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

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 the trade-in vehicle or RV between 2014 and 2022.

The General Sales Tax Act and the Use Tax Act impose a tax of 6% on the sales price or purchase price of nonexempt personal property and services. The Acts' definitions of "sales price" and "purchase price" include credit for any trade-in.

Under the bills, beginning June 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, or 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.

The agreed-upon value of a motor vehicle or RV used as part payment would be limited to 10% between June 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.

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

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Based on the level of vehicle sales forecast for FY 2012-13, the bills would reduce State sales and use tax revenue by approximately \$5.7 million in FY 2012-13, 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.

In FY 2013-14, the first full year the bills would be effective, they would reduce State sales and use tax revenue by approximately \$45.3 million. The bills would lower revenue to the School Aid Fund by approximately \$33.3 million, the General Fund by \$3.1 million, the Comprehensive Transportation Fund by \$2.1 million, and local units of government (through constitutional revenue sharing) by \$6.8 million. The revenue loss under the bills would grow roughly \$45.3 million per year, eventually reaching in \$226.7 million in FY 2021-23 and lowering School Aid

Fund revenue by \$166.6 million, General Fund revenue by \$15.4 million, Comprehensive Transportation Fund revenue by \$10.6 million, and constitutional revenue sharing to cities, villages, and townships by \$34.1 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 2012-13 levels, the revenue loss would be larger.

Date Completed: 2-4-13

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.