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

BILL ANALYSIS

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

House Bill 5696 (Substitute S-1 as reported)
Sponsor: Representative Andrea LaFontaine
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bill would amend the General Sales Tax Act to exclude from taxation the value of a trade-in on a new or used motor vehicle, recreational vehicle, or titled watercraft, phasing in the exclusion for the value of a trade-in vehicle until the year 2022. (In effect, the sales tax would be imposed on the difference between the value of the watercraft or vehicle being purchased and the value of the trade-in, subject to the phase-in for a motor vehicle or RV.)

The Act imposes a tax of 6% on the sales price of nonexempt personal property and services. The Act's definition of "sales price" includes credit for any trade-in.

Under the bill, "sales price" would not include the agreed-upon value of a motor vehicle or recreational vehicle (RV) used as part payment of the purchase price of a new or used motor vehicle or RV, 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.

For a motor vehicle or RV, the portion of the agreed-upon value of a trade-in not subject to the tax would be limited to 10% in 2013 and would increase by 10-percentage-point increments through 2022. In 2022 and subsequent years, the entire agreed-upon value of the motor vehicle or RV used as part payment would be excluded from the sales tax.

The bill is tie-barred to Senate Bill 127, which would similarly amend the Act.

MCL 205.51 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Based on the level of vehicle sales forecast for FY 2012-13, the bill would reduce State sales tax revenue by approximately $13.4 million in FY 2012-13, lowering revenue to the School Aid Fund, the General Fund, the Comprehensive Transportation Fund, and constitutional revenue sharing payments to local units. Assuming an unchanged level of vehicle sales and vehicle prices, the total revenue loss would grow an additional $17.9 million per year, eventually reaching $179.2 million when fully phased in during FY 2021-22. In FY 2013-14, the first full fiscal year in which the sales-tax-on-the-difference would be effective, the bill would lower revenue to the School Aid Fund by approximately $23.1 million, the General Fund by $2.1 million, the Comprehensive Transportation Fund by $1.5 million, and local units of government (through constitutional revenue sharing) by $4.7 million. Assuming no changes in sales or prices, once the phase-in was complete, the bill would annually lower revenue to the School Aid Fund by approximately $131.7 million, the General Fund by $12.1

million, the Comprehensive Transportation Fund by $8.4 million, and local units of government (through constitutional revenue sharing) by $27.0 million. To the extent that vehicle prices and/or sales increase in later years from FY 2012-13 levels, the revenue loss would be larger.

The estimates assume that changes would occur in the distribution of sales. Because private sales between individuals would not qualify for the exemption, nor would leases, the bill would create an incentive for buyers to purchase from a dealer. As a result, the estimate assumes that the share of new vehicle purchase transactions involving a trade-in would increase and average trade-in values would be affected. As a result, leases and 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 the value of vehicles purchased.

Date Completed: 12-3-12 Fiscal Analyst: David Zin

Floor\hb5696