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Senate Bill 201 (Substitute S-2 as reported)

Sponsor: Senator Alan Sanborn

Committee: Finance

CONTENT

The bill would amend the General Sales Tax Act to exclude from the sales tax the agreedupon value of all of the following, if the agreed-upon value were separately stated on the invoice, bill of sale, or similar document given to the purchaser:

- -- A titled watercraft used as partial payment of the purchase price of a new or used titled watercraft.
- -- A motor vehicle or trailer coach used as partial payment of the purchase price of a new or used motor vehicle or trailer coach.
- -- A piece of heavy earth-moving equipment used as partial payment of the purchase price of a new or used piece of heavy earth-moving equipment.
- -- A titled snowmobile used as partial payment of the purchase price of a new or used snowmobile.

Under the Act, except as otherwise provided, all people engaged in the business of making retail sales of tangible personal property must pay an annual tax equal to 6% of the sales price, which means the total amount of consideration, including cash, credit, property, and services, for which tangible personal property or services are sold, leased, or rented. The sales price includes the seller's cost of the property sold, various costs and charges specified in the Act, and credit for any trade-in. Under the bill, the sales price would include credit for any trade-in except as described above.

"New motor vehicle" would mean that term as defined in Section 33a of the Michigan Vehicle Code (a motor vehicle that is not and has not been a demonstrator, executive or manufacturer's vehicle, leased vehicle, or a used or second hand vehicle). "Heavy earth moving equipment" would mean industrial construction equipment that is self-propelled, weighs 10,000 pounds or more, and is designed and principally intended to move, transport, or reconfigure dirt, earth, soil, or other construction material at a construction site.

MCL 205.51 Legislative Analyst: Craig Laurie

FISCAL IMPACT

The bill would reduce sales tax revenue at least \$145.0 million on a full fiscal year basis given the current depressed level of motor vehicle sales. This bill would reduce the sales tax liability when an automobile, light truck, motorcycle, watercraft snowmobile, heavy equipment, or motor coach is purchased when the transaction includes trading in a like vehicle. This loss in sales tax revenue would affect the following budget areas: School Aid Fund revenue would decline \$106.3 million, Comprehensive Transportation Fund revenue would fall \$6.7 million, and General Fund/General Purpose revenue would decline \$7.8 million. In addition, revenue sharing payments to local governments would decline an estimated \$24.2 million.

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An example of how the provisions in this bill would change the sales tax liability on a new car purchase is as follows: Under current law, a person who purchases a new car for \$25,000 and trades in a used car valued at \$10,000 as part of the overall transaction, will have a sales tax liability equal to 6% of \$25,000 or \$1,500. Under this bill, the sales tax liability would be based on 6% of the difference between the price of the new vehicle (\$25,000) and the value of the traded-in used vehicle (\$10,000) or \$15,000 times 6%, which equals \$900. As a result, this bill would reduce the sales tax under this new car purchase example by \$600 or 40%.

It is anticipated that the impact of this bill would not make any meaningful improvement in motor vehicle sales because the savings to consumers would not be significant enough given the current very weak motor vehicle market. Motor vehicle manufacturers and dealers are already offering price incentives on new motor vehicles averaging about \$2,900 per vehicle to help bolster sales, but motor vehicle sales are still at historically low levels.

Some are claiming that the loss of revenue under this bill would not be as large as estimated because under the bill Michigan residents would no longer have an incentive to go to a neighboring state to purchase a motor vehicle in order to reduce their sales tax liability. However, the premise on which this argument is based – that Michigan residents can currently reduce their sales tax liability by purchasing a motor vehicle in another state – is not true. When a vehicle is purchased in another state and brought back to Michigan, the Michigan sales tax is assessed on that vehicle when it is registered in Michigan.

At the present time over 32 other states, including Illinois, Indiana, Ohio, and Wisconsin, provide some type of trade-in allowance when calculating the sales tax due on motor vehicle transactions.

Date Completed: 3-10-09 Fiscal Analyst: Jay Wortley

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.