

Legislative Analysis



MICHIGAN VEHICLE CODE – REGISTRATION TAXES

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House Bill 4632 (Substitute H-2)

Sponsor: Rep. Wayne Schmidt

Committee: Transportation and Infrastructure

Complete to 6-10-13

A SUMMARY OF HOUSE BILL 4632 (H-2) AS ADOPTED 6-4-13

The bill would amend Section 801 of the Michigan Vehicle Code, the section that establishes vehicle registration taxes. We estimate that the changes to registration taxes would increase annual MTF revenue by not less than \$104 million, and could increase annual MTF revenue by \$188 million or more. The Department of State estimates that programming costs associated with the proposed changes to registration taxes would be approximately \$2.3 million, and would take approximately 12 months to complete.

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 \$905 million in transportation revenue in FY 2011-12.

Section 801 of the Michigan Vehicle Code establishes a number of separate registration tax categories. **House Bill 4632 (H-2)** would consolidate and simplify this section. The bill would effectively reduce the number of separate registration categories from 17 to 9.

The detailed analysis beginning below and continuing through Page 8, below, describes the new Section 801(1) registration categories that would be established by **House Bill 4632 (H-2)**, and compares the new categories with the related provisions of current law.

Beginning on Page 8 the analysis describes the treatment of registration service fees, regulatory fees, and registration late fees, under **House Bill 4632 (H-2)**.

Pages 9 through 11 of the analysis describe the current 17 subdivisions of Section 801(1) and the treatment of those subdivisions under **House Bill 4632 (H-2)** amendments.

The detailed fiscal impact statement begins on Page 11.

DETAILED ANALYSIS:

Except as otherwise noted, the Section/Subsection/Subdivision references below are as shown in **House Bill 4632 (H-2)**:

Section 801(1)(a) – Weight-Based Tax Schedule – Commercial Vehicles

The bill provides two tax schedules for *commercial vehicles* weighing 8,001 pounds or more. For a commercial vehicle weighing 8,001 or more that does not elect a gross weight, there would be a new two-tiered tax schedule based on empty weight:

Empty Weights	Tax
8,001 to 18,000 pounds	\$400.00
18,001 to 26,000 pounds	\$590.00

The bill provides a second weight-based tax schedule for commercial vehicles weighing 8,001 pounds or more. This new tax schedule of elected gross weights would replace the current weight-based schedule for large trucks established in Section 801(1)(k) and would be the default tax schedule for most *commercial motor vehicles*, i.e. trucks in excess of 26,000 pounds.

Elected gross weight / Tax		
Current Law – Section 801(1)(k)	House Bill 4632	Difference
0 to 24,000 pounds \$491.00	N/A	For vehicles up to 18,000 pounds, the new rates would be \$91.00 less than current law; for 18,001 to 24,000 pounds, \$99.00 more; for 24,000 to 26,000 pounds, \$32.00 more.
24,001 to 26,000 pounds 558.00	N/A	
8,001 to 18,000 pounds N/A	\$ 400.00	
18,001 to 26,000 pounds 590.00	590.00	
26,001 to 28,000 pounds 558.00	725.00	\$167.00
28,001 to 32,000 pounds 649.00	780.00	131.00
32,001 to 36,000 pounds 744.00	895.00	151.00
36,001 to 42,000 pounds 874.00	1,050.00	176.00
42,001 to 48,000 pounds 1,005.00	1,210.00	205.00
48,001 to 54,000 pounds 1,135.00	1,365.00	230.00
54,001 to 60,000 pounds 1,268.00	1,525.00	257.00
60,001 to 66,000 pounds 1,398.00	1,680.00	282.00
66,001 to 72,000 pounds 1,529.00	1,835.00	306.00
72,001 to 80,000 pounds 1,660.00	1,995.00	335.00
80,001 to 90,000 pounds 1,793.00	2,155.00	362.00
90,001 to 100,000 pounds 2,002.00	2,405.00	403.00
100,001 to 115,000 pounds 2,223.00	2,670.00	447.00
115,001 to 130,000 pounds 2,448.00	2,940.00	492.00
130,001 to 145,000 pounds 2,670.00	3,205.00	535.00
145,001 to 160,000 pounds 2,894.00	3,475.00	581.00
over 160,000 pounds 3,117.00	3,740.00	623.00

For all commercial vehicles 28,000 pounds and over, the rates under the proposed elected gross weight schedule represent a 20% increase as compared to current law.

Commercial vehicles 8,000 pounds or less would be taxed under the new ad valorem tax schedule of subdivision (b).

House Bill 4632 (H-2) retains the current \$15.00 earmark for the Truck Safety Fund:

"For each commercial vehicle registered under this subdivision, \$15.00 shall be deposited in a truck safety fund to be expended for the purposes prescribed in section 25 of 1951 PA 51, MCL 247.675."

Note that the \$15.00 earmark is of revenue generated from the weight-based tax schedule for commercial motor vehicles; it is not in addition to those taxes.

Section 801(1)(b)(i) – Weight Schedule – Pre-1984 Motor Vehicles/Motorcycles

As shown below, this subdivision/subparagraph would establish a new two-tiered weight-based tax schedule *"for each passenger motor vehicle, motor home, or commercial vehicle that weighs 8,000 pounds or less of the 1983 or a previous model year and each motorcycle of the 2014 or a previous model year..."*

Empty Weights	Tax
0 to 4,000 pounds	\$50.00
4,001 and over	\$75.00

Passenger cars, vans, light trucks

According to Secretary of State records, as of January 2013, there were 59,227 valid plates for pre-1984 vehicles. Approximately 85% of those vehicles weighed 4,000 pounds or less and would, under current law, pay a registration tax of either \$29.00 (vehicles under 3,000 pounds), \$32.00 (vehicles from 3,001 to 3,500 pounds) or \$37.00 (vehicles from 3,501 to 4,000 pounds). Under the new weight-based tax schedule of **House Bill 4632 (H-2)**, those vehicles would pay a registration tax of \$50.00 - an increase of either \$21.00, \$18.00, or \$13.00 per year – depending on the weight of the vehicle.

Motorcycles

Under current law, motorcycles pay a registration tax of \$26.00 – a base tax of \$23.00 plus an additional **\$3.00** earmarked for the Motorcycle Safety Fund. Under **House Bill 4632 (H-2)** currently registered motorcycles, i.e. 2014 model year and older, would generally pay the \$50.00 tax for the 0 to 4,000 pounds weight band – an increase of \$24.00 from the \$26.00 tax under current law.

[Section 801(1)(b)(v) of the bill would earmark **\$6.00** of the registration tax collected from motorcycles to the Motorcycle Safety Fund.]

Section 801(1)(b)(ii) – Ad Valorem Schedule –Motor Vehicles 1984 and Newer/Motorcycles 2015 and Newer

This subdivision/subparagraph would establish a new ad valorem tax schedule *"for each passenger motor vehicle, motor home, or commercial vehicle that weighs 8,000 pounds or*

less of the 1984 and subsequent model year... and each motorcycle of the 2015 or a subsequent model year..."

Passenger cars, vans, light trucks

The table below compares the current ad valorem schedule for cars, vans, and light trucks under Section 801(1)(p) with the proposed ad valorem schedule of **House Bill 4632 (H-2)**.

Ad Valorem Schedule/ Tax		
Current Law – Section 801(1)(p)	HB 4632	Difference
List Price/ Tax		
\$ 0 - \$ 6,000.00\$ 30.00	\$35.00	\$5.00
More than \$ 6,000.00 - \$ 7,000.00..... 33.00	45.00	12.00
More than \$ 7,000.00 - \$ 8,000.00..... 38.00	50.00	12.00
More than \$ 8,000.00 - \$ 9,000.00..... 43.00	55.00	12.00
More than \$ 9,000.00 - \$ 10,000.00..... 48.00	60.00	12.00
More than \$ 10,000.00 - \$ 11,000.00..... 53.00	65.00	12.00
More than \$ 11,000.00 - \$ 12,000.00..... 58.00	70.00	12.00
More than \$ 12,000.00 - \$ 13,000.00..... 63.00	75.00	12.00
More than \$ 13,000.00 - \$ 14,000.00..... 68.00	80.00	12.00
More than \$ 14,000.00 - \$ 15,000.00..... 73.00	85.00	12.00
More than \$ 15,000.00 - \$ 16,000.00..... 78.00	90.00	12.00
More than \$ 16,000.00 - \$ 17,000.00..... 83.00	95.00	12.00
More than \$ 17,000.00 - \$ 18,000.00..... 88.00	100.00	12.00
More than \$ 18,000.00 - \$ 19,000.00..... 93.00	105.00	12.00
More than \$ 19,000.00 - \$ 20,000.00..... 98.00	110.00	12.00
More than \$ 20,000.00 - \$ 21,000.00..... 103.00	115.00	12.00
More than \$ 21,000.00 - \$ 22,000.00..... 108.00	120.00	12.00
More than \$ 22,000.00 - \$ 23,000.00..... 113.00	125.00	12.00
More than \$ 23,000.00 - \$ 24,000.00..... 118.00	130.00	12.00
More than \$ 24,000.00 - \$ 25,000.00..... 123.00	135.00	12.00
More than \$ 25,000.00 - \$ 26,000.00..... 128.00	140.00	12.00
More than \$ 26,000.00 - \$ 27,000.00..... 133.00	145.00	12.00
More than \$ 27,000.00 - \$ 28,000.00..... 138.00	150.00	12.00
More than \$ 28,000.00 - \$ 29,000.00..... 143.00	155.00	12.00
More than \$ 29,000.00 - \$ 30,000.00..... 148.00	160.00	12.00

Under **House Bill 4632 (H-2)**, for a vehicle with a list price greater than \$30,000, the listed tax of \$160.00 is increased by \$5.00 for each \$1,000 the list price exceeds \$30,000. The \$5.00 increase for each \$1,000 increment over \$30,000 is the same as is provided under Section 801(1)(p) of current law. It is our understanding that the use of the \$5.00 increment in House Bill 4632 (H-2) is a drafting error and the intention is to increase the listed tax of \$160.00 by \$12.00 for each \$1,000 increment over \$30,000.

Changes to Depreciation Consideration

Under current law, the second (first renewal) registration is 90% of the original registration; the third (second renewal) registration is 90% of the second registration; and the fourth (third renewal) and each subsequent registration is 90% of the third registration.

As a result, the actual tax paid in the fourth and subsequent years is 73% of the tax required at the initial registration.

See figure **below** for an example of how these provisions are applied.

Current Law		
Passenger Registration Taxes under Section 801(1)(p)		
Impact of annual 90% reduction in first-year registration tax		
First-year tax	\$103	Tax for a vehicle in the \$20,000 to \$21,000 tax category
2 nd year registration	\$93	90% of first year
3 rd year registration	\$83	90% of second year
4 th year registration	<u>\$75</u>	90% of third year (73% of original tax)
Total Tax Paid	\$354	
The registration tax for this vehicle would then remain at \$75 for the life of the vehicle.		

Under House Bill 4632 (H-2), the second (first renewal) registration is 95% of the original registration; the third (second renewal) registration is 95% of the second registration; and the fourth (third renewal) and each subsequent registration is 95% of the third registration. As a result, the actual tax paid in the fourth and subsequent years is **85%** of the tax required at the initial registration.

See figure **below** for an example of how these provisions would apply:

House Bill 4632 (H-2)		
Passenger Registration Taxes under Section 801(1)(b)		
Impact of annual 95% reduction in first-year registration tax		
First-year tax	\$115	Tax for a vehicle in the \$20,000 to \$21,000 tax category
2 nd year registration	\$109	95% of first year
3 rd year registration	\$104	95% of second year
4 th year registration	<u>\$99</u>	95% of third year (85% of the original tax)
Total Tax Paid	\$427	
The registration tax for this vehicle would then remain at \$99 for the life of the vehicle.		

Motorcycles

As described above, under current law motorcycles pay a registration tax of \$26.00 – a base tax of \$23.00 plus an additional \$3.00 earmarked for the Motorcycle Safety Fund. Under **House Bill 4632 (H-2)** motorcycles of the 2015 model year or newer would pay under the ad valorem schedule as shown above - a registration tax based on the manufacturer's list price.

[Section 801(1)(b)(v) of the bill would earmark **\$6.00** of the registration tax collected from motorcycles to the Motorcycle Safety Fund.]

Handicap Plates

House Bill 4632 (H-2) retains the 50% reduction in the registration tax for individuals who use a wheelchair, or who drive family members who use a wheelchair. This tax consideration is provided under Sections 801(1)(a) and 801(1)(p) of current law. The bill would add new language to limit this tax treatment to "*a motor vehicle that has been modified with a permanently installed wheelchair lift mechanism...*"

Section 801(1)(c) – Farm Trucks

Section 801(1)(d) – Log Trucks/Milk Haulers

These two subdivisions currently provide for preferential tax rates for certain farm vehicles, wood harvesters, and milk haulers. The current tax rate is 74 cents per hundredweight (empty weight).

House Bill 4632 (H-2) would include language limiting the scope of these subdivisions to certain designated vehicles weighing 8,001 pounds or more. The bill provides for a registration tax of 50% of the registration tax under the weight schedule for *commercial motor vehicles*. Note that subdivision (c), which deals with farm trucks, references Section 801(1)(a)(iii), the elected gross weight schedule, and subdivision (d), which deals with log trucks and milk haulers, references Section 801(1)(a)(ii) the empty weight tax schedule.

The 8,001 pound weight criteria under these two subdivision appears to reference vehicle empty weight; however, the tax schedule of Section 801(1)(a)(iii) is applied to vehicle elected gross weight. A vehicle's gross (loaded) weight could be substantially higher than the vehicle's empty weight.

House Bill 4632 (H-2) would also require applicants for plates under these subdivisions to provide qualifying documentation in a manner and form as determined by the department.

Department records indicate that as of January 2013 there were 38,342 valid farm plate registrations, 2,334 log truck registrations, and 150 milk hauling truck registrations.

Section 801(1)(e) – Institutional Plates

Section 801(1)(f) of current law provides for special \$5.00 registration plates for certain public institutions – specifically: vehicles "*owned and operated by this state, a state institution, a municipality, a privately incorporated, nonprofit volunteer fire department, or a nonpublic, nonprofit college or university...*" These plates are currently valid until worn out or until June 30 of the year in which the Secretary of State reissues all registration plates.

House Bill 4632 (H-2) would strike "*a state institution*" and "*a nonpublic, nonprofit college or university*" from list of entities eligible for institutional plates. The bill would place state institution vehicles and vehicles owned by nonpublic and nonprofit colleges and universities in a new subdivision (f) described below.

The bill would also increase the registration tax for these vehicles from \$5.00 to \$50.00 per plate, and would establish a fixed term for the plates; rather than having an indefinite life as under current law, institutional plates would be valid until June 30 of the 10th year following the issuance of the plate.

Section 801(1)(f) – Nonprofit and Civic Organizations

Two subdivisions of current law, Sections 801(1)(g) and 801(1)(h), provide for a \$10.00 registration plate for vehicles owned by certain designated nonprofit and civic organizations. [The Secretary of State treats the current \$10.00 registration tax under Sections. 801(1)(g) and 801(1)(h) as an annual tax. However, this treatment appears to conflict with Section. 224(4), which indicates that plates issued to authorized nonprofit and civic groups are valid for five years.]

House Bill 4632 (H-2) simplifies and reorganizes the language of these two sections into a single subdivision (f). The bill would also include under this subdivision vehicles owned by state institutions and nonpublic, nonprofit colleges and universities. The bill would provide for a \$20.00 annual per plate registration tax for these vehicles.

Section 801(1)(g) – Trailers

Section 801(1)(l) of current law establishes a weight-based schedule for trailers, including pole trailers, semitrailers, and trailer coaches. Under current law, absent a change in ownership, trailer registrations are effectively "permanent."

House Bill 4632 (H-2) indicates that trailer plates issued prior to the effective date of the enacted bill would expire **10 years** after the effective date of the enacted bill. Plates issued after the effective date of the enacted bill would expire **3 years** after the date of issuance. The bill indicates that registration plates issued under the subdivision is not transferrable.

The bill would change trailer registration tax rates as shown below:

Empty weights / Tax		
Current law - Section 801(1)(l)		House Bill 4632
0 to 2,499 pounds	\$ 75.00	\$150.00
2,500 to 9,999 pounds	200.00	225.00
10,000 pounds and over.....	300.00	300.00

Section 801(1)(h) - Mopeds

Section 801e of the Michigan Vehicle Code currently provides for a \$15 registration fee for mopeds, valid for 3 years. **House Bill 4632 (H-2)** would repeal Section 801e, and move the moped registration provisions into Section 801(1) as a new subdivision (h). House Bill 4632 (H-2) would increase the three-year registration from \$15, to \$45.

Section 801(1)(i) - Electric/Hybrid Vehicles

House Bill 4632 (H-2) would establish a \$75.00 registration tax for electric and hybrid vehicles, in addition to the ad valorem taxes under subdivision (b). Later in Section 801(7), the bill defines "electric vehicle" and "hybrid vehicle."

"Electric vehicle means a vehicle whose vehicle identification number identifies the fuel type as electric."

"Hybrid vehicle means a vehicle whose vehicle identification number identifies the fuel type as hybrid engine."

Section 801(3) – Registration Service Fees/Regulatory Fees

Section 801(4) – Registration Late Fees

Public Act 152 of 2003 created the Transportation Administration Collection Fund (TACF) in Section 810b of the Michigan Vehicle Code and dedicated certain vehicle title and registration service fees to the TACF. The fund was established as a state restricted fund to support, in part, activities of the Michigan Department of State in the administration and enforcement of Sections 801 through 810 of the Michigan Vehicle Code.

Among the service fees dedicated to the TACF was a \$5.75 registration service fee under Section 801(3).

Public Act 152 of 2003 also established a new Traffic Law Enforcement Safety Fund (TLESF) and in Section 801(4) dedicated a \$2.25 "regulatory fee" to the fund.

Both the \$5.75 registration service fee and the \$2.25 regulatory fee, i.e. \$10.00 in total, were add-ons to the base registration tax established under Section 801(1). These additional fees were imposed on most, but not all, registrations. The additional service fees were not imposed on pre-1984 vehicles under 10,000 pounds under subdivision (a), on elected Gross Vehicle Weight plates under subdivision (k), nonprofit/civic plates under subdivisions (g) and (h), trailer registrations under subdivision (l), or motorcycles under subdivision (m).

Public Act 152 of 2003 also established a new \$10.00 late registration fee for credit to the state General Fund.

House Bill 4632 (H-2) would amend Section 801(3) to eliminate the \$2.25 TLESF regulatory fee. The bill would also increase the TACF service fee from \$5.75 to \$10.00 per registration. The change would have no impact on the amount paid by applicants, which would remain \$10.00 in total. However, the change would effectively dedicate the entire \$10.00 in fee revenue to the TACF.

The bill would also make all registrations subject to the service fee, including vehicles registered under the elected gross weight schedule, nonprofit and civic vehicles, trailers, and motorcycles.

The bill would specify that the TACF was created in Section 810b to *"reimburse necessary collection expenses as provided in Section 9 of Article IX of the state constitution of 1963."*

The bill would amend Section 801(4) to dedicate the \$10.00 registration late fee, currently credited to the state General Fund, to the TLESF.

House Bill 4632 (H-2)—Treatment of Provisions of Current Law

Pages 9 through 11 of this document describe how **House Bill 4632 (H-2)** would affect provisions of current law. Except as otherwise noted, the Section/Subsection/Subdivision references below are as shown in current law.

Section 801(1)(a) – Pre-1984 Cars, Vans, Light Trucks

As described above, **House Bill 4632 (H-2)** strikes these provisions and replaces them with a two-tiered weight-based tax schedule for 1983 model year and older vehicles, and motorcycles of 2014 model year and older.

The bill also strikes current language that directs the department to annually revise the Section 801(1)(a) rates. The current language is an anachronism and has not been implemented by the department.

Section 801(1)(b) – Trailer Coaches

This subdivision in current law creates a tax rate for trailer coaches by simply referencing the tax schedule for trailers in subdivision (l). **House Bill 4632 (H-2)** strikes this subdivision and includes trailer coaches with trailers in new/renumbered Section 801(1)(g).

Sections 801(1)(c) and 801(1)(d) – Farm Trucks/Log Trucks/Milk Haulers

As described above, **House Bill 4632 (H-2)** modifies current law provisions of these two subdivisions.

Section 801(1)(e) – Hearse or Funeral Ambulance

Current law provides a preferential tax rate of \$1.17 per hundredweight (empty weight). Department records indicate that as of January 2013 there were 309 vehicles registered under this category. **House Bill 4632 (H-2)** would strike this subdivision, effectively placing these vehicles with other passenger cars and light trucks under the ad valorem schedule of Section 801(1)(b), or the weight-based schedule for commercial vehicles under Section 801(1)(a).

Section 801(1)(f) – Institutional Plates

As described above, **House Bill 4632 (H-2)** modifies current law provisions dealing with institutional registration plates in subdivision (e) as renumbered.

Sections 801(1)(g) and 801(1)(h) – Nonprofit and Civic Organizations

These two subdivisions currently provide for a \$10.00 registration plate for certain designated nonprofit and civic organizations. As described above, **House Bill 4632 (H-2)** modifies current law provisions in subdivision (f) as renumbered.

Section 801(1)(i) – Ecclesiastical and Charitable Organizations

This subdivision currently provides for a special registration plate for certain trucks owned and operated free of charge by a "bona fide" ecclesiastical or charitable corporation, the Red Cross, Boy Scouts, or Girl Scouts. The current tax rate is 65 cents per hundredweight (empty weight). Department records indicate that as of January 2013 there were 94 vehicles registered under this category. **House Bill 4632 (H-2)** would strike this subdivision.

Section 801(1)(j) – Certain Large Trucks

House Bill 4632 (H-2) would strike a subdivision that currently establishes a tax based on the empty weight of certain large trucks. The language is confusing and appears to be an anachronism. There were 2,503 vehicles registered under this subdivision as of January 2013. Under **House Bill 4632 (H-2)** vehicles currently registered under this subdivision would be registered under either the weight-based schedule of Section 801(1)(a) or the ad valorem schedule under Section 801(1)(b) – depending on vehicle weight.

Section 801(1)(k) – Large Trucks

This subdivision establishes a tax schedule based on elected gross vehicle weight for larger trucks and tractor-trailer combinations, including trucks 8,000 pounds or less towing a trailer, and any commercial truck 8,001 pounds or more. As described above, under **House Bill 4632 (H-2)** vehicles currently registered under this subdivision would be registered under the weight-based schedule for commercial vehicles of Section 801(1)(a).

Section 801(1)(l) – Trailers

As described above, **House Bill 4632 (H-2)** modifies current law provisions dealing with trailer registrations in subdivision (g) as renumbered.

Section 801(1)(m) – Passengers for Hire

House Bill 4632 (H-2) would strike a subdivision that currently establishes a tax based on the empty weight for commercial vehicles used in the transportation of passengers for hire. There were 724 vehicles registered under this subdivision as of January 2013.

Under **House Bill 4632 (H-2)** vehicles currently registered under this subdivision would be registered under either the weight-based schedule of Section 801(1)(a) or the ad valorem schedule under Section 801(1)(b) – depending on vehicle weight.

Section 801(1)(n) – Motorcycles

As described above, **House Bill 4632 (H-2)** modifies current law provisions dealing with motorcycle registrations in subdivision (b) as renumbered.

Section 801(1)(o) – Moving Vans

House Bill 4632 (H-2) would strike a subdivision that currently establishes a tax based on 80% of the empty weight schedule for commercial vehicles under Section 801(1)(k). There were 326 vehicles registered under this subdivision as of January 2013.

Under **House Bill 4632 (H-2)** vehicles currently registered under this subdivision would be registered under either the weight-based schedule of Section 801(1)(a) or the ad valorem schedule under Section 801(1)(b) – depending on vehicle weight.

Section 801(1)(p) – Passenger Cars, Vans, Light Trucks

As described above, **House Bill 4632 (H-2)** modifies current law provisions dealing with this registration category in subdivision (b) as renumbered.

Section 801(1)(q) – Wreckers

Current law provides a tax rate of \$200.00 per vehicle for wreckers. **House Bill 4632 (H-2)** would strike this subdivision, effectively placing these vehicles under the weight-based schedule of Section 801(1)(a). There were 4,736 vehicles registered under this subdivision as of January 2013.

Repealers

House Bill 4632 (H-2) would repeal Section 801e of the Michigan Vehicle Code. The section provides for the registration of mopeds and the provisions of that section were moved into Section 801(1)(h), as described above.

Tie Bars

House Bill 4632 (H-2) and **House Bill 4630 (H-2)** are tie barred to each other.

Effective Date

House Bill 4630 (H-2) would take effect July 1, 2014,

FISCAL IMPACT:

Impact of Changes to Vehicle Registration Tax Provisions

House Bill 4632 (H-2) would amend Section 801 of the Michigan Vehicle Code by changing provisions governing vehicle registration taxes. The changes to Section 801 would increase constitutionally dedicated transportation revenue – revenue currently credited to the Michigan Transportation Fund (MTF). We estimate that these changes to would increase annual MTF revenue by not less than \$104 million, and could increase annual MTF revenue by \$188 million or more.

The broad range in these estimates is due to the complexity of the current registration tax system, including the multiple registration tax categories of the current system, and the number of variables that could affect our estimates.

The following section will describe our estimates by registration category.

Pre-1984 Cars, Vans, Light Trucks, 8,000 pounds and less

House Bill 4632 (H-2) would strike current law provisions and replace them with a two-tiered weight-based tax schedule. The current tax schedule provides a range from \$29 to \$77 and generates an estimated \$2.0 million in MTF revenue. **House Bill 4632 (H-2)** would establish two tax bands: 0 to 4,000 pounds, \$50; and 4,001 to 8,000 pounds, \$75.

If the approximately 59,000 vehicles currently registered under this tax schedule were registered under the new tax schedule under **House Bill 4632(H-2)**, estimated MTF revenue would be \$3.2 million, an increase of \$1.2 million. However, this is a closed registration category – no new vehicles are ever added – and as currently registered vehicles age, many will become inoperable and eventually scrapped; others may qualify for registration as historic vehicles. Over time, revenue from this category will decline.

Large Trucks

As of January 2013 there were 79,865 vehicles registered under the elected gross weight schedule of Section 801(1)(k). We estimate this registration category currently provides approximately \$67.5 million in revenue for credit to the MTF.

House Bill 4632 (H-2) would provide a new weight-based schedule for commercial motor vehicles under Section 801(1)(a). For all commercial vehicles 28,000 pounds and more, the rates under the proposed elected gross weight schedule represent a 20% increase as compared to current law. We estimate that the proposed new weight-based schedule would generate \$80.6 million for credit to the MTF, a \$13.1 million increase as compared to current law.

We believe that the increased tax rates would also generate additional revenue from interstate motor carriers who pay a proportionate share of Michigan registration taxes through the International Registration Plan.

Ad Valorem Schedule – Motor Vehicles 1984 and Newer

House Bill 4632 (H-2) would, in Section 801(1)(b), provide a new ad valorem tax schedule *"for each passenger motor vehicle, motor home, or commercial vehicle that weighs 8,000 pounds or less of the 1984 and subsequent model year.."*

This schedule would replace the ad valorem schedule currently established in Section 801(1)(p). The new schedule would increase revenue from this registration category in two ways:

First, the bill would increase baseline tax rates for most registration categories by \$12. Assuming approximately 7.0 million annual registrations in this category, the \$12 baseline increase would increase transportation revenue by \$84.0 million.

In addition, the bill changes the current four-year step-down in tax rates, generally described as "depreciation," from 90% per year, to 95% per year. This change would also increase tax rates as compared to current law. For a vehicle in the \$20,000 to \$21,000 tax category, the fourth year registration tax would be \$24 more than current law, of which \$12 would be attributable to the increase in the baseline tax rate, and \$12 to the change in the depreciation percentage.

We estimate that over time the impact of the change in the depreciation percentage could generate up to \$84.0 million in additional annual revenue.

The above estimates are broad and intended to provide a range of possible revenue impacts. Actual revenue generated under this registration category will be determined by the number of vehicles registered in each list price/tax rate band and how many of those vehicles were on their first registration or first, second, or third renewal. Revenue will also be affected by the number of new vehicles registered each year at various list price/tax rate bands.

Motorcycles

Under current law, motorcycles pay a registration tax of \$26.00 – a base tax of \$23.00 plus an additional **\$3.00** earmarked for the Motorcycle Safety Fund. Under **House Bill 4632 (H-2)** currently registered motorcycles, i.e. 2014 model year and older, would generally pay the \$50.00 tax for the 0 to 4,000 pounds weight band – an increase of \$24.00 from the \$26.00 tax under current law.

Approximately 270,000 motorcycles are registered each year, generating approximately \$7.0 million in registration taxes - \$6.2 million for the MTF, and \$800,000 for the Motorcycle Safety Fund. We estimate the changes proposed in House Bill 4632 (H-2) would increase total revenue by \$6.5 million - an additional \$5.7 million to the MTF and an additional \$800,000 to the Motorcycle Safety Fund.

The above analysis applies to currently registered motorcycles only, i.e. those of 2014 model year or later that would be registered under the proposed weight based schedule of **House Bill 4632 (H-2)**. The bill would move motorcycles of the 2015 model year and newer to a new ad valorem tax schedule. We are unable to estimate the number of 2015 and newer motorcycles that might be registered in the future or the manufacturer's list price associated with future motorcycles registrations.

Other Registration Changes

Our analysis of other changes to registration tax categories is in progress.

Fiscal Analyst: William E. Hamilton

■ 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.