Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bills 754 and 755 (as reported without amendment)
Sponsor: Senator Dave Hildenbrand
Committee: Finance

Date Completed: 2-18-14

RATIONALE

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. Subject to amendments enacted in 2013, the Acts' definitions of "sales price" and "purchase price" include credit for any trade-in, which means that the sales or use tax is imposed on the full price of the item purchased, rather than on the difference between the value of that item and the one traded-in. This struck many people as unfair, particularly in situations involving car sales, and it was pointed that many other states provide an allowance for a trade-in when the sales tax is calculated on motor vehicle purchases. In response, legislation was enacted in 2013 to exclude from the sales and use tax the value of a trade-in on a motor vehicle, recreational vehicle (RV), or a titled watercraft. In the case of a motor vehicle or RV, however, the tax exclusion is limited to the actual agreed-upon value of the trade-in or a specific dollar amount, whichever is less. The dollar amount currently is $2,000 and will remain at that level until January 1, 2015, when it will begin to increase in $500 annual increments until the amount exceeds $14,000. Because that will not occur until the year 2039, it has been suggested that the phase-in be accelerated.

CONTENT

Senate Bills 754 and 755 would amend the Use Tax Act and the General Sales Tax Act, respectively, to accelerate the schedule that excludes from taxation the value of a motor vehicle or recreational vehicle 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 2025, rather than 2039.

Beginning December 15, 2013, subject to the phase-in schedule described below, the Acts' definitions of "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 new vehicle dealer or used or secondhand vehicle dealer licensed under the Michigan Vehicle Code. These tax exclusions do not apply to leases or rentals.

Between December 15, 2013, and December 31, 2014, 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. Beginning January 1, 2015, and each subsequent January 1, the dollar amount is scheduled to increase by $500 until the year in which the limit exceeds $14,000 (i.e., 2039), when there will be no limit on the agreed-upon value excluded from taxation.

Under the bills, the dollar amount would remain $2,000 through December 31, 2014, and would increase to $5,000 on January 1, 2015. On January 1, 2016, and each subsequent January 1, the dollar amount would be increased by $1,000 until the year in which it exceeded $14,000 (i.e., 2025), when there would be no limit on the agreed-upon value.

As currently provided, during the phase-in, the amount excluded would be limited to the dollar amount *or* the actual agreed-upon value, whichever was less. Also, as currently provided, the scheduled increase in the dollar amount would not apply if Section 105d of the Social Welfare Act were repealed. (That section provides for the expansion of the Medicaid program pursuant to the Federal 2010 Patient Protection and Affordable Care Act.)

MCL 205.92 (S.B. 754)
205.51 (S.B. 755)

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

By adopting a tax-on-the-difference approach to vehicle sales, the legislation enacted in 2013 allows people to buy a new or used vehicle and avoid paying the sales or use tax on part of the value of a trade-in. This may give the some consumers the incentive they need to make a purchase, and help boost auto sales. The tax break not only benefits individuals and families, but also reduces the cost of doing business for companies that buy vehicles. The amount excluded from taxation, however, is relatively small, and tax-on-the-difference will not be fully implemented for another 25 years. By doubling the amount of a trade-in that is not taxed, beginning in 2015, the bills would accelerate the phase-in and make the tax relief more meaningful to purchasers.

Opposing Argument

When the tax-on-the-difference legislation was enacted in 2013, some people raised concerns about the loss of revenue that would result. It was pointed out, however, that the long phase-in period would mitigate the negative impact. Now, by proposing to shorten the phase-in period, the bills would accelerate the revenue loss.

Response: The tax relief enacted may generate increased economic activity, offsetting the loss of tax revenue. Expanding the tax break could have the same effect.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bills would reduce State and local unit revenue through FY 2037-38. In FY 2014-15, the bills would reduce State revenue by approximately $23.9 million, including a $19.5 million reduction to School Aid Fund revenue, a $1.2 million reduction in Comprehensive Transportation Fund revenue, and a $3.2 million reduction to General Fund revenue; and would lower local unit revenue by $2.7 million through reduced constitutional revenue sharing payments. Total State and local unit revenue losses would increase to $32.5 million in FY 2015-16 and $38.4 million in FY 2016-17. After FY 2024-25, the revenue losses relative to current law would begin declining, reaching zero in FY 2038-39.

Fiscal Analyst: David Zin