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BILL ANALYSIS

Senate Bills 126 and 127 (as reported without amendment)
Sponsor: Senator Dave Robertson
Committee: Finance

Date Completed: 3-7-11

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. The sales price or purchase price is the total amount of consideration paid or received, including cash, credit, property, and services. The Acts list various costs and charges that are included in the sales price or purchase price, and specifically refer to credit for any trade-in. This means that if a person purchases a new automobile, for example, and trades in a used vehicle, he or she must pay the sales or use tax on the full price of the new car. This strikes many people as unfair, or double taxation, because the tax originally was paid on the trade-in when it was purchased. The majority of other states reportedly provide for a trade-in allowance when the sales or use tax is calculated on motor vehicle purchases, imposing the tax on the difference between the value of the trade-in and the price of the vehicle bring purchased. It has been suggested that Michigan should take the same approach, and extend it to titled watercraft.

CONTENT

Senate Bills 126 and 127 would amend the Use Tax Act and the General Sales Tax Act, respectively, to exclude from taxation the value of a trade-in on a new or used motor vehicle or titled watercraft.

Specifically, the bills would amend the definitions of "purchase price" and "sales price" to exclude the agreed-upon value of a motor vehicle used as part payment of the purchase price of a new or used motor vehicle, or the agreed-upon value of a titled watercraft used as part payment of a new or used titled watercraft, if the agreed-upon value were separately stated on the invoice, bill of sale, or similar document given to the purchaser.

"New motor vehicle" would mean that term as 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).

MCL 205.92 (S.B. 126)
205.51 (S.B. 127)

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

Like the rest of the country, Michigan is recovering from a severe economic recession, although this State's heavy reliance on the motor vehicle manufacturing industry contributed disproportionately to Michigan's financial woes. As the Detroit 3 regain their footing, the State should do everything it can to boost auto sales and the overall economy.

According to information submitted to the Senate Finance Committee, the vast majority of other states—including all of those surrounding Michigan and in the Midwest—impose sales tax on the difference in vehicle purchases. Reportedly, people who have moved to Michigan from out of state, or who have friends or relatives living in other states, cannot understand why they have to pay tax on the full purchase price when trading in a car. For many or most people, buying a car is the second-biggest purchase they will make. Requiring them to pay tax on a trade-in is neither consumer friendly nor good for business, if it discourages people from making a purchase or leads them to buy a less expensive vehicle than they would otherwise.

By allowing people to buy a new or used vehicle and avoid paying the sales or use tax on the value of a trade-in, the bills could give consumers the incentive they need to make a purchase. This point-of-sale tax break not only would help financially strapped individuals and families, but also would reduce the cost of doing business for companies that buy vehicles. At the same time, increasing sales would benefit dealers, suppliers, and other businesses that are affected by motor vehicle manufacturing and sales, and could help improve the job market.

Supporting Argument

Extending tax on the difference to titled watercraft would help another industry that has been hurt by the poor economy. The watercraft in question can cost from thousands to millions of dollars, which means that the value of a trade-in also can fall in that range. According to Committee testimony, Michigan is the only Great Lakes state that does not have tax on the difference for watercraft sales. This raises a serious impediment to yacht sales in Michigan, since potential purchasers can easily buy or register their watercraft in a neighboring state, and avoid paying tax on a trade-in. Reportedly, this is exactly what happens in a significant number of transactions, resulting in a loss of business for this State's yacht brokers, marinas, and service people, as well as the surrounding communities that lose the tourism trade. The bills would remedy this by removing a disincentive to purchase and register titled watercraft in Michigan.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bills would reduce State sales and use tax revenue by approximately $241.2 million in FY 2011-12, the first full year the bills would be effective. The loss would reduce revenue to the School Aid Fund by approximately $172.3 million, the General Fund by $23.7 million, the Comprehensive Transportation Fund by $10.7 million, and local units of government (through constitutional revenue sharing) by $34.5 million.

The estimates assume that changes would occur in the distribution of sales. Because private sales between individuals would not qualify for the exemption, the bills would create an incentive for buyers to purchase from a dealer. As a result, the estimate assumes that the share of new vehicle transactions involving a trade-in would increase and average trade-in values would be affected. As a result, sales between private individuals are also assumed to decrease, lowering use tax revenue. The estimate further assumes that the reduced tax liability compared with current law would affect either the number and/or value of vehicles purchased.

Fiscal Analyst: David Zin

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