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BILL ANALYSIS

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Senate Bill 90 (as enacted)
Sponsor: Senator Dave Robertson
Senate Committee: Finance
House Committee: Tax Policy

PUBLIC ACT 234 of 2013

Date Completed: 1-6-15

CONTENT

The bill amended the Use Tax Act 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 December 15, 2013, and January 1, 2038.

(These amendments are virtually identical to amendments made to the General Sales Tax Act by Public Act 160 of 2013, which took effect on November 6, 2013.)

The Use Tax Act imposes a tax of 6% on the purchase price of nonexempt personal property and services. Except as amended by the bill, the Act's definition "purchase price" includes credit for any trade-in.

Under the bill, beginning November 15, 2013, the definition of "purchase price" does not include credit for the agreed-upon value of a titled watercraft used as part payment of a new or used titled watercraft purchased from a watercraft dealer. Beginning December 15, 2013, subject to the phase-in schedule described below, "purchase price" does not include credit for 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 purchased from a new vehicle dealer or used or secondhand vehicle dealer licensed under the Michigan Vehicle Code. In each case, the agreed-upon value must be separately stated on the invoice, bill of sale, or similar document given to the purchaser, and the exclusion for a trade-in does not apply to leases or rentals.

Beginning December 15, 2013, the agreed-upon value of a motor vehicle or RV used as part payment is limited to $2,000 or the actual agreed-upon value of the vehicle or RV, whichever is lower.

On January 1, 2015, and each subsequent January 1, the dollar limit of the agreed-upon value must be increased by $500 (unless Section 105d of the Social Welfare Act is repealed). On January 1 in the year in which the dollar limit exceeds $14,000, there will no longer be a limit on the agreed-upon value of the motor vehicle or RV used as part payment.

(Section 105d of the Social Welfare Act provides for the expansion of the Medicaid program pursuant to the Federal 2010 Patient Protection and Affordable Care Act; and requires the State to seek a Federal waiver allowing the State's modifications to the Medicaid program that accompany the expansion.)

The bill defines "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 means 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).

The bill took effect on December 26, 2013.

MCL 205.92 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Based on estimates from the Department of Treasury, the bill, when combined with Senate Bill 89 (Public Act 160 of 2013), will reduce State sales and use tax revenue by approximately $22.1 million in FY 2013-14, lowering revenue to the School Aid Fund by $16.2 million, the General Fund by $2.7 million, the Comprehensive Transportation Fund by $1.0 million, and constitutional revenue sharing to local units of government by $2.2 million.

The revenue loss will increase in later years. In FY 2014-15, the first full year the bills will be effective, they will reduce State sales and use tax revenue by approximately $33.1 million, lowering School Aid Fund revenue by approximately $24.3 million, General Fund revenue by $4.0 million, Comprehensive Transportation Fund revenue by $1.5 million, and revenue to local units of government (through constitutional revenue sharing) by $3.3 million. Excluding the impact of inflation, the revenue loss under the bills will grow roughly $8.0 million per year until 2038, eventually reaching in $134.1 million in FY 2037-38 and lowering School Aid Fund revenue by $98.3 million, General Fund revenue by $16.1 million, Comprehensive Transportation Fund revenue by $6.2 million, and constitutional revenue sharing to cities, villages, and townships by $13.4 million. To the extent that vehicle prices and/or sales increase in later years from current levels, the revenue loss will be larger.

The estimates largely do not assume that changes will occur in the distribution of sales. Because private sales between individuals will not qualify for the exemption, nor will new vehicle leasing, the bills create an incentive for buyers to purchase from a dealer rather than purchasing from individuals or leasing. The market penetration rates of leasing have been at the highest level in years, and near-record highs. If vehicle purchasing behavior changes and sales between private individuals decrease or leasing rates fall, the revenue loss will be greater than estimated, although much of the additional revenue loss will be under the use tax.

Fiscal Analyst: David Zin