Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 126 (as reported without amendment)
Senate Bill 127 (Substitute S-5 as reported by the Committee of the Whole)
Sponsor: Senator Dave Robertson
Committee: Finance

CONTENT

Senate Bills 126 and 127 (S-5) 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, subject to a limit on the value of a trade-in vehicle under Senate Bill 127 (S-5).

The Use Tax Act and the General Sales Tax Act impose a tax of 6% on the purchase price or sales price of nonexempt personal property and services. The Acts' definitions of "purchase price" and "sales price" include credit for any trade-in.

Under the bills, "purchase price" and "sales price" would not include 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 the purchase price 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. Under Senate Bill 127 (S-5), this would apply with respect to the retail sale of a motor vehicle or titled watercraft that took place after June 30, 2012.

For purposes of the provision concerning a motor vehicle, Senate Bill 127 (S-5) would limit the agreed-upon value of a vehicle used as part payment to $2,500 between July 1 and December 31, 2012, increase the limit in $2,500 increments each year through 2017, and remove the limit in 2018.

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

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bills would reduce State sales and use tax revenue by an indeterminate amount. The loss would reduce revenue to the School Aid Fund, the General Fund, the Comprehensive Transportation Fund, and local units of government (through constitutional revenue sharing).

The analysis assumes 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, it is assumed 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 analysis further assumes that the reduced tax liability compared with current law would affect either the number and/or value of vehicles purchased.

Date Completed: 5-16-12

Fiscal Analyst: David Zin