Analysis



"SALES TAX ON THE DIFFERENCE"

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House Bill 4234

Sponsor: Rep. Andrea LaFontaine

Committee: Tax Policy

Complete to 5-13-13

A SUMMARY OF HOUSE BILL 4234 AS INTRODUCED 2-12-13

House Bill 4234 would amend the General Sales Tax Act (1933 PA 167), generally speaking, so that sales tax would be charged on the difference between the price of a new or used motor vehicle or a new or used titled watercraft and the agreed-upon value of any trade-in.¹

Specifically, the bills would exclude from sales taxes, the agreed-upon value of a motor vehicle or titled watercraft used as a partial payment of the purchase price of a new or used motor vehicle or a new or used motor vehicle, if the agreed-upon value is separately stated on the invoice, bill of sale, or similar document provided to the purchaser. Under the bill, the agreed-upon value of a motor vehicle would be capped as follows:

- In 2013 – \$7,500
- In 2014 – \$10,000
- In 2015 – \$12,500
- In 2016 and subsequent years, no limitation

MCL 205.51

FISCAL IMPACT:

In an analysis on a similar bill last session, the House Fiscal Agency estimated that the first full year fiscal impact would be an estimated reduction of sales tax revenue of \$174 million. As the trade-in-value approaches no limit, the fiscal impact would increase to approximately \$220 million on an annual basis. This fiscal impact would affect the School Aid Fund, the GF/GP, constitutional revenue sharing, and the Comprehensive Transportation Fund.

¹ Section 11 of the General Sales Tax Act (MCL 205.61) currently states that in a taxable sale at retail of a motor vehicle where another vehicle is used as a 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.) Further, Rule 4 of the Department of Treasury's *Specific Sales and Use Tax Rules* (R 205.54) provides that, "[f]or sales tax purposes the trade-in value of a vehicle shall not be less than its wholesale dollar value at the time of trade. The dealer may use, as a guide, the wholesale dollar value as shown in the current issue of any nationally recognized used vehicle guide for financial institution appraisal purposes in Michigan."

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.² 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.³ 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.		Example B: Vehicle to be titled and registered in Illinois.	
#1	\$10,000.00	#1	\$10,000.00 (No trade-in presented on purchase)
	<u>-3,000.00</u> (Trade-in allowed in Iowa)		<u>x 6.25%</u> (Sales tax rate in Illinois)
	\$7,000.00		\$ 625.00 Illinois sales tax
	<u>x 5%</u> (Sales tax rate in Iowa)	#2	\$10,000.00 (No trade-in allowed in Michigan)
	\$ 350.00 Iowa sales tax		<u>x 6%</u> (Sales tax rate in Michigan)
#2	\$10,000.00 (No trade-in allowed in Michigan)		\$ 600.00 Michigan sales tax
	<u>x 6%</u> (Sales tax rate in Michigan)		
	\$ 600.00 Michigan sales tax		
In Example A, the Michigan sales tax due is \$350.		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 March 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.

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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.

² See the Department of Treasury's *Instructions for Collecting Vehicle Sales Tax from Buyers Who Will Register and Title Their Vehicle in Another State*, Revised March 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.

³ Under Ohio Revised Code Section 5739.01, the trade-in allowance is available only for the purchase of new vehicles.