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

BILL ANALYSIS

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

Senate Bills 89 and 90 (as introduced 1-29-13)
Sponsor: Senator Dave Robertson
Committee: Finance

Date Completed: 1-29-13

CONTENT

Senate Bills 89 and 90 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, subject to a limit on the value of a trade-in vehicle under Senate Bill 89.

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, "sales price" and "purchase price" would not include the agreed-upon value of a motor vehicle used as part payment of the purchase price of a new or used motor vehicle, 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. Under Senate Bill 89, this would apply with respect to the retail sale of a motor vehicle or titled watercraft that took place after June 30, 2013.

Senate Bill 89 also would limit the agreed-upon value of a motor vehicle used as part payment to $2,500 between July 1 and December 31, 2013, and increase the limit in $2,500 increments each year through 2018, when it would be $15,000. There would be no limit in 2019 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).

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 $12.8 million in FY 2012-13, lowering revenue to the School Aid Fund, the General Fund, and the Comprehensive Transportation Fund. Because revenue sharing payments made to local units during FY 2012-13 are based on July-June collections, constitutional revenue sharing payments during FY 2012-13 would not be affected by the bills.

In FY 2013-14, the first full year the bills would be effective, they would reduce State sales and use tax revenue by approximately $90.9 million. The bills would lower revenue to the School Aid Fund by approximately $59.5 million, the General Fund by $17.1 million, the Comprehensive Transportation Fund by $3.4 million, and local units of government (through constitutional revenue sharing) by $10.9 million. The revenue loss under the bills would grow to $144.0 million in FY 2014-15, $185.7 million in FY 2015-16, $211.0 million in FY 2016-17, $218.2 million in FY 2017-18, and $221.0 million in FY 2018-19. To the extent that vehicle prices and/or sales increase in later years from FY 2012-13 levels, the revenue loss would be larger.

The estimates assume that changes would occur in the distribution of sales. Because private sales between individuals would not qualify for the exemption, the bills would create an incentive for buyers to purchase from a dealer. As a result, the estimate assumes that the share of new vehicle transactions involving a trade-in would increase and average trade-in values would be affected. Therefore, sales between private individuals are also assumed to decrease, lowering use tax revenue. The estimate further assumes that the reduced tax liability compared with current law would affect either the number and/or value of vehicles purchased.

Fiscal Analyst: David Zin

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