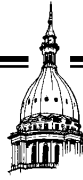




Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 126 (as passed by the Senate)
Senate Bill 127 (Substitute S-5 as passed by the Senate)
Sponsor: Senator Dave Robertson
Committee: Finance

Date Completed: 5-21-11

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 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.

The bills would define "new motor vehicle" would mean that term as defined in the Michigan Vehicle Code (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).

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

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Based on the level of vehicle sales forecast for FY 2012-13, the bills would reduce State sales and use tax revenue by approximately \$12.8 million in FY 2011-12, lowering revenue to the School Aid Fund, the General Fund, and the Comprehensive Transportation Fund. Because revenue sharing payments made to local units during FY 2011-12 are based on July-June collections, constitutional revenue sharing payments during FY 2011-12 would not be affected by the bills.

In FY 2012-13, the first full year the bills would be effective, they would reduce State sales and use tax revenue by approximately \$90.9 million. The bills would lower revenue to the School Aid Fund by approximately \$59.5 million, the General Fund by \$17.1 million, the Comprehensive Transportation Fund by \$3.4 million, and local units of government (through constitutional revenue sharing) by \$10.9 million. The revenue loss under the bills would grow to \$144.0 million in FY 2013-14, \$185.7 million in FY 2014-15, \$211.0 million in FY 2015-16, \$218.2 million in FY 2016-17, and \$221.0 million in FY 2017-18. 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, the bills would create an incentive for buyers to purchase from a dealer. As a result, the estimate assumes 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 estimate further assumes that the reduced tax liability compared with current law would affect either the number and/or value of vehicles purchased.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.