MEMORANDUM

HOUSE FISCAL AGENCY

DATE: May 21, 2013

TO: House Committee on Transportation and Infrastructure

FROM: William E. Hamilton

RE: Vehicle Registration Taxes

Overview

There are two primary sources of dedicated state transportation revenue: motor fuel taxes, and vehicle registration taxes. Discussions of transportation funding issues generally focus on motor fuel taxes, in particular the motor fuel tax on gasoline. However, since FY 2006-07, registration tax revenue has consistently outpaced revenue from the motor fuel tax on gasoline. See **Figure 1** on page 3.

Registration taxes, established in the Michigan Vehicle Code (Public Act 300 of 1949), are assessed and collected when vehicle owners obtain new registration license plates, or renewal registration tabs, from the Michigan Secretary of State.

Chapter II of the Michigan Vehicle Code, MCL 257.201 et seq, provides for the registration of motor vehicles and gives authority for the vehicle registration program to the Michigan Secretary of State.

Vehicle registration taxes can be considered more of a "retail" tax as compared to the motor fuel taxes. Registration taxes are collected by the Secretary of State primarily at 131 "retail" branch offices, as well as through on-line and mail-in processing. Section 205 of the Michigan Vehicle Code requires the Secretary of State to maintain an office in the state capitol complex, at least one branch office in each county, and branch offices within certain cities.

Article IX, Section 9 of the 1963 State Constitution dedicates motor vehicle registration tax revenue for transportation purposes. These constitutional requirements are put into effect by statute, 1951 PA 51 (Act 51). Registration tax revenue is credited to the Michigan Transportation Fund (MTF), and distributed to other state transportation funds and programs, and to local road agencies, in accordance with the provisions of Act 51.

Registration Tax Revenue

Table 1 shows a thirty-year history of registration transactions and registration tax revenue. As can be seen from the table, total transactions over the period have increased by approximately 1.0 million, a 14.5% increase, while registration tax revenue has increased by $600.5 million, a 252.6% increase. However, more recently, registration transactions have declined in seven of the last ten years, and registration tax revenue has declined in four of the last ten years.

Registration tax revenue peaked in FY 2003-04 at $978.5 million, although that year was atypical in that it included approximately $90.0 million in one-time revenue associated with the change from annual to permanent trailer registrations. Baseline registration revenue, excluding FY 2003-04, peaked in FY 2006-07 at $907.8 million. Average registration tax revenue for the last five fiscal years,

FY 2007-08 through FY 2011-12, was $886.2 million. Registration tax revenue in FY 2011-12 was $905.5 million.[1] See **Figure 2** on page 5

Registration Tax Rates and Tax Basis

Vehicle registration taxes are established under Chapter VII of the Michigan Vehicle Code, and primarily within Section 801 of that Chapter. These taxes are collected by the Michigan Secretary of State when people obtain new registration plates or renew plate registrations.

There are in fact a number of registration taxes. Section 801 of the Michigan Vehicle Code, as well as certain other sections, establish a number of different registration tax categories, with different tax bases and different tax rates. The applicable tax for any vehicle is a function of a number of factors – vehicle model year, the list price of the vehicle, the weight of the vehicle, the use of the vehicle, and, in some cases, some characteristic of the vehicle owner.

The complexity of the current registration tax system makes it hard to estimate the impact of any proposed changes to tax rates. The complexity also increases opportunities for tax-avoidance, increases administrative errors, and increases the administrative costs of collecting the tax.[2]

The largest registration tax category is the ad valorem tax on passenger cars, model year 1984 and newer, motor homes, pickup trucks, and vans. The tax rates for this category are based on manufacturer vehicle list price. While the tax rates for these vehicles have not changed since 1984, revenue from this ad valorem tax has tended to increase as vehicle list price (the tax base) has increased over time.

The registration tax for most large trucks – trucks in excess of 8,000 lbs. Gross Vehicle Weight (GVW) – is based on Elected GVW. For this tax category, both the tax rate and tax base are effectively fixed. The tax rates for the Elected GVW category have not changed since 1997. And truck GVW (the tax base) is effectively fixed by state truck weight limitations.

As described in **Exhibit 1**, on page 6, there have been three major registration-related amendments to the Michigan Vehicle Code since 1983.

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[1] Note that the amounts shown for vehicle registrations include revenue from title fees collected under the authority of Section 257.217 of the Michigan Vehicle Code. Although revenue from vehicle title fees does not appear to be constitutionally restricted, title fee revenue has historically been credited to the MTF. Title fees generate approximately $30.0 million per year.

[2] See Office of Auditor General Audit 231-0200-08, May 2009, Performance Audit of the Michigan Secretary of State, Cash Receipts and Branch Office Customer Service. http://audgen.michigan.gov/finalpdfs/08_09/r231020008.pdf

Figure 1
MTF Revenue History Detail
Motor Fuel and Vehicle Registration Taxes

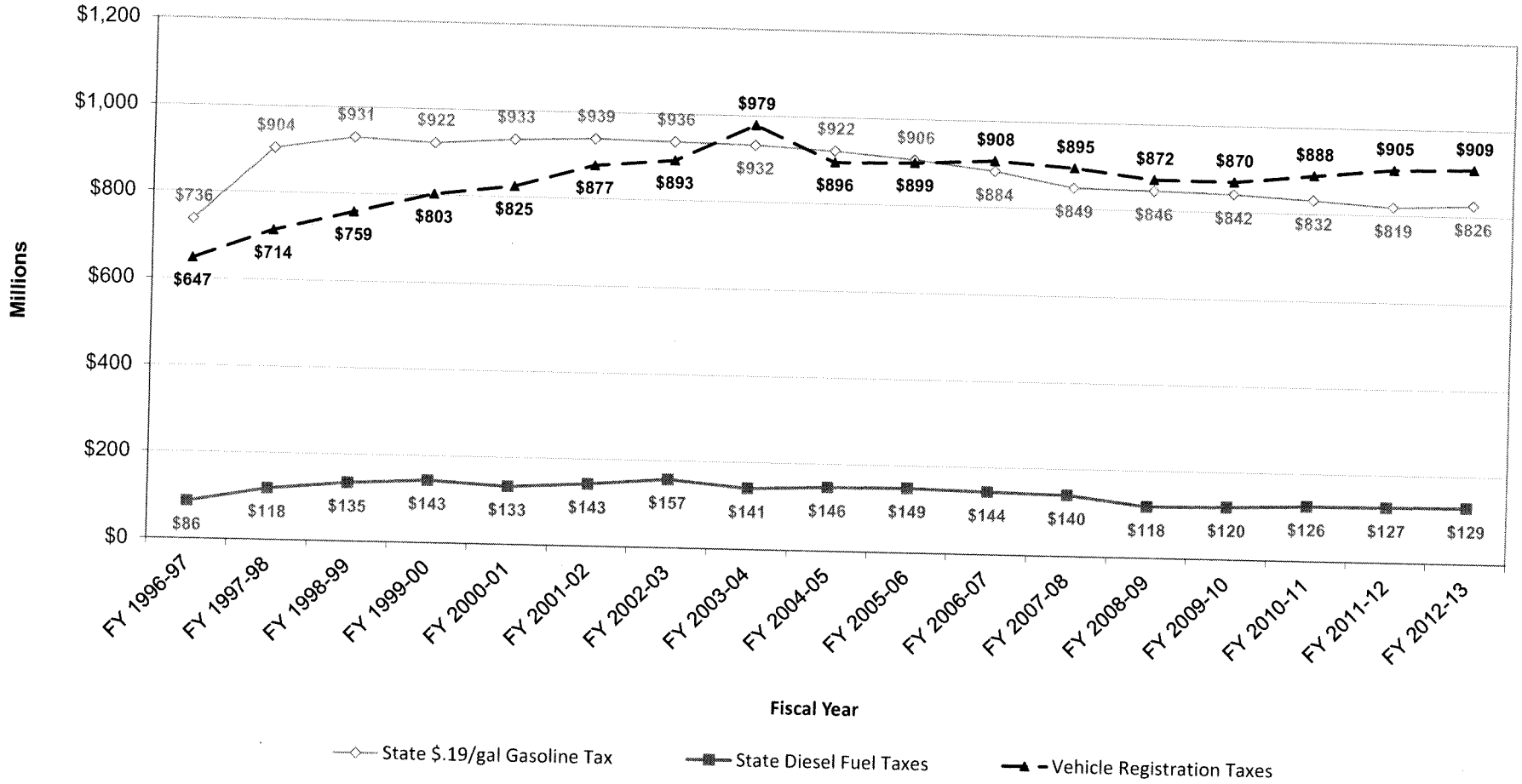

Table 1
Michigan Vehicle Registrations
Thirty-Year Transaction and Revenue History

Year	Total Plate Transactions	Difference Prior Year #	Percent Change	Registration Tax Revenue	Difference Prior Year $	Percent Change	Revenue % Change Compared to Transaction % Change
1983	7,170,009	(9,307)	-0.13%	$237,724,622	$24,193,614	11.33%	11.46%
1984	7,239,982	69,973	0.98%	255,862,631	18,138,009	7.63%	6.65%
1985	7,613,439	373,457	5.16%	286,683,713	30,821,082	12.05%	6.89%
1986	7,731,703	118,264	1.55%	299,980,206	13,296,493	4.64%	3.08%
1987	7,899,197	167,494	2.17%	315,941,648	15,961,442	5.32%	3.15%
1988	8,016,022	116,825	1.48%	363,183,844	47,242,196	14.95%	13.47%
1989	8,034,293	18,271	0.23%	397,038,510	33,854,666	9.32%	9.09%
1990	8,113,037	78,744	0.98%	409,819,989	12,781,479	3.22%	2.24%
1991	8,158,657	45,620	0.56%	420,162,272	10,342,283	2.52%	1.96%
1992	8,237,762	79,105	0.97%	441,775,914	21,613,642	5.14%	4.17%
1993	8,338,188	100,426	1.22%	461,490,637	19,714,723	4.46%	3.24%
1994	8,557,796	219,608	2.63%	492,050,220	30,559,583	6.62%	3.99%
1995	8,683,193	125,397	1.47%	523,579,795	31,529,575	6.41%	4.94%
1996	9,072,739	389,546	4.49%	563,513,809	39,934,014	7.63%	3.14%
1997	9,128,800	56,061	0.62%	593,994,084	30,480,275	5.41%	4.79%
1998	9,275,870	147,070	1.61%	664,526,913	70,532,829	11.87%	10.26%
1999	9,506,006	230,136	2.48%	709,128,908	44,601,995	6.71%	4.23%
2000	9,703,991	197,985	2.08%	757,426,707	48,297,799	6.81%	4.73%
2001	9,757,968	53,977	0.56%	776,742,152	19,315,445	2.55%	1.99%
2002	9,886,498	128,530	1.32%	824,832,980	48,090,828	6.19%	4.87%
2003	9,925,534	39,036	0.39%	847,504,982	22,672,002	2.75%	2.35%
2004	9,691,986	(233,548)	-2.35%	934,299,437	86,794,455	10.24%	12.59%
2005	8,695,195	(996,791)	-10.28%	862,073,602	(72,225,835)	-7.73%	2.55%
2006	8,506,283	(188,912)	-2.17%	864,242,867	2,169,265	0.25%	2.42%
2007	8,545,661	39,378	0.46%	875,341,967	11,099,100	1.28%	0.82%
2008	8,287,413	(258,248)	-3.02%	848,719,710	(26,622,257)	-3.04%	-0.02%
2009	8,230,616	(56,797)	-0.69%	837,087,931	(11,631,779)	-1.37%	-0.69%
2010	8,194,367	(36,249)	-0.44%	838,540,486	1,452,555	0.17%	0.61%
2011	8,222,654	28,287	0.35%	823,343,157	(15,197,329)	-1.81%	-2.16%
2012	8,208,000	(14,654)	-0.18%	838,214,130	14,870,973	1.81%	1.98%
Change from 1983 to 2012		**1,037,991**	14.5%		**$600,489,508**	252.6%	

Source: Michigan Secretary of State, "Summary of Fees Collected" Annual Report
Note: Registrations include cars, trucks, trailers, and motorcycles.

Figure 2
MTF Revenue History
Vehicle Registration Tax History

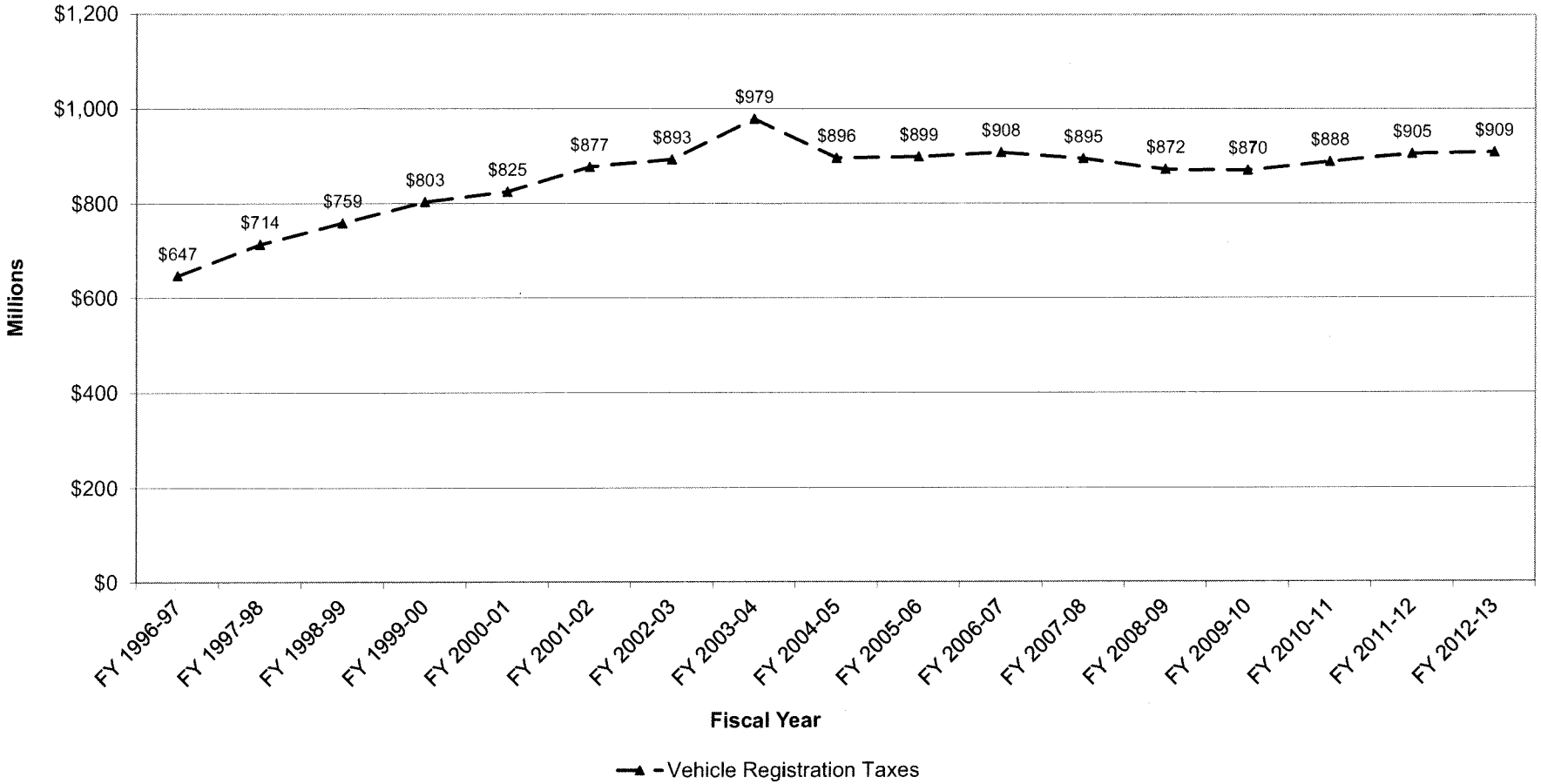

Exhibit 1

Registration-related amendments to the Michigan Vehicle Code since 1983

Public Act 165 of 1983

- Replaced a weight-based registration tax for passenger cars with an ad valorem tax – a tax based on the manufacturer's vehicle's list price – for model year 1984 and newer vehicles registered after September 30, 1983.

Although the tax rates established in PA 165 of 1983 have not been changed, as the price of new vehicles increases, more cars fall into the higher tax categories.

Public Act 80 of 1997

- Increased rates for large trucks under Section 801(1)(k) by 30%.
- Moved pickup trucks and vans from the weight schedule to the ad valorem tax schedule.

This bill was part of the transportation bill package that included the increase in the motor fuel tax on gasoline.

Public Act 152 of 2003

- Changed the annual trailer registration tax to a permanent trailer tax – providing a one-time, $90.0 million increase in MTF revenue in 2004 as trailers were renewed at the new, higher, permanent registration tax rates. Revenue from trailer registrations fell in subsequent years.

- Created the Transportation Administration Collection Fund (TACF) and reclassified a number of service fees that had previously been credited to the MTF, for credit to the TACF.

- Created a new $3.00 title application service fee that was distributed in part to the TACF and in part to a new Traffic Law Enforcement Safety Fund for Michigan State Police programs. The Legislature subsequently dedicated two additional service fees to the TACF (registration transfer, and expedited title fees) which had not been included in PA 152 as originally enacted.

At the same time that PA 152 redirected some service fees from the MTF to the TACF, **Public Act 151 of 2003** amended Act 51 to limit the MTF reimbursement of Department of State MTF collection costs to $20.0 million. Taken together, the two acts provided for the Department of State's costs of collecting registration taxes from two sources: TACF revenue (from the TACF service fees), and an MTF interdepartmental grant (IDG) not to exceed $20.0 million.

The original fiscal analysis of the two-bill package indicated that the bills would increase baseline MTF revenue by $4.1 million annually. The bills also effectively reduced the MTF share of Department of State operations by $16.7 million by providing that much in new service fee revenue to the TACF annually. In addition, by capping restricted fund revenue used to support Department of State operations, the bills effectively increased General Fund support for the department, and reduced MTF support.

Vehicle Registration Tax Analysis

Pages 10 through 29 present a detailed analysis of the various registration tax categories established in Section 801. **Page 30** describes Section 803 (Manufacturer/Transporter/Dealer plates), and page 31 describes Section 801g (International Registration Plan plates).

Page 32 discusses issues related to the transfer of registration plates.

Pages 33 through 34 discuss tax expenditures in the Michigan Vehicle Code.

Page 35 discusses the terms "taxes" and "fees" as used in the Michigan Vehicle Code.

Pages 36 and 37 include a table summarizing the major registration tax categories, the basis of taxation, and the number of valid registrations in each category as of January 2013.

Pre-1984 Passenger Car Weight Schedule

Includes motor homes, pickup trucks, and vans less than 8,001 lbs.

Basis of Taxation
Schedule of empty weights

Michigan Vehicle Code Section 801(1)(a)
For a motor vehicle, including a motor home, except as otherwise provided, and a pickup truck or van that weighs not more than 8,000 pounds, except as otherwise provided, according to the following schedule of empty weights:

Empty weights	Tax
0 to 3,000 pounds	$ 29.00
3,001 to 3,500 pounds	32.00
3,501 to 4,000 pounds	37.00
4,001 to 4,500 pounds	43.00
4,501 to 5,000 pounds	47.00
5,001 to 5,500 pounds	52.00
5,501 to 6,000 pounds	57.00
6,001 to 6,500 pounds	62.00
6,501 to 7,000 pounds	67.00
7,001 to 7,500 pounds	71.00
7,501 to 8,000 pounds	77.00
8,001 to 8,500 pounds	81.00
8,501 to 9,000 pounds	86.00
9,001 to 9,500 pounds	91.00
9,501 to 10,000 pounds	95.00
over 10,000 pounds	
$ 0.90 per 100 pounds of empty weight	

Analysis
The subdivision provides for the annual revision of these rates based on a calculation of state personal income. However, the department does not revise these rates.

The subdivision also provides for a 50% reduction in the tax for vans owned by an individual who uses a wheelchair or someone who transports a member of his or her household who uses a wheelchair.

This had been the primary registration tax category for passenger cars prior to 1984 when registration taxes for those vehicles were changed to ad valorem taxes under Section 801(1)(p).

Total Registrations (as January 2013)
Department records indicate there are 59,227 unexpired plates in this category.

Trailer Coaches

Trailers designed as temporary living quarters (campers)

Michigan Vehicle Code Section 801(1)(b)

For a trailer coach attached to a motor vehicle, the tax shall be assessed as provided in subdivision (l). [Subdivision (l) is the subdivision for trailer registrations.]

The second sentence of this subdivision appears to be a misplaced statement about the liability of certain trailer coaches to property taxes: *A trailer coach not under 1959 PA 243, MCL 125.1035 to 125.1043,* [an act dealing with the regulation of trailer coach parks] *and while located on land otherwise assessable as real property under the general property tax act, 1893 PA 206, MCL 211.1 to 211.155, if the trailer coach is used as a place of habitation, and whether or not permanently affixed to the soil, is not exempt from real property taxes.*

Basis of Taxation

Same as trailers under Section 801(1)(l).

Farm Trucks/Wood Harvesters/Milk Trucks

Michigan Vehicle Code Section 801(1)(c), and Section 801(1)(d)
This section applies to:

> *Farm trucks* – road tractor, truck, truck tractor owned by a farmer used exclusively in connection with farm operation, or to transport a farmer's family.
>
> *Wood harvesters* – used exclusively to haul raw wood to processing (not processed lumber or Christmas trees).
>
> *Milk trucks* – used exclusively for hauling milk from farm to first point of delivery.

Basis of Taxation
74 cents per hundredweight (empty truck)

Analysis
Section 801a directs the department to compute the applicable tax for portable feed mills and mixers used to grind grain on a farm by using the weight of the vehicle cab and chassis only.

Section 802(10) provides for the issuance of partial year "special registration" farm plates at 1/10 to regular registration tax times the number of months requested.

The tax schedule used in the Department of State branch offices includes 80 separate weight categories beginning with vehicles weighing from 2,051 lbs. to 2,150 lbs., and increasing in hundredweight increments up to 9,950 lbs. The tax for vehicles weighting over 9,950 lbs. has to be calculated by the branch office employee.

It is not clear how the department verifies that the vehicle owner qualifies for the farm or log truck plate. In addition, it is not clear to what extent police agencies enforce the requirements of this subdivision.

Section 216 of the Michigan Vehicle Code exempts from registration requirements "*implements of husbandry*." Public Act 589 of 2012 amended the definition of *implements of husbandry* to include "*a vehicle or trailer in use for the exclusive function of serving agricultural, horticultural, or livestock operations*." This amended definition would appear to expand the number of farm vehicles exempt from registration requirements.

Total Registrations (as January 2013)

Farm plates 38,342
Log plates..... 2,334
Milk hauling trucks..... 150

Hearse or Funeral Ambulance

Michigan Vehicle Code Section 801(1)(e)

Basis of Taxation
$1.17 per hundredweight (empty weight)

Total Registrations (as January 2013)
Department records indicate that there are 309 Hearse/Funeral Ambulance plates.

Vehicles Owned by the State, State Institutions, a Municipality, Volunteer Fire Department, Nonpublic, Nonprofit Private College or University

Michigan Vehicle Code Section 801(1)(f)

Basis of Taxation
$5.00 per plate.

Analysis
These plates are authorized under Section 224(3). That section provides an indefinite use plate – valid until the plate is "worn out or is illegible. Section 801(1)(f) also indicates that these plates are valid until June 30th of the year in which the Secretary of State reissues new registration plates for all vehicles.

Total Registrations (as January 2013)
Department records indicate that there were 99,488 valid plates.
The department issues approximately 9,000 plates in this category each year.

Non-profit School, Senior Center

Buses and vans of certain schools, including church Sunday school, non-profit youth organization, rehabilitation facility, or any senior center motor vehicle

Michigan Vehicle Code Section 801(1)(g)

For a bus including a station wagon, carryall, or similarly constructed vehicle owned and operated by a nonprofit parents' transportation corporation used for school purposes, parochial school or society, church Sunday school, or any other grammar school, or by a nonprofit youth organization or nonprofit rehabilitation facility; or a motor vehicle owned and operated by a senior citizen center, $10.00, if the bus, station wagon, carryall, or similarly constructed vehicle or motor vehicle is designated by proper signs showing the organization operating the vehicle.

Basis of Taxation

$10.00 per plate

Non-profit Dialysis, Civil Air Patrol, Veteran's Center, Emergency Vehicles

Michigan Vehicle Code Section 801(1)(h)

This section applies to vehicles owned by a nonprofit organization and used to transport kidney dialysis equipment to children at camp, vehicles owned by the Civil Air Patrol, nonprofit veteran's center, nonprofit recycling center or federally recognized nonprofit conservation organization, certain parade vehicles owned by nonprofit veteran's groups, emergency vehicles owned by a federally recognized nonprofit charities (Red Cross, Salvation Army).

Basis of Taxation

$10.00 per plate

Analysis

The registration plates described in Section 801(1)(g) and 801(1)(h) are authorized under Section 224(4). That section indicates that these registration plates expire on December 31 in the fifth year following the date of issuance. As a result, plates in this category are effectively valid for up to five years and the $10.00 registration tax would appear to be the only tax due for the five-year registration plates. However, the department indicates that it considers the $10.00 tax to be an annual tax and assesses registrants under this category $50.00 for a five-year registration plate.

Total Registrations (as January 2013)

Department records indicate that there were 14,666 vehicles registered under subdivisions (g) and (h).

Ecclesiastical or Charitable Corporation, Red Cross, Boy Scouts, Girl Scouts

Michigan Vehicle Code Section 801(1)(i)
For each truck owned and operated free of charge by a bona fide ecclesiastical or charitable corporation, or red cross, girl scout, or boy scout organization, 65 cents per 100 pounds of the empty weight of the truck.

Basis of Taxation
65 cents per hundredweight (empty weight)

Analysis
This subdivision appears to overlap Sections 801(1)(g) and 801(1)(h) which also provide for various charitable, non-profit, and youth organization registration plates. However, the tax rates and tax basis are different.

Total Registrations (as January 2013)
Department records indicate that there were 94 vehicles registered under this category.

Fixed Weight Schedule – Trucks 8,000 lbs. or less (not used for towing), and certain privately owned trucks

Michigan Vehicle Code Section 801(1)(j)

Vehicle Categories

- Trucks 8,000 lbs or less and not used to tow a vehicle other than private pickups and vans covered under Section 801(1)(p)

- Privately owned trucks designed to tow a recreational vehicle, mobile home or trailer coach (e.g. 5th wheel trailer coaches; large boat trailers)

Basis of Taxation

The tax rates are based on a schedule of empty weights. **See Figure 3 on page 18.**

Analysis

This category apparently includes certain commercial trucks 8,000 lbs. and less that are not used to tow another vehicle, such as panel trucks, utility-type trucks, delivery vehicles, and stake trucks, as well as privately owned trucks in excess of 8,000 lbs. if not used commercially.

However, the actual language of the Michigan Vehicle Code is opaque and confusing. This category may be used as a catchall for a number of truck types not covered by other classifications.

If used in interstate commerce, taxes under this subdivision may be apportioned based on miles driven in Michigan in accordance with the International Registration Plan (IRP). **See page 31.**

Total Registrations (as January 2013)

Department records indicate that there were only 2,503 vehicles registered under subdivision (j). The relatively small number of plates issued in this category suggests that the subdivision is an anachronism.

Figure 3

Michigan Vehicle Code Section 801(1)(j)
(Fixed Weight Truck Schedule)
For each truck, weighing 8,000 pounds or less, and not used to tow a vehicle, for each privately owned truck used to tow a trailer for recreational purposes only and not involved in a profit making venture, and for each vehicle designed and used to tow a mobile home or a trailer coach, except as provided in subdivision (b), $38.00 or an amount computed according to the following schedule of empty weights, whichever is greater:

Empty weights per 100 pounds	
0 to 2,500 pounds	$ 1.40
2,501 to 4,000 pounds	1.76
4,001 to 6,000 pounds	2.20
6,001 to 8,000 pounds	2.72
8,001 to 10,000 pounds	3.25
10,001 to 15,000 pounds	3.77
15,001 pounds and over	4.39

Section 801(1)(j) ends with this incomprehensible sentence:
If the tax required under subdivision (p) for a vehicle of the same model year with the same list price as the vehicle for which registration is sought under this subdivision is more than the tax provided under the preceding provisions of this subdivision for an identical vehicle, the tax required under this subdivision is not less than the tax required under subdivision (p) for a vehicle of the same model year with the same list price.

Elected Gross Vehicle Weight (GVW) Schedule – Larger trucks and Tractor-trailer combinations

Michigan Vehicle Code Section 801(1)(k)

Vehicle Categories
- Trucks 8,000 lbs. or less towing a trailer
- Any truck 8,001 lbs. or more

Basis of Taxation
Schedule of Elected Gross Vehicle Weight - **See Figure 4 on page 20.**

Analysis
Under this tax category, the vehicle owner elects the vehicle tax category based on the highest estimated gross vehicle weight of the truck plus any loaded trailer or trailers. If the truck is dedicated to transporting a light-weight product such as foam cups, the elected weight may be quite low. The owner of a truck-tractor used to haul rolled steel or gravel will elect the highest weight categories, up to 160,000 lbs.

Note that the elected weight includes both the truck-tractor and the loaded trailer or trailers. However, the registration plate only applies to the truck or truck tractor; trailers still need their own registration plates under Section 801(1)(l).

Both the tax rate and tax base are effectively fixed. The tax rates for the Elected GVW category have not changed since 1997. And truck Gross Vehicle Weight (the tax base) is effectively fixed by state truck weight limitations.

If used in interstate commerce, taxes under this section may be apportioned based on miles driven in Michigan in accordance with the International Registration Plan (IRP). **See page 31.**

Total Registrations (as January 2013)
Department records indicate that there were 79,865 vehicles registered under this category.

Figure 4

Michigan Vehicle Code Section 801(1)(k)
(Elected Gross Vehicle Weight Schedule)
For each truck weighing 8,000 pounds or less towing a trailer or any other combination of vehicles and for each truck weighing 8,001 pounds or more, road tractor or truck tractor, except as provided in subdivision (j) according to the following schedule of elected gross weights:

Elected gross weight	Tax
0 to 24,000 pounds	$ 491.00
24,001 to 26,000 pounds	558.00
26,001 to 28,000 pounds	558.00
28,001 to 32,000 pounds	649.00
32,001 to 36,000 pounds	744.00
36,001 to 42,000 pounds	874.00
42,001 to 48,000 pounds	1,005.00
48,001 to 54,000 pounds	1,135.00
54,001 to 60,000 pounds	1,268.00
60,001 to 66,000 pounds	1,398.00
66,001 to 72,000 pounds	1,529.00
72,001 to 80,000 pounds	1,660.00
80,001 to 90,000 pounds	1,793.00
90,001 to 100,000 pounds	2,002.00
100,001 to 115,000 pounds	2,223.00
115,001 to 130,000 pounds	2,448.00
130,001 to 145,000 pounds	2,670.00
145,001 to 160,000 pounds	2,894.00
over 160,000 pounds	3,117.00

For each commercial vehicle registered under this subdivision, $15.00 shall be deposited in a truck safety fund to be expended for the purposes prescribed in section 25 of 1951 PA 51, MCL 247.675.

Trailers - Including pole trailers, semitrailers, and trailer coaches

Michigan Vehicle Code Section 801(1)(l)
For each pole trailer, semitrailer, trailer coach, or trailer, the tax shall be assessed according to the following schedule of empty weights:

Empty weights / Tax
0 to 2,499 pounds..... $ 75.00
2,500 to 9,999 pounds..... 200.00
10,000 pounds and over..... 300.00

Analysis
PA 152 of 2003 increased trailer registration plate taxes effective October 1, 2003, but also made the plates "permanent" for the registering owner. The permanent plates could not be transferred to a new owner. The change to permanent plates caused a one-time increase in registration tax revenue in FY 2003-04 of approximately $90.0 million. However, trailer registration transactions, and related registration revenue declined in subsequent years. **See Table 2 for a history of trailer registrations.**

Part of the reduction in trailer registrations after 2004 is due to the fact that a number of trailers now have permanent plates and do not have to re-register. In addition, the enactment of 2003 PA 152, and the related increase in trailer registration taxes, caused a number of Michigan-based trucking companies to register trailers in states with much lower trailer registration taxes.

Many trucking companies that register motor vehicles in Michigan, register trailers in other jurisdictions – primarily in Maine which has a $5.00 trailer registration tax. The difference between Michigan and Maine trailer registration taxes became more pronounced after then enactment of 2003 PA 152, which increased the Michigan tax for a 10,000 lb. trailer from $39 per year to a one-time tax of $300.

In *Behnke, Inc. v State of Michigan* the trial court found that interstate motor carriers, purchasing apportioned registration plates under the IRP, do not have to register trailers in Michigan even if Michigan is their "base" jurisdiction under the IRP. The court found that trailers are not apportionable vehicles under the IRP.

In February 2008, the Michigan Court of Appeals upheld the trial court stating: "*The plain language of the [IRP] states that trailers properly registered in any member jurisdiction shall be granted full and free reciprocity and that such reciprocity shall be deemed registration under the plan.*"

Table 2
Trailer Registration Taxes

Fiscal Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Registration Transactions													
Resident	1,100,544	1,157,133	1,198,837	1,219,262	1,120,834	249,853	176,140	162,390	135,088	123,056	130,562	129,403	140,394
Non-resident	14,632	14,575	14,653	15,374	13,172	3,787	3,423	3,774	2,724	2,460	3,070	3,184	3,184
Total Transactions	1,115,176	1,171,708	1,213,490	1,234,636	1,134,006	253,640	179,563	166,164	137,812	125,516	133,632	132,587	143,578
Registration Tax Revenue	$26,233,704	$26,888,474	$30,159,810	$29,294,563	$121,861,222	$28,215,812	$21,285,742	$20,516,965	$16,238,895	$14,610,802	$15,816,810	$16,275,917	$17,836,114

Difference	**$92,566,659**

	Four-Year Average	
Transactions	1,183,753	
Revenue	**$28,144,138**	

	Eight-Year Average
Transactions	159,062
Revenue	**$18,849,632**

Source: Michigan Secretary of State, "Summary of Fees Collected" Annual Report

Passengers for Hire

Michigan Vehicle Code Section 801(1)(m)
For each commercial vehicle used for the transportation of passengers for hire except for a vehicle for which a payment is made under 1960 PA 2, MCL 257.971 to 257.972, according to the following schedule of empty weights:

Empty weights per 100 pounds
0 to 4,000 pounds ..... $ 1.76
4,001 to 6,000 pounds 2.20
6,001 to 10,000 pounds 2.72
10,001 pounds and over 3.25

Analysis
Public Act 2 of 1960 establishes a specific tax on public transportation vehicles in lieu of a weight tax. As a result, it is not clear who pays the tax under this subdivision.

Total Registrations (as January 2013)
Department records indicate that there were 724 vehicles registered under the category.

Motorcycles

Michigan Vehicle Code Section 801(1)(n)
For each motorcycle ..... $ 23.00

The subdivision also states:

Beginning January 1, 1984, the registration tax for each motorcycle is increased by $3.00. The $3.00 increase is not part of the tax assessed under this subdivision for the purpose of the annual October 1 revisions but is in addition to the tax assessed as a result of the annual October 1 revisions. Beginning January 1, 1984, $3.00 of each motorcycle fee shall be placed in a motorcycle safety fund in the state treasury and shall be used only for funding the motorcycle safety education program as provided for under sections 312b and 811a.

Analysis
This subdivision includes provisions for the adjustment of the tax based on state personal income. However, the department does not revise the tax rate.

Total Registrations (as January 2013)
Department records indicate that there were 246,256 motorcycles registered under this subdivision.

Moving Vans/Trucks and Carnival Transport Trucks

Trucks weighing 8,001 lbs. or more and used to transport furniture or household goods, or used to transport carnival equipment

Michigan Vehicle Code Section 801(1)(o)

Basis of Taxation

This subdivision provides for taxation at 80% of the tax of Section 801(1)(k)

Total Registrations (as January 2013)

Department records indicate that there were 326 vehicles registered under this subdivsion.

Ad Valorem Tax Schedule – Passenger cars (1984 and newer), motor homes, pickup trucks, vans

Michigan Vehicle Code Section 801(1)(p)

Vehicle Categories

- Vehicles weighing 8,000 lbs. or less, 1984 model year or newer – generally passenger cars.

Through a reference to the vehicles included under subdivision (a), this subdivision includes motor homes, trucks 8,000 lbs. and less [other than trucks towing other vehicles], and vans.

Basis of Taxation

Most passenger cars, model year 1984 and newer, including motor homes, pickup trucks, and vans, are taxed under this subdivision. The tax rates established in this subdivision are applied to the manufacturer's list price of the registered vehicle.

The subsection lists various tax amounts applicable to different manufacturer's list price "bands." The initial band is for vehicles with a list price from $0 to $6,000 and has an applicable tax of $30.00. The subdivision then lists vehicle list prices in $1,000 bands up to the $29,000 to $30,000 band. For a vehicle with a list price greater than $30,000, the maximum listed tax of $148.00 is increased by $5.00 for each $1,000 the list price exceeds $30,000.

Under provision of this subdivision, the second (first renewal) registration is 90% of the original registration; the third (second renewal) registration is 90% of the second registration; and the fourth (third renewal) and each subsequent registration is 90% of the third registration.

As a result, the actual tax paid in the fourth and subsequent years is 73% of the tax required at the initial registration.

The following is an example of how these provisions are applied.

Passenger Registration Taxes under Section 801(1)(p)
The impact of annual reduction in first-year registration tax for a vehicle in the $20,000 to $21,000 tax category:

First-year tax	$103	
2nd year registration	$93	90% of first year
3rd year registration	$83	90% of second year
4th year registration	$75	90% of third year (73% of original tax)
Total Tax Paid	$354	

The registration tax for this vehicle would remain at $75 for the life of the vehicle.

Manufacturers self-report the list prices of vehicles sold in the United States. These list prices are compiled by the department annually and used to determine the applicable tax rates. If the department has not published the list price at the time of sale, or the list price is not available, the registration tax is calculated based on the suggested retail price, or in absence of a suggested retail price, the actual purchase price. The manufacturer's suggested retail price, i.e. the window sticker price, represents the price without options, and prior to taxes, and other charges. To the extent that manufacturers and dealers frequently discount from the window sticker price, the manufacturer's suggested retail price is generally not the same as the purchase price.

The subdivision provides for reduced tax rates for vans used by the disabled:
A van that is owned by an individual who uses a wheelchair or by an individual who transports a member of his or her household who uses a wheelchair and for which registration plates are issued under section 803d shall be assessed at the rate of 50% of the tax provided for in this subdivision.

List Price/Tax Schedule from Section 801(1)(p)

List Price/	Tax
$ 0 - $ 6,000.00	$ 30.00
More than $ 6,000.00 - $ 7,000.00	$ 33.00
More than $ 7,000.00 - $ 8,000.00	$ 38.00
More than $ 8,000.00 - $ 9,000.00	$ 43.00
More than $ 9,000.00 - $ 10,000.00	$ 48.00
More than $ 10,000.00 - $ 11,000.00	$ 53.00
More than $ 11,000.00 - $ 12,000.00	$ 58.00
More than $ 12,000.00 - $ 13,000.00	$ 63.00
More than $ 13,000.00 - $ 14,000.00	$ 68.00
More than $ 14,000.00 - $ 15,000.00	$ 73.00
More than $ 15,000.00 - $ 16,000.00	$ 78.00
More than $ 16,000.00 - $ 17,000.00	$ 83.00
More than $ 17,000.00 - $ 18,000.00	$ 88.00
More than $ 18,000.00 - $ 19,000.00	$ 93.00
More than $ 19,000.00 - $ 20,000.00	$ 98.00
More than $ 20,000.00 - $ 21,000.00	$ 103.00
More than $ 21,000.00 - $ 22,000.00	$ 108.00
More than $ 22,000.00 - $ 23,000.00	$ 113.00
More than $ 23,000.00 - $ 24,000.00	$ 118.00
More than $ 24,000.00 - $ 25,000.00	$ 123.00
More than $ 25,000.00 - $ 26,000.00	$ 128.00
More than $ 26,000.00 - $ 27,000.00	$ 133.00
More than $ 27,000.00 - $ 28,000.00	$ 138.00
More than $ 28,000.00 - $ 29,000.00	$ 143.00
More than $ 29,000.00 - $ 30,000.00	$ 148.00

Analysis
The Ad Valorem registration tax for passenger cars, pickup trucks, and vans is by far the largest plate category in terms of transactions and revenue – over 7.0 million plate registrations in FY 2011-12 shows. Department records indicate that the average registration tax in this category is approximately $120, with most vehicles falling between $83 and $133 for the initial 12-month tax.

The ad valorem registration tax has the advantage of being generally objective and independently verifiable. The method is not foolproof. The Office of Auditor General audit report cited in Footnote 2 identified instances in which vehicles were improperly classified as to tax category. The Auditor General tested a sample of 141 transactions from a universe of 53,282 new registrations processed by the department in May 2008. Based on tests of that sample, the audit report found that, with a 90% confidence level, not less than 6,613 but not more than 12,281 new vehicle transactions were improperly classified as to tax category. As was noted above, the initial tax category is retained for the life of the vehicle.

The use of an ad valorem registration tax has provided for some measure of inflation indexing for registration tax revenue – to the extent that vehicle prices tend to increase over time. The base prices used to determine registration taxes have also been affected by the rolling up of what had formerly been options into the base price – especially for luxury cars and luxury editions of many car models.

Total Registrations (as January 2013)
Department records indicate that there were 7,074,278 vehicles registered under this subdivision.

Wreckers

Michigan Vehicle Code Section 801(1)(q)

Basis of Taxation
$200 per year

Total Registrations (as January 2013)
Department records indicate that there were 4,736 vehicles registered under this subdivision.

Special Manufacturer/Transporter/Dealer Plates

Michigan Vehicle Code Section 803

Basis of Taxation
$10.00 per year

Analysis
Section 244 authorizes the department to issue plates to vehicle manufacturers, dealers, and transporters. The plates are not assigned to a specific vehicle.

Total Registrations (as January 2013)
Department records indicate that were 91,472 plates under this subdivision.

International Registration Plan (IRP)

Michigan Vehicle Code Section 801g
Section 801g provides for the apportionment between states of registration taxes imposed under 801(1)(j) and 801(1)(k) for trucks engaged in interstate commerce. The apportionment between states based on miles driven in each state in accordance with the International Registration Plan Agreement.

The Department of State administers the IRP program.

Analysis
The IRP apportionment of interstate truck registrations is similar to the apportionment of diesel motor fuel taxes among states under the International Fuel Tax Agreement (IFTA). Michigan's IFTA program is administered by the Michigan Department of Treasury. The apportionment of both taxes is based on mileage as reported my motor carriers.

A June 2008 audit of the Michigan Department of Treasury's Motor Carrier Fuel Tax collection activities, (OAG report 271-0220-07) indicated that the Michigan Department of Treasury was not completing the number of audits of motor carrier mileage records required under IFTA. The audit recommended that the Michigan Department of Treasury, and the Michigan Secretary of State consider sharing motor carrier audit data and combining audit functions.

It is not clear if the two agencies are currently coordinating audit functions with regard to enforcement of IRP and IFTA tax agreements.

Transfer of Registration Plates

Purchase/Birthday Date Difference – Section 226 of the Michigan Vehicle Code indicates that the vehicle registration expires on the owner's birthday. In purchasing cars, most people "trade up" to a more expensive car. Rather than buy new plates at the time of purchase, many owners simply transfer the old plate to the new car and pay only an $8.00 transfer fee as provided under Section 809 of the Michigan Vehicle Code. By transferring plates, the owner avoids paying the new, and usually higher, registration tax until the registration is renewed on his or her next birthday.

It has been reported that some vehicle owners simply transfer plates from an older low-list-price vehicle to a more expensive (not necessarily new) vehicle every year. In these cases, an owner would register a relatively inexpensive car and pay a relatively low registration tax. The owner would then transfer the plate to a newer more expensive car paying only an $8.00 transfer fee. The owner could purchase another low-tax plate for the less expensive vehicle (if he or she intends to drive it), or could simply garage the second vehicle and not register it. The owner could repeat these transactions annually. The fourth year registration for a $10,000 list price is $35.00. The fourth year registration for a $45,000 list price car is $163.00. Transferring plates from the low-price vehicle to the higher price vehicle would save the vehicle owner $120.00 in registration taxes annually.

It is hard to estimate the revenue loss attributable to the transfer of registration plates – either through the transfer of plates when a new vehicle is purchased or through concerted tax avoidance methods. Representatives of the Michigan Secretary of State have indicated that the revenue loss could reasonably be estimated at between $10 million to $20 million per year.

Michigan Vehicle Code Tax Expenditures

According to the U. S. Government Accountability Office (GOA) publication, tax expenditures are "*reductions in a taxpayer's tax liability that are the result of special exemptions and exclusions from taxation, deductions, credits, deferrals of tax liability, or preferential tax rates.*"

Tax expenditures may be used to advance policy goals in a way similar to direct appropriations. Tax expenditures the Michigan Vehicle Code reduce revenue available for state transportation programs. The following are examples of tax expenditures in the Michigan Vehicle Code.

Vans Used by the Disabled
The registration tax for a van owned by an individual who uses a wheelchair or by an individual who transports a person who uses a wheel chair for which handicap plates are issued is 50% of the applicable tax in Section 801(1)(a) or Section 801(1)(p).

Department records indicate that as of January 2013 there were 4,689 vehicles registered under this subdivision.

Historic Plates
The Michigan Vehicle Code provides for two kinds of historic registration plates:

Department-issued plates: Section 803a authorizes the Secretary of State to issue a registration with the designation "historic vehicle." The registration tax is $30.00 and is valid for ten years. The plate is transferable with payment of an $8.00 transfer fee.

Department records indicate that as of January 2013 there were 69,392 department-issued historic plates in its system.

Authentic historic plates: Section 803p allows owners of historic vehicles to use plates issued in the same year as the vehicle's model year. The act allows the owner to purchase a plate from someone else, e.g. from a yard sale or second hand store, restore it, and use it as a valid Michigan registration plate. The registration tax for these plates is $35.00 and is effectively permanent with respect to the owner – the plate is valid until the vehicle is sold to another owner.

Department records indicate that as of January 2013 there were 42,481 authentic historic plates in its system.

The Michigan Vehicle Code defines *historic vehicle* as "*vehicle over 25 years old and used solely as a collector's item for participation in club activities, tours, parades, and similar uses… but not for general transportation.*" Note that under this definition, as of 2009, all of the pre-1984 vehicles taxed under Section 801(1)(a) would qualify for historic plates at least with regard to the vehicle age. Although most pre-1984 vehicles may not qualify under the "not for general transportation" restrictions, it is not clear to what extent police agencies enforce this provision.

Tax Expenditures – continued

As noted on **page 12**, Sections 801(1)(c) and 801(1)(d) of the Michigan Vehicle Code provide registration tax rates for farm truck, wood harvesters, and milk haulers. The tax rates for vehicles registered as farm trucks, wood harvesters, or milk haulers are substantially less than the rates for comparable vehicles.

Example 1:
For a 2008 Ford F-150 Pickup Truck with a curb weight of 6,450 lbs. and a list price of $36,000, the 12-month registration tax under the Section 801(1)(p) ad valorem schedule would be $191.
For the same truck registered under the Section 801(1)(c) weight schedule for farm trucks, the registration tax would be $55 registration tax – a 71% tax reduction.

Example 2:
For a 2013 Ford Super Duty Lariat with a 5th Wheel Towing package and a list price of $60,000:
If registered under the Section 801(1)(p) ad valorem schedule the tax would be $298.
If registered under Section 801(1)(k), assuming an Elected GVW of 26,400 lbs. the registration tax would be $558.
If registered as a Farm/Log truck under Section 801(1)(c), assuming an empty weight of 7,500 lbs., the registration tax would be $55.00.

It is not clear how the department verifies that the vehicle owner qualifies for the farm or log truck plate. In addition, it is not clear to what extent police agencies enforce the requirements of this subdivision.

Recent legislation may have exempted many farm vehicles from registration requirements altogether. Section 216 of the Michigan Vehicle Code exempts from registration requirements "implements of husbandry." Public Act 589 of 2012 amended the definition of *implements of husbandry* to include "*a vehicle or trailer in use for the exclusive function of serving agricultural, horticultural, or livestock operations.*" This amended definition would appear to expand the number of farm vehicles exempt from registration requirements.

Note on the Terms "Tax" and "Fee"

Article IX, Section 9 of the 1963 Constitution directs that specific *taxes* on motor vehicle registration be used exclusively for transportation purposes.

The terminology in the Michigan Vehicle Code is not consistent. The compiler of Chapter VII has labeled the Chapter "Registration Fees." Section 226 refers to "tax" five times and "fee" or "registration fee" seven times. However, since enactment of 2003 PA 152, which established the Transportation Administration Collection Fund (TACF), bill drafters have attempted to use the term "tax" in reference to the constitutionally dedicated registration taxes, and the term "fee" to reference Department of State service fees that accrue to the TACF.

MICHIGAN VEHICLE REGISTRATIONS by MCL SECTION

UNEXPIRED ANNUAL PLATES, as of January, 2013

MCL 257. Section	Description	Number of Unexpired Plates
801(1)(a)	Pre-1984 autos, vans and pickups under 8,001 lbs., *weight schedule*	59,227
801(1)(c)	Farm trucks - *74 cents per hundredweight*	39,501
801(1)(d)	Wood-harvester trucks - *74 cents per hundredweight*	2,453
	Milk-hauling trucks - *74 cents per hundredweight*	163
801(1)(e)	Hearses - *$1.17 per hundredweight*	309
801(1)(g)&(h)	Vans and other vehicles owned by nonprofits - *$10 per plate*	14,666
801(1)(i)	Trucks owned by churches, Scouts, Red Cross - *65 cents per hundredweight*	94
801(1)(j)	Commercial trucks under 8,001 lbs.; trucks towing campers - *weight schedule*	2,503
801(1)(k)	Elected gross vehicle weight, by weight class:	
	0 to 24,000 pounds $491	38,071
	24,001 to 26,000 pounds $558	8,079
	26,001 to 28,000 pounds $558	1,812
	28,001 to 32,000 pounds $649	4,668
	32,001 to 36,000 pounds $744	3,309
	36,001 to 42,000 pounds $874	1,756
	42,001 to 48,000 pounds $1,005	2,765
	48,001 to 54,000 pounds $1,135	5,384
	54,001 to 60,000 pounds $1,268	1,278
	60,001 to 66,000 pounds $1,398	1,020
	66,001 to 72,000 pounds $1,529	2,612
	72,001 to 80,000 pounds $1,660	2,756
	80,001 to 90,000 pounds $1,793	924
	90,001 to 100,000 pounds $2,002	778
	100,001 to 115,000 pounds $2,223	710
	115,001 to 130,000 pounds $2,448	737
	130,001 to 145,000 pounds $2,670	587
	145,001 to 160,000 pounds $2,894	2,328
	over 160,000 pounds $3,117	291
	Total - Elected Gross Vehicle Weight	79,865
801(1)(m)	Buses hauling passengers for hire - *weight schedule*	724
801(1)(n)	Motorcycles, *$23 per plate*	246,256
801(1)(o)	Moving vans over 8,000 lbs. - *80% of Sec. 801(1)(k) weight schedule*	326
801(1)(p)	*Ad valorem taxes* autos and light trucks	7,074,278
	Ad valorem motor homes	26,457
	Vans used by the disabled, 50% discount	4,689
801(1)(q)	Wrecker - *$200 per plate*	4,736
801e	Mopeds - *$15 for 3 years*	44,017

OTHER THAN ANNUAL PLATES, As of January, 2013

MCL 257. Section	Description	Plates
801(1)(f)	Municipal, university, and other publicly-owned vehicles - *5-year plates*	99,488
801(1)(l)	Trailers - *permanent plates, tax schedule by weight class*:	
	0 to 2,499 pounds - *$75 per plate*	155,839
	2,500 to 9,999 pounds - *$200 per plate*	324,127
	10,000 pounds or more - *$300 per plate*	123,254
	Total Trailer plates	603,220
803a	Historic vehicles, department issued plates - *$30 for 10 years*	69,392
803p	"Authentic" historic-vehicle plates - *$35 lifetime*	42,481
	Total Historic plates	111,873
245/803	Manufacturer, transporter, and dealer - *$10 per plate*	91,472

Source: Michigan Department of State