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BILL ANALYSIS

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Senate Bill 201 (as introduced 2-5-09)
Sponsor: Senator Alan Sanborn
Committee: Finance

Date Completed: 3-5-09

CONTENT

The bill would amend the General Sales Tax Act to exclude from the definition of "sales price" the agreed-upon value of a titled watercraft or motor vehicle used as partial payment of the purchase price of a motor vehicle or watercraft, as applicable.

Under the Act, except as otherwise provided, all people engaged in the business of making sales at retail, by which ownership of tangible personal property is transferred for consideration, must pay an annual tax equal to 6% of the gross proceeds of the business, plus the penalty and interest if applicable, less deductions allowed by the Act.

The Act defines "gross proceeds" as "sales price". "Sales price" means the total amount of consideration, including cash, credit, property, and services, for which tangible personal property or services are sold, leased, or rented. 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, sales price would not include the agreed-upon value of a titled watercraft used as partial payment of the purchase price of a new motor vehicle 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. Sales price also would not include the agreed-upon value of a motor vehicle used as partial payment of the purchase price of a new or used motor vehicle if the agreed-upon value were separately stated on the invoice, bill of sale, or similar document given to the purchaser.

Sales price would continue to include credit for any trade-in except as provided in the bill.

"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).

MCL 205.51 Legislative Analyst: Craig Laurie

FISCAL IMPACT

The preliminary estimate is this bill would reduce sales tax revenue at least $140.0 million on a full fiscal year basis given the current depressed level of motor vehicle sales. This is the estimated cost of changing the basis of the sales tax calculation on motor vehicle purchases from the full transaction price to the price of the vehicle being purchased less the value of any vehicle being traded in as part of the overall transaction. The bill also would allow this change in the sales tax calculation when titled watercraft are traded in as part of new motor vehicle or used watercraft purchases. The fiscal impact of this watercraft trade-in provision is not known at this time. The loss in sales tax revenue from the trade-in of vehicles would affect the following budget areas: School Aid Fund revenue would decline $102.6 million, Comprehensive Transportation Fund revenue would fall $6.5 million, and General Fund/General Purpose revenue would decline $7.5 million. In addition, revenue sharing payments to local governments would decline an estimated $23.4 million.

As 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, has 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, the 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. At the present time, the industry-wide price incentives being offered on new motor vehicles average about $2,900 per vehicle and sales are still at historically low levels. The additional price reduction the bill proposes would probably not be large enough to convince consumers to purchase new vehicles.

At the present time, about 32 other states provide some type of trade-in allowance when calculating the sales tax due on motor vehicle transactions.

Fiscal Analyst: Jay Wortley

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