Legislative Analysis

Phone: (517) 373-8080
http://www.house.mi.gov/hfa

Analysis available at
http://www.legislature.mi.gov

ACCELERATE PHASE-IN
OF SALES AND USE TAX ON THE DIFFERENCE

House Bill 4252 as introduced
Sponsor: Rep. Bronna Kahle

House Bill 4253 as introduced
Sponsor: Rep. Michael Webber

Senate Bill 94 (passed by Senate as S-2)
Sponsor: Sen. Dave Hildenbrand

Senate Bill 95 (passed by Senate as S-2)
Sponsor: Sen. Dave Robertson

Senate Committee: Finance
House Committee: Tax Policy
Complete to 6-6-17

SUMMARY:

House Bill 4252 and Senate Bill 94 would amend the General Sales Tax Act (MCL 205.51) to accelerate the phase-in of the dollar amounts that may be excluded from sales tax when a motor vehicle or recreational vehicle (RV) is used as a trade-in for a new or used motor vehicle or RV. The limit on the amount that can be used as a trade-in would increase $1,000 per year instead of the current $500 per year, beginning in 2019.

House Bill 4253 and Senate Bill 95 would amend the companion Use Tax Act (MCL 205.92) to make identical changes.

Additionally, beginning January 1, 2018, Senate Bills 94 and 95, as passed by the Senate, would fully exempt the agreed-upon value of a **recreational vehicle** when used as part payment of the purchase price of a recreational vehicle purchased from a dealer. (That is, the agreed-upon value of a recreational vehicle would not be subject to the schedule described below, and would have no limit beginning January 1, 2018.)

BRIEF BACKGROUND:

Public Act 160 of 2013 provided for an exemption from the sales tax, subject to a statutory limit, based on the agreed-upon value of a traded-in motor vehicle or RV when the trade-in is used as part purchase of a new or used motor vehicle or RV from a dealership (PA 234 made complementary changes in the Use Tax Act). This is commonly referred to as "sales tax on the difference."

With passage of the bills in 2013, purchasers who used a trade-in as part purchase of a new or used vehicle from a dealership paid sales tax on the "difference" between the sales price of the new or used vehicle and either, (1) the actual value of the trade-in vehicle, **or** (2) a specific dollar amount limit set in statute, whichever was less.

PA 160 set the initial limit on the value of the trade-in at $2,000 and provided for a "phase-in" period that gradually increased the maximum limit through $500 annual increases. The limit in calendar year 2017 is $3,500; meaning that even if the trade-in car is valued at $5,000, only $3,500 is exempt from sales tax. Under current law, by calendar year 2039, there would be no limit on the agreed-upon value of the trade-in.

The bills would accelerate the phase-in and create the following schedule for the maximum value of the **motor vehicle** (and **RV**, for House Bills) used as part payment.

Year[1]	**Maximum Trade-In Value**
Jan 1, 2018 through Dec 31, 2018	$4,000
Jan 1, 2019	$5,000
Jan 1, 2020	$6,000
Jan 1, 2021	$7,000
…	…
Jan 1, 2027	$13,000
Jan 1, 2028	$14,000
Jan 1, 2029	No limit

FISCAL IMPACT:

Relative to current law, accelerating the phase-in of the exemption would reduce sales and/or use tax revenue by roughly $2.1 million in FY 2018-19, $5.1 million in FY 2019-20, and $7.5 million in FY 2020-21. The actual distributional impact of the revenue reduction depends on whether the loss is due to sales tax versus use tax revenue, although the most significant portion would likely be sales tax revenue. Approximately 72.8% of sales tax revenue is earmarked to the School Aid Fund, 10% to Constitutional revenue sharing, and 4.65% to the Comprehensive Transportation Fund. The remaining revenue accrues to the General Fund.

The revenue reduction will continue to increase by about $3 million per year through FY 2028-29, at which point the exemption would be fully phased in for an entire fiscal year. Between FY 2029-30 and FY 2038-39 (when the exemption would be fully phased in for an entire fiscal year under current law), the annual revenue reduction will grow smaller, and by FY 2038-39 the fiscal impact between current law and the accelerated phase in of the exemption would fall to zero. Relative to current law, accelerating the phase in of the exemption could result in reduced sales and/or use tax collections of at least $300 million.

Legislative Analyst: Patrick Morris
Fiscal Analyst: Jim Stansell

[1] It should be noted that the "as introduced" versions of the House and Senate Bills were identical. The Senate Bills, however, were amended in committee to change a potential error that would result in the current, calendar year 2017 maximum amount being rolled back to the $2,000 level.