Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 89 (Substitute S-1 as passed by the Senate)
Senate Bill 90 (Substitute S-1 as passed by the Senate)
Sponsor: Senator Dave Robertson
Committee: Finance

Date Completed: 2-13-13

RATIONALE

The General Sales Tax Act, as a rule, imposes a tax of 6% on the sales price of tangible personal property sold at retail. The sales price is the total amount of consideration, including cash, credit, property, and services, for which the property is sold. The sales price also includes various costs and charges specified in the Act, as well as credit for any trade-in. This means that if a person purchases a new automobile, for example, and trades in a used one, he or she must pay sales tax on the full price of the new car. (The same applies under the Use Tax Act; if a person buys a car out of State and registers it in Michigan, the 6% use tax must be paid on the full purchase price, subject to a credit for any tax paid in another state.) This strikes many people as unfair, because the sales tax originally was paid on the trade-in vehicle when it was purchased. A number of other states provide for a trade-in allowance when the sales tax is calculated on motor vehicle purchases, imposing the tax on the difference between the value of the trade-in and the price of the vehicle being purchased. It has been suggested that, in order to boost sales, Michigan should take the same approach, and extend it to watercraft and recreational vehicles.

CONTENT

Senate Bills 89 (S-1) and 90 (S-1) would amend the General Sales Tax Act and the Use Tax Act, respectively, to exclude from taxation the value of a trade-in on a new or used motor vehicle or titled watercraft, or a recreational vehicle (RV), subject to a phase-in on the value of a trade-in vehicle or RV between 2013 and 2022.

Specifically, beginning on the bills' effective date, the Acts' definitions of "sales price" and "purchase price" would not include the agreed-upon value of a titled watercraft used as part payment of a new or used titled watercraft, if the agreed-upon value were separately stated on the invoice, bill of sale, or similar document given to the purchaser.

Beginning on October 1, 2013, "sales price" and "purchase price" would not include the agreed-upon value of a motor vehicle or RV used as part payment of the purchase price of a new motor vehicle or used motor vehicle or RV, if the agreed-upon value were separately stated on the invoice, bill of sale, or similar document given to the purchaser.

The agreed-upon value of a motor vehicle or RV used as part payment would be limited to 10% between October 1, 2013, and December 31, 2013. The value would increase to 20% in 2014 and increase in 10-percentage-point increments each year until it reached 90% in 2021. There would be no limit in 2022 and subsequent years.

The bills would define "new motor vehicle" as that term is defined in the Michigan Vehicle Code (a motor vehicle that is not and has not been a demonstrator, executive or manufacturer's vehicle, or leased vehicle, or a used or second-hand vehicle).

"Recreational vehicle" also would mean that term as defined in the Vehicle Code (a new or used vehicle that has its own motive power or is towed by a motor vehicle, is primarily designed to provide temporary living quarters for recreational, camping, travel, or seasonal use, complies with all applicable Federal requirements, and does not require a special highway movement permit to be operated or towed on a street or highway).

MCL 205.51 (S.B. 89)
205.92 (S.B. 90)

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Like the rest of the country, Michigan is recovering from a severe economic recession, although this State's heavy reliance on the motor vehicle manufacturing industry contributed disproportionately to Michigan's fiscal distress. Chrysler and General Motors were forced to seek bankruptcy protection, and a number of dealerships were closed. Automobile manufacturing continues to play a significant role in the State's economy, however, and the industry is regaining financial stability. In order to help with this comeback, the State should do what it can to boost auto sales. By allowing people to buy a new or used vehicle and avoid paying the sales or use tax on part of the value of a trade-in, the bills could give consumers the incentive they need to make a purchase. This point-of-sale tax break not only would help financially strapped individuals and families, but also would reduce the cost of doing business for companies that buy vehicles. At the same time, increasing sales would benefit dealers, suppliers, and other businesses—and their workers—that are affected by motor vehicle manufacturing and sales.

The bills also could stimulate sales of RVs and titled watercraft by allowing a trade-in allowance for these items. In addition to giving purchasers a tax break and helping to sustain dealers, the bills could bolster the State's tourism industry, especially with respect to watercraft. Evidently, in order to avoid Michigan's tax, some Michigan residents are purchasing, registering, and mooring watercraft out of State. (Although they technically would be liable for the use tax if they used the watercraft in Michigan, it is questionable whether the tax would ever be collected.) Even if the watercraft is purchased in Michigan, the customer might have it delivered to another state where the tax treatment is more favorable. For example, according to testimony on similar legislation in 2011, a customer from Grosse Pointe traded in a yacht worth $2.0 million on one that cost $3.0 million; the person then had the yacht delivered to Ohio and operates it out of that state. In these situations, brokers lose or have to split their commission, and marinas, servicepeople, and lakeside communities lose business, especially if they are near the State's border. Reportedly, Michigan is the only Great Lakes state that does not have tax-on-the-difference on watercraft. The bills would remove this competitive disadvantage immediately by imposing the sales or use tax only on the difference between the price of the watercraft being purchased and the value of the one being traded in.

Opposing Argument

The State cannot afford to lose the sales and use tax revenue that is generated on sales of autos, RVs, and watercraft. Regardless of how well-meaning the bills might be, any reduction in tax collections should be accompanied by cuts in the budget to accommodate the loss, or revenue in the budget that would pay for the loss should be identified.

Response: For motor vehicles and RVs, sales-tax-on-the-difference would not be fully implemented before 2022. This long phase-in period would mitigate the impact on the State budget. In addition, the estimated revenue loss does not take into account any economic activity that increased sales could produce.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Based on the level of vehicle sales forecast for FY 2013-14, the bills would reduce State sales and use tax revenue by approximately $40.9 million in FY 2013-14, lowering revenue to the School Aid Fund, the General Fund, and the Comprehensive Transportation Fund, as well as constitutional revenue sharing to local units of government. The bills would lower revenue to the School Aid Fund by approximately $26.7 million, the General Fund by $7.7 million, the Comprehensive Transportation Fund by $1.5 million, and local units of government (through constitutional revenue sharing) by $4.9 million. The revenue loss under the bills would grow roughly $23.3 million per year, eventually reaching $233.4 million in FY 2022-23 and lowering School Aid Fund revenue by $152.8 million, General Fund revenue by $43.9 million, Comprehensive Transportation Fund revenue by $8.7 million, and constitutional revenue sharing to cities, villages, and townships by $28.1 million. The estimate further assumes that the reduced tax liability compared with current law would affect either the number and/or value of vehicles purchased. To the extent that vehicle prices and/or sales increase in later years from FY 2013-14 levels, the revenue loss would be larger.

Fiscal Analyst: David Zin

A1314\s89a