Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 94 (Substitute S-2 as reported by the Committee of the Whole)
Senate Bill 95 (Substitute S-2 as reported by the Committee of the Whole
Sponsor: Senator Dave Hildenbrand (S.B. 94)
Senator Dave Robertson (S.B. 95)
Committee: Finance

CONTENT

Senate Bills 94 (S-2) and 95 (S-2) would amend the General Sales Tax Act and the Use Tax Act, respectively, to increase the dollar amount that is excluded from taxation when a motor vehicle or recreational vehicle is traded in for a new or used vehicle or recreational vehicle.

The Acts impose a tax of 6% on the sales price or purchase price of nonexempt personal property and services. The Acts specify what is and is not included in the definitions of "sales price" and "purchase price". Beginning December 15, 2013, subject to the phase-in schedule described below, the definitions do not include credit for the agreed-upon value of a motor vehicle or recreational vehicle (RV) used as part payment of the purchase price (or sales price) of a new motor vehicle or used motor vehicle or RV purchased from a dealer. These tax exclusions do not apply to leases or rentals.

The credit allowed under each Act is a set dollar amount or the agreed-upon value of the trade-in, whichever is less. Beginning December 15, 2013, the dollar amount was limited to $2,000. The amount increased to $2,500 on January 1, 2015, and to $3,000 on January 1, 2016, and must 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 $500 annual increase would apply through 2018. On January 1, 2019, the set dollar amount would be increased to $5,000. Beginning January 1, 2020, and each January 1 thereafter, the amount would increase by an additional $1,000. (Under Senate Bill 94 (S-2), this schedule would not apply to recreational vehicles, although Senate Bill 95 (S-2) refers to both motor vehicles and RVs.) Beginning on January 1 in the year in which the amount exceeded $14,000 (i.e., 2029), there would be no limitation on the agreed-upon value of the motor vehicle used as part payment.

The bills would exclude from the definitions of "sales price" and "purchase price", beginning January 1, 2018, credit for the agreed-upon value of a recreational vehicle used as part payment of the purchase price of a recreational vehicle purchased from a dealer.

MCL 205.51 (S.B. 94)
205.92 (S.B. 95)

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bills would reduce revenue to the State General Fund, State School Aid Fund, Comprehensive Transportation Fund, and constitutional revenue sharing to local units of government; the size of the reduction would increase each year through fiscal year (FY) 2027-28, and then decrease each year until FY 2037-38. The actual impact on each fund affected would depend on the relative impact of the exemption between sales taxes and use taxes, although it is expected that the majority of the impact from the bills would affect sales tax revenue.

Under current law, the portion of the price of a new vehicle exempted as a result of a trade-in is scheduled to increase by $500 per year from a maximum level of $2,000 in 2014 until the maximum exemption reaches $14,000 in FY 2037-38, after which the entire value of a trade-in will be eligible for an exemption. Beginning in 2019, the bills would increase the $500 increment to $1,000, effectively accelerating the impact. As a result, the $14,000 limit would be reached by FY 2027-28. (For recreational vehicles no limit would apply after December 31, 2017.) After FY 2027-28, the difference between the exemption under current law and the exemption under the bills would decrease, such that by FY 2037-38, the bills would have no fiscal impact.

Based on the estimates when the original legislation was enacted, the bills would reduce sales and use tax revenue by approximately $8.4 million in FY 2018-19, $17.7 million in FY 2019-20, and $28.7 million in FY 2020-21. As indicated above, the revenue reduction compared to current law would increase through FY 2027-28. If all of the impact lowered sales tax revenue, the bills would reduce General Fund revenue by approximately $1.1 million in FY 2018-19, $2.4 million in FY 2019-20, and $3.8 million in FY 2020-21; School Aid Fund revenue by approximately $6.3 million in FY 2018-19, $13.2 million in FY 2019-20, and $21.2 million in FY 2020-21; Comprehensive Transportation Fund revenue by approximately $300,000 in FY 2018-19, $600,000 in FY 2019-20, and $1.0 million in FY 2020-21; and constitutional revenue sharing to local units of government by approximately $800,000 in FY 2018-19, $1.8 million in FY 2019-20, and $2.9 million in FY 2020-21. To the extent that the bills reduced use tax revenue, two-thirds of any reduction would lower General Fund revenue and the remaining one-third would lower School Aid Fund revenue.

The actual impact would be affected by leasing rates and the number of transactions involving a trade-in. To the extent that leasing is higher or the number of transactions involving a trade-in is less than when the original estimates were made, the impact of the bills would be less. For example, using data from 2016, the bills would reduce combined sales and use tax revenue by $2.7 million in FY 2018-19, $5.6 million in FY 2019-20, and $8.1 million in FY 2020-21.

This analysis assumes that the language in Senate Bill 95 (S-2) is amended to eliminate the reference to recreational vehicles in the section that would establish the allowable amount of the exemption beginning on January 1, 2019.

Date Completed: 3-29-17 Fiscal Analyst: David Zin