Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 10 (Substitute S-2 as reported)
Senate Bill 11 (Substitute S-2 as reported)
Sponsor: Senator Dave Hildenbrand (S.B. 10)
Senator Joe Hune (S.B. 11)
Committee: Finance

**CONTENT**

Senate Bills 10 (S-2) and 11 (S-2) would amend the General Sales Tax Act and the Use Tax Act, respectively, to accelerate the schedule that excludes from taxation the value of a motor vehicle or recreational vehicle (RV) traded in for a new or used vehicle or RV; the bills would double the annual increase in the maximum dollar amount that may be excluded, and provide for no limit beginning in 2026, rather than 2039. Senate Bill 11 (S-2) also would delete language that limits the provision to vehicles purchased from dealers licensed in Michigan.

The Acts impose a tax of 6% on the purchase price or sales price of nonexempt personal property and services. Except as provided for the trade-in value of a motor vehicle or RV (or a titled watercraft), the Acts' definitions of "purchase price" and "sales price" include credit for any trade-in (imposing tax on the full price rather than on the difference in value between the item purchased and the one traded-in).

Beginning December 15, 2013, subject to the phase-in schedule described below, "purchase price" and "sales price" do 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 or used motor vehicle or RV bought from a dealer. The amount that may be excluded is the actual agreed-upon value of the trade-in or a specified dollar amount, whichever is lower.

On December 15, 2013, the dollar amount was $2,000. The amount increased to $2,500 on January 1, 2015, and is scheduled to increase each January 1 thereafter by $500 until the year in which the limit exceeds $14,000 (i.e., 2039), when there will be no limit on the value excluded from taxation.

Under the bills, the dollar amount would increase to $5,000 on January 1, 2016. On January 1, 2017, and each subsequent January 1, the amount would be increased by $1,000 until the year in which it exceeded $14,000 (i.e., 2026), when there would be no limit on the agreed-upon value.

Currently, under the Use Tax Act, the motor vehicle or RV must be purchased from a new vehicle dealer or used or secondhand vehicle dealer licensed under Section 248 of the Michigan Vehicle Code (which requires a dealer to have an established place of business in this State). Senate Bill 11 (S-2) would delete that language. Under both bills, a motor vehicle or RV would have to be purchased from a "dealer" (as defined elsewhere in the Code).

In addition, under Senate Bill 10 (S-2), with respect to motor vehicles, RVs, and titled watercraft, the sales-tax-on-the-difference provisions would not apply to leases or rentals. The bill also would require that a titled watercraft be purchased from a watercraft dealer (as currently required under the Use Tax Act).

MCL 205.51 (S.B. 10) Legislative Analyst: Ryan M. Bergan
205.92 (S.B. 11)

**FISCAL IMPACT**

The bills would reduce State and local unit revenue through FY 2037-38. In FY 2015-16, the bills would reduce State revenue by approximately $22.1 million, including a $16.2 million reduction to School Aid Fund revenue, a $1.0 million reduction in Comprehensive Transportation Fund revenue, and a $2.7 million reduction to General Fund revenue; and would lower local unit revenue by $2.2 million through reduced constitutional revenue sharing payments. Total State and local unit revenue losses would increase to $27.8 million in FY 2016-17 and $33.6 million in FY 2017-18. After FY 2025-26, the revenue losses relative to current law would begin declining, reaching zero in FY 2038-39.

Additionally the definitional changes in the bills also would reduce State revenue by an unknown and likely negligible amount. Any revenue loss would affect General Fund revenue, School Aid Fund revenue, and revenue sharing to local units of government, with the relative impact across the funds depending on the relative magnitude of reduction in sales tax revenue compared to the reduction in use tax revenue.

Vehicles purchased in one state for use in another are generally assessed a sales or use tax when transferred to and registered in the state in which they will be used, if the tax assessed by the state where the vehicle is purchased is less than the tax that would have been assessed on the transaction in the state in which the vehicle will be used. However, if the vehicle purchase involved the trade-in of a used vehicle, current law assesses a tax based on the full purchase price of the vehicle, including the value of the trade-in, if the vehicle was purchased from a dealer not licensed under Michigan statute. The bills would reduce the tax levy in this situation by the allowed portion applicable to the trade-in. As a result, the bills would lower the revenue collected from individuals who use a trade-in to help purchase a vehicle out-of-state and then transfer the purchased vehicle to Michigan.

Date Completed: 3-31-15 Fiscal Analyst: David Zin