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BILL ANALYSIS

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House Bill 5696 (as passed by the House)
Sponsor: Representative Andrea LaFontaine
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 11-26-12

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, subject to a limit on the value of a trade-in vehicle in 2012, 2013, and 2014.

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 bill would limit the agreed-upon value of a vehicle used as part payment to the following:

-- $7,500 in 2012.
-- $10,000 in 2013.
-- $12,500 in 2014.

In 2015 and each subsequent year, there would be no limit on the agreed-upon value of a motor vehicle or RV used as part payment.

The bill would define "new motor vehicle" and "recreational vehicle" as those terms are defined in the Michigan Vehicle Code. ("New motor vehicle" means a motor vehicle that is not and has not been a demonstrator, executive or manufacturer's vehicle, or leased vehicle, or a used or second-hand vehicle. "Recreational vehicle" means a new or used vehicle that has its own motive power or is towed by a motor vehicle; is primarily designed to provide temporary living quarters for recreational, camping, travel, or seasonal use; complies with all applicable Federal vehicle regulations; and does not require a special highway movement permit.)

MCL 205.51

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Based on the level of vehicle sales forecast for FY 2012-13, if the bill were effective beginning December 1, 2012, it would reduce State sales tax revenue by approximately $151.3 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. The bill would lower revenue to the School Aid Fund by approximately $99.0 million, the General Fund by $28.4 million, the Comprehensive Transportation Fund by $5.6 million, and local units of government (through constitutional revenue sharing) by $18.2 million. Assuming an unchanged level of vehicle sales, the total revenue loss under the bill would grow to $204.7 million in FY 2013-14, $218.0 million in FY 2014-15, and $224.3 million per year in FY 2015-16 and later years. 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 the number and/or value of vehicles purchased.

Fiscal Analyst: David Zin

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