



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 991 (as enacted)
Sponsor: Senator Dave Robertson
Senate Committee: Finance
House Committee: Commerce and Trade

PUBLIC ACT 515 of 2016

Date Completed: 1-18-17

RATIONALE

The General Sales Tax Act imposes a tax of 6% on the sales price of nonexempt personal property. The sales price is the total amount of consideration, including cash, credit, property, and services, for which tangible personal property or services are sold, leased, or rented. The sales price also includes various costs and charges specified in the Act, as well as credit for any trade-in. For example, previously this meant that if a person purchased a new automobile and traded in a used one, he or she had to pay sales tax on the full price of the new car. Some considered this practice unfair, because the sales tax originally was paid on the trade-in vehicle when it was purchased. Other states provided for a trade-in allowance when the sales tax was calculated on motor vehicle purchases, imposing the tax on the difference between the value of the trade-in and the price of the vehicle being purchased. Therefore, Public Acts 160 and 234 of 2013 amended the General Sales Tax Act and Use Tax Act, respectively, to phase-in this approach to the taxation of motor vehicle, recreational vehicle, and titled watercraft sales.

Similarly, it was suggested that credit for a core charge attributable to a recycling fee, deposit, or disposal fee for a motor vehicle part or battery should be exempt from the sales tax. Currently, when a core (such as a starter) is exchanged or returned for a credit, the sales tax still is applied to the credit, which some people believe is unfair.

CONTENT

The bill amends the General Sales Tax Act to exclude from the definition of "sales price", beginning January 1, 2017, a core charge attributed to a recycling fee, deposit, or disposal fee for a motor vehicle or recreational vehicle part or battery, if the recycling fee, deposit, or disposal fee is separately stated on the invoice, bill of sale, or similar document given to the purchaser.

The bill will take effect on March 29, 2017.

MCL 205.51

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The policy of subjecting credit for core charges to sales tax is unfair. The following example illustrates the current practice. If a repair facility paid \$325 for a remanufactured starter that had a core charge of \$50, the total cost of the transaction to a customer (excluding labor fees) would be as shown in [Table 1](#).

Table 1

Item	Price
Starter	\$325.00
Sales Tax on Starter	\$19.50
Core Charge	\$50.00
Sales Tax on Core Charge	\$3.00
Total	\$397.50

If the core were exchanged or returned, the difference in cost to a customer in Michigan and in another state that exempts a credit for a core charge from sales tax would be as shown in Table 2 (assuming a 6% sales tax).

Table 2

Item	Michigan	Other State
Starter	\$325.00	\$325.00
Sales Tax on Starter	\$19.50	\$19.50
Core Charge	\$0.00	\$0.00
Sales Tax on Core Charge	\$3.00	\$0.00
Total	\$347.50	\$344.50

The bill continues the theme of fairness present in the current policy of tax on the difference in sales of automobile and watercraft involving trade-ins. A customer should be taxed on a core if he or she chooses to save it, but the full amount paid for a core, including sales tax, should be refunded if it is exchanged or returned. Reportedly, Michigan is the only state that does not exclude from sales tax credit for core charges.

Opposing Argument

The bill creates an additional exemption to the General Sales Tax Act, which will further erode the tax base and result in a negative fiscal impact on the State. In addition, the bill is strictly focused on motor and recreational vehicle parts and batteries, but there must be other industries that would like to remove sales tax from some part of their business model. It is not clear why the auto parts industry is targeted by the bill.

Response: Evidently, the taxation of credit on core charges has caused some confusion among insurers that pay claims on collisions, because of the different tax treatment in the other states.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill will reduce General Fund, School Aid Fund, Comprehensive Transportation Fund, and local unit revenue by an unknown and potentially significant amount. The actual impact will depend on the amount of core charges and the extent to which customers supply a core as part of a transaction.

According to the 2012 Economic Census, retail sales of automobile parts, accessories, and tires in Michigan totaled \$2.5 billion. The vast majority of these sales would not represent sales in which a core charge would be involved. However, for every 1% of total sales subject to the bill, the bill will reduce sales tax revenue by \$1.5 million. Thus, if core charges represented 5% of total sales, the bill would reduce sales tax revenue by \$7.5 million per year.

Sales tax revenue, on sales that will be affected by the bill, is distributed such that the School Aid Fund receives 73.3% of the revenue, local units receive 10% of the revenue through constitutional revenue sharing, the Comprehensive Transportation Fund receives approximately 4.65%, and the remaining revenue is directed to the General Fund. Thus, every \$1.5 million of reduced sales tax revenue will lower School Aid Fund revenue by \$1.1 million, local unit revenue by \$150,000, Comprehensive Transportation Fund revenue by \$70,000, and General Fund revenue by \$180,000.

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.