# Legislative Analysis

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## TAX BENEFITS FOR DONATED AUTOS

**House Bill 5653 as enrolled**
**Public Act 301 of 2004**
**Sponsor: Rep. Mike Nofs**

**House Bill 5463 as enrolled**
**Public Act 302 of 2004**
**Sponsor: Rep. David Robertson**

**Senate Bill 1001 as enrolled**
**Public Act 312 of 2004**
**Sponsor: Sen. Bill Hardiman**

**Senate Bill 1003 as enrolled**
**Public Act 313 of 2004**
**Sponsor: Sen. Tom George**

**House Committee: Tax Policy**
**Senate Committee: Finance**

**Second Analysis (12-31-04)**

***BRIEF SUMMARY:*** The bills would provide credits and exemptions from various taxes for donating a car to a charitable organization or purchasing a car donated to a charitable organization.

***FISCAL IMPACT:*** The bills would reduce use tax, sales tax, single business tax, and income tax revenue by an estimated $1 million to $2 million annually. Most of the revenue change would affect General Fund/General Purpose (GF/GP) revenue, while a small amount would affect School Aid Fund (SAF) revenue.

### *THE APPARENT PROBLEM:*

Several charitable organizations in the state, including Mel Trotter Ministries in Grand Rapids and several Goodwill Industries, operate a "Wheels to Work" program, whereby the charitable organization takes donated vehicles, has them repaired, and resells them below market value to individuals for whom the lack of reliable transportation is seen as a serious barrier to employment and self-sufficiency. While these programs have been successful in providing transportation to individuals in need, state tax law, particularly the sales and use taxes, can be a barrier to individuals who purchase donated vehicles. When an individual purchases a used vehicle from a charitable organization, he or she pays the sales tax (often the organization has a dealer license and, therefore, sells the vehicle at retail). Some view the imposition of the tax on purchasers as being burdensome and a disincentive in purchasing that vehicle.

### *THE CONTENT OF THE BILLS:*

**House Bill 5653 (Sales Tax)**

The bill would amend the General Sales Tax Act (MCL 205.54bb) to permit a "qualified organization" that is subject to the tax to exclude from including in its gross proceeds used to determine its tax liability, the sale of an "eligible automobile" to a "qualified recipient." In essence, the bill provides that the organization would not have to collect sales tax when selling the automobile.

**House Bill 5463 (Single Business Tax)**

The bill would amend the Single Business Tax Act (MCL 208.37g) to provide a nonrefundable credit equal to one-half of the fair market value of an automobile donated by a taxpayer to a "qualified organization" that intends to provide that automobile to a "qualified recipient". The value of the automobile would be the lesser of (1) the value as determined by the organization or (2) the value as determined in an appropriate appraisal guide published by the National Automobile Dealers Association. The credit would be capped at $100 per year, and would be available for tax years beginning after December 31, 2004 and prior to January 1, 2010. The bill is tie-barred to House Bill 5653

**Senate Bill 1001 (Use Tax Act)**

The bill would amend the Use Tax Act (MCL 205.94y) to specify that the act would not apply beginning on October 1, 2005 to the storage, use, or consumption of a "qualified automobile" that is provided to a "qualified recipient" by the Family Independence Agency or a charitable organization. To be exempt from taxation, the automobile would have to be inspected by a certified mechanic, insured, and registered to a qualified recipient. The bill is tie-barred to House Bill 5653.

**Senate Bill 1003 (Income Tax Act)**

The bill would amend the Income Tax Act (MCL 206.269) to provide a nonrefundable credit equal to one-half of the fair market value of an automobile donated by a taxpayer to a charitable organization that intends to provide that automobile to a "qualified recipient". The value of the automobile would be the lesser of (1) the value as determined by the charitable organization, or (2) the value as determined by an appropriate appraisal guide published by the National Automobile Dealers Association. The credit would be capped at $50 for a single return and $100 for a joint return, and would be available for tax years beginning after December 31, 2004 and prior to January 1, 2010. The bill is tie-barred to House Bill 5653.

Under each bill, a qualified recipient of the automobile would have to meet the following qualifications: (1) be receiving or be eligible for public assistance; (2) possess a valid Michigan operator's or chauffeur's license; (3) be financially capable of meeting any expenses related to the automobile, such as loan payments and insurance payments; (4) not have reasonable access to public transportation and have no other reliable means to commute to and from work other than the automobile; (5) have a demonstrated ability to maintain employment; and (6) if not currently employed for an average of 20 hours per week, need the automobile to accept a verified offer of employment for at least 20 hours per week, and if currently employed for at least 20 hours per week, need the automobile to accept a superior position.

***ARGUMENTS:***

***For:***

The tax credits and exemptions offered under this package of bills aim at encouraging the expansion of "Wheels to Work" programs offered in the state. Programs of this sort are particularly important in helping individuals obtain and retain gainful employment. Indeed, a November 2001 report by the Center on Budget and Policy Priorities notes, "[t]ransportation is frequently identified as a significant barrier to finding and maintaining employment for low-income families. Studies on families leaving welfare for work find that many do not own cars and do not have adequate transportation to and from work, child care, and other activities. Although employment may be plentiful in some regions, an increasing number of jobs are located in suburban areas that are inaccessible to workers who live in cities or rural communities. Public transportation – especially in rural areas – is often non-existent or inadequate. Even where public transit is available, it may be not be conducive to the 'off-hour' shifts that many low-wage jobs require. Public transportation also can be problematic when a parent's job and child care provider are located at some distance from each other."

To that end, the income tax and SBT tax credits will provide an incentive for individuals and businesses to donate an automobile for use in programs like "Wheels to Work". The use tax and sales tax exemptions are necessary to provide some tax relief to individuals who are receiving a vehicle through a "Wheels to Work" program, as they are individuals with a demonstrated financial need.

***Against:***

Notwithstanding the merits of the underlying cause, these credits and exemptions further erode the state's tax base. Rather than proliferating exemptions and credits that complicate the state tax code and shift tax burdens, the legislature and governor should work toward simplifying state tax laws and lower the overall rate, thereby providing tax relief to all taxpayers in the state.

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