

Legislative Analysis



EXEMPTING MANUFACTURER REBATES FROM PURCHASE PRICE/SALES PRICE

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4939 as introduced
Sponsor: Rep. John N. Damoose

Analysis available at
<http://www.legislature.mi.gov>

House Bill 4940 as introduced
Sponsor: Rep. Joe Tate

Committee: Tax Policy
Complete to 6-8-21

SUMMARY:

House Bills 4939 and 4940 would amend the General Sales Tax Act and the Use Tax Act, respectively, to exempt manufacturer rebates on motor vehicles from the *sales price* (in the Sales Tax Act) or *purchase price* (in the Use Tax Act), beginning January 1, 2022.

Sales price is defined in the Sales Tax Act as the total amount of consideration, including cash, credit, property, and services, for which tangible personal property or services are sold, leased, or rented, valued in money, whether received in money or otherwise, and applies to the measure subject to sales tax.

Purchase price is defined in the Use Tax Act as the total amount of consideration paid by the consumer to the seller, including cash, credit, property, and services, for which tangible personal property or services are sold, leased, or rented, valued in money, whether received in money or otherwise, and applies to the measure subject to use tax.

Both definitions also list several categories that are *included* in the term and several categories that are *excluded*. Manufacturer rebates would be added to the latter list.

Effectively, this would reduce the sales tax or use tax paid by purchasers, and thus collected by the state, since both taxes would be calculated based on the amount paid after the manufacturer rebate is applied, not on the initial list price of the motor vehicle. (See **Background**, below.)

The bill would hold the State School Aid Fund harmless from the reduction by requiring the person who applies the manufacturer rebate to report the amount of the rebate and other applicable information to the Department of Treasury and requiring Treasury to reimburse the School Aid Fund for the revenue lost.

HB 4939: MCL 205.51 and 205.75
HB 4940: MCL 205.92 and 205.111

BACKGROUND:

The Dealer Manual, produced by the secretary of state to provide dealers with information about the requirements of the Michigan Vehicle Code and other statutes, presents the following description of the current tax treatment of manufacturer rebates:¹

Manufacturer Rebates. Tax is due on rebates from manufacturers. The rebate cannot be subtracted from the vehicle purchase price when computing sales tax. (It is not a discount offered by the seller.) This rule applies even when credit is given at the time of sale and the owner will not receive a rebate check in the mail.

FISCAL IMPACT:

Because incentives, specifically rebates, offered by auto manufacturers when purchasing a new vehicle vary so widely in value, as do the vehicles eligible for a rebate, exempting the value of the rebate from the sales price of a new vehicle would reduce sales and use tax revenues by an indeterminate amount.

Based on projected 2022 light vehicle sales and historic rebate amounts, the estimated revenue reduction would be about \$30.9 million on a full-fiscal-year basis. Because the bills contain language to prevent any of the revenue reduction from affecting the School Aid Fund, the bulk of any reduction would be borne by the general fund. However, revenues accruing to the Comprehensive Transportation Fund and local revenue sharing to cities, villages, and counties would also decline.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

¹ https://www.michigan.gov/documents/sos/Dealer_Manual_Chapter_8_186065_7.pdf