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Senate Bills 754 and 755 (as introduced 2-5-14)  
Sponsor: Senator Joe Hune (S.B. 754)  
Senator Dave Hildenbrand (S.B. 755)  
Committee: Finance

Date Completed: 2-12-14

### **CONTENT**

**Senate Bills 754 and 755 would amend the Use Tax Act and the General Sales Tax Act, respectively, to accelerate the schedule that excludes from taxation the value of a motor vehicle or recreational vehicle (RV) traded in for a new or used vehicle or RV; the bills would double the annual increase in the maximum dollar amount that may be excluded, and provide for no limit beginning in 2025, rather than 2039.**

The Acts impose a tax of 6% on the purchase price or sales price of nonexempt personal property and services. Except as provided for the trade-in value of a motor vehicle or RV (or a titled watercraft), the Act's definitions of "purchase price" and "sales price" include credit for any trade-in (imposing tax on the full price rather than on the difference in value between the item purchased and the one traded-in).

Beginning December 15, 2013, subject to the phase-in schedule described below, "purchase price" and "sales price" do not include credit for the agreed-upon value of a motor vehicle or RV used as part payment of the purchase price of a new or used motor vehicle or RV bought from a new vehicle dealer or used or secondhand vehicle dealer licensed under the Michigan Vehicle Code. (That is, to the extent allowed, the value of the trade-in is not subject to the use or sales tax.) These tax exclusions do not apply to leases or rentals.

Beginning December 15, 2013, the agreed-upon value of a motor vehicle or RV used as part payment is limited to \$2,000 or the actual agreed-upon value of the vehicle or RV, whichever is lower. The dollar amount is scheduled to increase each January 1 by \$500 until the year in which the limit exceeds \$14,000 (i.e., 2039), when there will be no limit on the agreed-upon value excluded from taxation.

Under the bills, the dollar amount would remain \$2,000 through December 31, 2014, and would increase to \$5,000 on January 1, 2015. On January 1, 2016, and each subsequent January 1, the dollar amount would be increased by \$1,000 until the year in which it exceeded \$14,000 (i.e., 2025), when there would be no limit on the agreed-upon value.

As currently provided, during the phase-in, the amount excluded would be limited to the dollar amount *or* the actual agreed-upon value, whichever was less. Also, as currently provided, the scheduled increase in the dollar amount would not apply if Section 105d of the Social Welfare Act were repealed. (That section provides for the expansion of the Medicaid program pursuant to the Federal 2010 Patient Protection and Affordable Care Act.)

MCL 205.92 (S.B. 754)  
205.51 (S.B. 755)

Legislative Analyst: Suzanne Lowe

## **FISCAL IMPACT**

The bills would reduce State and local unit revenue through FY 2037-38. In FY 2014-15, the bills would reduce State revenue by approximately \$23.9 million, including a \$19.5 million reduction to School Aid Fund revenue, a \$1.2 million reduction in Comprehensive Transportation Fund revenue, and a \$3.2 million reduction to General Fund revenue; and would lower local unit revenue by \$2.7 million through reduced constitutional revenue sharing payments. Total State and local unit revenue losses would increase to \$32.5 million in FY 2015-16 and \$38.4 million in FY 2016-17. After FY 2024-25, the revenue losses relative to current law would begin declining, reaching zero in FY 2038-39.

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.