

Legislative Analysis



MICHIGAN VEHICLE CODE – VEHICLE REGISTRATION TAXES AND FEES

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House Bill 4630 (Substitute S-3)
Sponsor: Rep. Michael D. McCready
Committee: Transportation and Infrastructure

Complete to 7-7-14

A SUMMARY OF HOUSE BILL 4630 (S-3) AS PASSED BY THE SENATE 6-11-14

House Bill 4630 (S-3) would amend several sections of the Michigan Vehicle Code dealing with motor vehicle registrations, including Section 801, the section which establishes registration taxes for most Michigan motor vehicles including passenger cars, vans, light trucks, commercial trucks, trailers, as well as a number of special registration categories. Among other things, the bill would increase vehicle registration tax revenue, primarily through eliminating the "depreciation" of ad valorem tax rates for passenger cars, vans, and light trucks.

The bill would also make changes related to vehicle registration regulatory and service fees. Specifically, the bill would eliminate sunset dates on a number of current vehicle registration regulatory and service fees. [The bill would lift a sunset date on vehicle title application fees and surcharges as well.] In addition, the bill would effect a net \$2.00 increase in vehicle registration fees, make additional registration plate categories subject to regulatory and service fees, and change the fund earmarking of some fee revenue.

The bill would appropriate \$4.0 million to implement the changes proposed in the bill.

BACKGROUND INFORMATION:

Vehicle registration taxes represent one of the two major sources of constitutionally dedicated state transportation revenue – the other major source being motor fuel taxes. Revenue from registration taxes, including vehicle title fees, totaled \$942.7 million in FY 2012-13. This revenue is constitutionally dedicated to transportation and is credited to the Michigan Transportation Fund (MTF) in accordance with the provisions of 1951 PA 51 (Act 51).

Vehicle registration taxes are established in the Michigan Vehicle Code (Public Act 300 of 1949). Sections 224 and 225 of the Michigan Vehicle Code provide for the registration of motor vehicles and give authority for the vehicle registration program to the Michigan Secretary of State. Registration taxes are assessed and collected when vehicle owners obtain new registration license plates from the Secretary of State or renew registrations.

Vehicle registration taxes can be considered more of a "retail" tax as compared to the motor fuel taxes. They are collected primarily at 131 Secretary of State branch offices, as

well as online or by mail. Section 205 of the Michigan Vehicle Code requires at least one branch office in each county, as well as branch offices within certain cities, and a branch office in the state Capitol complex.

There is not a single registration tax. There are in fact a number of different registration taxes established in Section 801 of the Michigan Vehicle Code. A number of factors determine the tax rate and the base on which the tax is applied, including the 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.

For a description of registration taxes under current law, see the memorandum [Vehicle Registration Taxes](#), dated **June 10, 2013**, on the House Fiscal Agency website.

DETAILED ANALYSIS:

Our analysis is divided into sections corresponding to the sections of the Michigan Vehicle Code that would be amended in House Bill 4630 (S-3):

Chapter II

- Section 217 – Vehicle Registration
- Section 224 – Institutional plates
- Section 226 – Expiration dates
- Section 234 – Transfer of Registration
- Sections 255 and 256 – Violations of Registration Law

Chapter III

- Section 312c – Motorcycle Safety Fund
- Section 312e – Corrected Operating License.

Chapter VII

- Section 801 – Vehicle Registration Taxes
 - Section 801(1) – Vehicle Registration Tax Categories
 - Section 801(3) – Regulatory and Registration Services Fees
 - Section 801(4) – Late Registration Penalties

- Section 801e – Moped Registration Taxes
- Section 801g – International Registration Plan

- Section 802 – Special Vehicle Registration Fees

- Section 803 – Manufacturer/Dealer/Transporter Registration Plates
 - Section 803a – Historic Vehicle Registration Fees
 - Section 803b – Amateur Radio/Personalized Registration Plates
 - Section 803e – Special Veterans Registration Plates
 - Section 803g – Congressional Delegation Registration Plates

Section 806 – Application for Vehicle Title Fees
Section 809 – Transfer of Vehicle Registration

Section 811 – Driver's License Fees
Section 812 – Duplicate/Corrected Driver's License Fees

Our analysis also includes a discussion of the bill's enacting sections.

TERMS/ABBREVIATIONS USED IN THIS ANALYSIS

References to "**department**" in this analysis are to the Michigan Department of State.

Act 51 means 1951 PA 51, the act that provides for the distribution of constitutionally restricted transportation revenue.

TACF means the Transportation Administration Collection Fund, established in Section 810b of the Michigan Vehicle Code and used to support the costs incurred by the Department of State in administering and enforcing Sections 801 through 810 of the Michigan Vehicle Code. Section 810b also provides for the use of the TACF to reimburse the Michigan Department of Treasury for the costs of collecting motor fuel taxes, however, TACF revenue has not been used in Department of Treasury appropriations.

TLESF means the Traffic Law Enforcement and Safety Fund established in Section 819a of the Michigan Vehicle Code and used to support Michigan State Police activities related to enforcement of traffic laws and promotion of traffic safety.

MTF means Michigan Transportation Fund established in Section 10 of 1951 PA 51. The MTF is the primary collection and distribution fund for constitutionally restricted transportation revenue generated from motor fuel taxes and vehicle registration taxes.

FY means state fiscal year.

Amendments to Chapter II of the Michigan Vehicle Code

Chapter II of the Michigan Vehicle Code (MCL 257.201 through 257.259) contains provisions dealing with administration of the Michigan Vehicle Code, vehicle registrations, issuance of certificate of title, and anti-theft. House Bill 4630 (S-3) would amend six sections within this Chapter, as described below:

Section 217 – Application for Title

Section 217 requires the owner of a vehicle subject to registration under the Michigan Vehicle Code to apply to the Secretary of State for the registration of the vehicle and the issuance of a certificate of title. Dealers are required to submit this information on department form RD-108 within 15 days of vehicle delivery. If a person or dealer fails to apply for a title when required, or secure registration plates and pay the applicable fees within 15 days of delivery of the vehicle, Section 217 requires payment of a late transfer

fee of \$15.00. The late transfer fee is \$100.00 if the applicant is a used or secondhand vehicle dealer.

House Bill 4630 (S-3) does not change these late transfer fees. However, the bill directs the Secretary of State to deposit the late transfer fees into the TACF. While not expressly stated in Section 217 or elsewhere in the Michigan Vehicle Code, late fees assessed under this section have been credited to the MTF. The department indicates that late transfer fees under this section and Section 234 total approximately \$26,000.

Section 224 – Registration Plates

Section 224 contains provisions related to vehicle registration plates, including plates issued to the state government, state institutions, municipalities, privately incorporated nonprofit volunteer fire departments, and nonpublic, nonprofit colleges and universities. Under current law, these "institutional" plates "shall not expire at any particular time but shall be renewed when the registration plate is worn out or is illegible."

House Bill 4630 (S-3) would amend subsection (3), the subsection establishing institutional plates, to indicate that these plates expire on June 30 of the year in which new registration plates are issued for all vehicles by the Secretary of State. This is not a substantive change; these provisions had been included in Section 801(1)(f) as described below; the bill simply moves the provisions from Section 801(1)(f) to Section 224(3).

House Bill 4630 (S-3) would also amend subsection (4), the subsection establishing certain charitable and non-profit plates. The bill would strike a sentence that currently authorizes the transfer of these plates to another vehicle upon proper application and payment of a \$10.00 transfer fee.

Section 226 – Registration Plates – Expiration dates

Section 226 deals with the issuance of registration plates, including expiration periods. House Bill 4630 (S-3) amendments to this section are technical in nature.

Section 234 – Purchase or Transfer of Registration

Section 234 contains provisions related to issuance of title and registration certificates. Current law provides for a \$15.00 late fee if the registration transfer is not completed within 15 days of purchase. House Bill 4630 (S-3) does not change this late transfer fee. However, the bill directs the Secretary of State to deposit the late transfer fees into the TACF. While not expressly stated in Section 234 or elsewhere in the Michigan Vehicle Code, late fees assessed under this section have been credited to the MTF. The department indicates that late transfer fees under this section and Section 217 total approximately \$26,000.

Sections 255 and 256 – Violations of Registration Law

The amendments to these sections are merely technical.

Amendments to Chapter III of the Michigan Vehicle Code

Chapter III of the Michigan Vehicle Code (MCL 257.301 through 257.329) contains provisions dealing with operator and chauffeur licenses. House Bill 4630 (S-3) would amend two sections within this Chapter, as described below:

Section 312c – Motorcycle Endorsement

Section 312c contains provisions dealing with motorcycle endorsements to an operator or chauffeur driver's license. House Bill 4630 (S-3) would amend this section to direct that money in the Motorcycle Safety Fund remain in the Motorcycle Safety Fund and not lapse to the state General Fund. This does not appear to be a substantive change.

Section 312e – Commercial Vehicle Indorsement

Section 312e contains provisions dealing with designations and indorsements to an operator or chauffeur driver's license needed to operate certain commercial motor vehicles. Subsection (7) establishes fees related to these designations and indorsements.

House Bill 4630 (S-3) would add new Subsection (16) to this section to direct that "*for each corrected license fee collected under subsection (7), the Secretary of State shall collect a fee of \$2.00 that shall be credited to the Traffic Law Enforcement and Safety Fund...*" We read this to mean that the \$2.00 TLESF fee established in the bill would be *in addition to* the \$18.00 corrected license fee already provided in Subsection (7). We do not believe that the \$2.00 fee is *in place of* the current \$18.00 or that the \$2.00 TLESF earmark is *to be taken from* the current \$18.00 fee.

We note that the \$2.00 TLESF fee for corrected licenses established in the section is duplicated in Section 812, as discussed below.

[Note: The terms "endorsement" and "indorsement" are both used in various sections of the Michigan Vehicle Code.]

Amendments to Chapter VII of the Michigan Vehicle Code

Chapter VII of the Michigan Vehicle Code (MCL 257.801 through 257.821) contains provisions dealing with vehicle registration fees.

Amendments to Section 801:

Among other things, House Bill 4630 (S-3) would amend Section 801 of the Michigan Vehicle Code – a section which includes seven subsections and, within Subsection (1), thirteen subdivisions. These thirteen subdivisions establish the taxes for most vehicle registration categories. Our detailed analysis below describes the various provisions of Section 801(1) in current law, and the changes to Section 801 proposed in House Bill 4630 (S-3). Except as otherwise noted, the section/subsection/subdivision references below are as shown in current law.

Section 801(1)(a) – Pre-1984 Cars, Vans, Light Trucks

Under current law, the registration tax for most cars, vans, and light trucks, 1983 model year and older, is based on the vehicle's empty weight. This subdivision currently provides a schedule of 16 separate weight/tax bands, ranging from a tax of \$29.00 for vehicles less than 3,000 pounds, to \$95.00 for vehicles up to 10,000 pounds. Department records indicate that as of April 2014 there were 71,529 vehicles registered under this category.

House Bill 4630 (S-3) would create a two-tiered tax schedule for pre-1984 vehicles weighing 8,000 pounds or less: \$50.00 for vehicles weighing up to 4,000 pounds, and \$75.00 for vehicles weighing over 4,000 pounds. This treatment is effectively the same as the House-passed bill, although the House-passed bill moved these provisions into a different subdivision.

The bill would retain language that directs the department to *annually* revise the Section 801(1)(a) rates on October 1, 1983 and October 1, 1984, although the language appears to be an anachronism. The bill also retains current language that provides a 50% discounted tax rate for certain "handicap vans."

Section 801(1)(b) – Trailer Coaches

House Bill 4630 (S-3) retains, but modifies, what appears to be a misplaced statement about the liability of certain trailer coaches to property taxes under the General Property Tax Act of 1893.

Sections 801(1)(c) and 801(1)(d) – Farm Trucks/Log Trucks/Milk Haulers

These subdivisions in current law provide a discounted tax rate for certain agricultural vehicles, wood harvesters, and milk haulers. The tax rate is 74 cents per hundred pounds of empty weight. Department records indicate that as of April 2014 there were 41,043 vehicles registered under these two categories.

House Bill 4630 (S-3) would retain, but modify these subdivisions. The bill would retain the tax base (empty weight) and discounted rates but would add the requirement that the vehicle be "*designated by proper signs showing the entity or organization operating the vehicle.*"

Section 801(1)(e) – Hearse or Funeral Ambulance

Current law provides a discounted registration tax rate of \$1.17 per hundred pounds (empty weight). Department records indicate that as of April 2014 there were 322 vehicles registered under this category. House Bill 4630 (S-3) would strike this subdivision. Vehicles currently registered under this category would likely register under the ad valorem category for passenger cars, vans, and light trucks described below.

Section 801(1)(f) – Institutional Plates

Section 801(1)(f) currently provides a \$5.00 registration tax for certain "institutional plates" authorized under Section 224(3). Institutional registrations include vehicles owned

and operated by the state, state institutions, a municipality, a non-profit volunteer fire department, or a non-public, non-profit college or university.

House Bill 4630 (S-3) would retain this subdivision, renumbered as Section 801(1)(e), but move "state institution" and "non-public, non-profit college or university" registrations out of this subdivision and into new Subdivision (f) as described below. The bill would also require that vehicles issued plates under this subdivision be "designated by proper signs showing the entity or organization operating the vehicle."

Sections 801(1)(g) and 801(1)(h) – Nonprofit and Civic Organizations, and Section 801(1)(i) – Ecclesiastical and Charitable Organizations

Section 224(4) provides for certain non-profit, civic organization, ecclesiastical, and charitable registration plates. Sections 801(1)(g) and (h) currently provide for a \$10.00 registration tax for the plates authorized under Section 224(4). Department records indicate that as of April 2014 there were 14,614 vehicles registered under these two categories.

Section 801(1)(i) currently provides for a special registration tax rate for certain trucks owned and operated free of charge by a "bona fide" ecclesiastical or charitable corporations, the Red Cross, Boy Scouts, or Girl Scouts. The current tax rate is 65 cents per hundred pounds (empty weight). Department records indicate that as of April 2014 there were 84 vehicles registered under this category.

House Bill 4630 (S-3) would consolidate the three subdivisions described above into a single subdivision, Section 801(1)(f) with ten subparagraphs that generally parallel the language of current Subdivisions 801(1) (g) (h), and (i).

The bill would require that vehicles issued plates under subparagraph (i) [the Roman numeral for 1] be "designated by proper signs showing the entity or organization operating the vehicle." This requirement does not appear to apply to vehicles listed in the nine other subparagraphs of the subdivision.

The bill would move "state institution" and "non-public, non-profit college or university" registrations out of the Institutional tax category noted above and into this Non-profit and Civic Organization subdivision – effectively increasing the registration tax for these vehicles from \$5.00 per plate to \$10.00 per plate. State institutions appear to be primarily state universities.

Included in the non-profit and civic organization plates authorized under Section 224(4) are registration plates for "an emergency support vehicle used exclusively for emergencies and owned and operated by a federally recognized non-profit charitable organization." The current \$10.00 registration tax for these vehicles is established in Section 801(1)(h). We believe the current provisions apply to disaster-relief vehicles owned and operated by the Salvation Army.

House Bill 4630 (S-3) would add a new set of vehicles to this category – emergency support vehicles used exclusively for "transportation of patients or medical equipment." The bill does not make the corresponding change in Section 224(4). We do not have an estimate of the number of additional vehicles that would qualify for emergency support vehicle plates under the proposed new language.

Section 801(1)(j) – Gross Vehicle Weight (Empty Weight)

This subdivision currently establishes a tax based on the empty weight of certain large trucks. The language is confusing and appears to be an anachronism. Department records indicate that as of April 2014 there were 2,029 vehicles registered under this category. House Bill 4630 (S-3) would eliminate this subdivision.

Section 801(1)(k) – Trucks/Truck Tractor Combinations

This subdivision currently establishes a tax schedule based on elected gross vehicle weight (GVW) for trucks 8,000 pounds or less towing a trailer or any combination of vehicles, and for trucks 8,001 pounds or more, road tractors, and truck tractors. Department records indicate that as of April 2014 there were 78,468 vehicles registered under this category.

House Bill 4630 (S-3) would retain this subdivision, renumbered as Section 801(1)(g), without substantive changes.

Section 801(1)(l) – Trailers

Current law provides for a non-transferrable permanent trailer registration plate. The registration tax for trailers is based on empty weight. Under current law there are three empty weight tax bands: \$75.00 for trailers weighing up to 2,499 pounds; \$200.00 for trailers weighing up to 9,999 pounds; and \$300.00 for trailers 10,000 pounds and greater.

House Bill 4630 (S-3) would retain this subdivision, renumbered as Section 801(1)(i), without change.

Section 801(1)(m) – Passengers for Hire

Current law provides a registration tax rate for commercial vehicles used in the transportation of passengers for hire. The subdivision established four rate bands from \$1.76 per hundred pounds (empty weight) for vehicles weighing 4,000 pounds and less, to \$3.35 per hundred pounds (empty weight) for vehicles weighing 10,001 pounds and greater. Department records indicate that as of April 2014 there were 520 vehicles registered under this category.

House Bill 4630 (S-3) would strike this subdivision. Most of the vehicles currently registered under the passengers-for-hire category weigh less than 8,000 pounds and would likely register under the ad valorem tax category for passenger cars, vans, and light trucks described below. However, it is possible that many of these vehicles would not register under provisions of the Michigan Vehicle Code at all. The department indicates that a number of charter buses and stretch limousines currently register as public transportation vehicles under 1960 PA 2. The tax under 1960 PA 2 is \$25.00 per vehicle.

Section 801(1)(n) – Motorcycles

Current law appears to establish a tax rate for each motorcycle of \$23.00, plus a separate \$3.00 fee earmarked to the Motorcycle Safety Fund – \$26.00 in total. However, it is our understanding that the Secretary of State currently collects only \$23.00 in total from motorcycle registrations and credits the \$3.00 Motorcycle Safety Fund earmark from the \$23.00 tax.

House Bill 4630 (S-3) would move provisions dealing with motorcycle registration taxes from Section 801 to Section 801e, a section dealing with moped registrations. In that section the bill would establish a registration tax on motorcycles of \$25.00 from which \$5.00 would be earmarked to the Motorcycle Safety Fund. The \$25.00 tax established in the bill is less than the \$26.00 total tax we believe is currently established in statute, however, it is \$2.00 more than the \$23.00 currently collected by the department.

Section 801(1)(o) – Moving Vans

This subdivision currently establishes a tax based on 80% of the empty weight schedule for commercial vehicles under Section 801(1)(k). Department records indicate that as of April 2014 there were 292 vehicles registered under this category.

House Bill 4630 (S-3) would strike this subdivision.

Section 801(1)(p) – Passenger Cars, Vans, Light Trucks

This subdivision currently establishes the ad valorem tax schedule for most cars, vans, and light trucks. Department records indicate that as of April 2014 there were 7.1 million vehicles registered under this category.

House Bill 4630 (S-3) would retain this subdivision, renumbered as Section 801(1)(i). The bill would not change the current schedule of tax rates established under this section. However, the bill would eliminate the current step down or "depreciation" of tax rates. The bill would make this change effective January 1, 2016.

Under current law, a first registration under the ad valorem tax schedule is based on the tax rates shown in the schedule of Section 801(1)(p). 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 12-month tax base used to determine the initial registration tax. For a vehicle in the \$30,000 to \$30,999 tax category, the initial 12-month registration tax is \$153.00. However, the tax in the fourth year and each subsequent year is only \$112.00 – 73% of the original tax rate.

As noted above, House Bill 4630 (S-3) would eliminate the annual "depreciation" or step down in these ad valorem registration taxes. The tax rate established at the first registration would be the tax rate for the life of the vehicle. However, the bill would not make this change retroactive. The bill directs that "*the registration tax for a vehicle that*

had a valid registration on January 1, 2016, shall be the same as the most recently paid registration tax for that vehicle." As a result, a vehicle with a valid registration on January 1, 2016, in its second, third, or fourth registration year, would be locked into the second, third, or fourth year tax rate, as applicable, for the life of the vehicle.

House Bill 4630 (S-3) would also amend subparagraph (i) within this subdivision that defines what registrations are subject to the subdivision's ad valorem tax schedule. The subparagraph currently states that the tax schedule applies "*for the first registration that is not a transfer registration under Section 809 and for the first registration after a transfer registration under Section 809.*" House Bill 4630 (S-3) would strike the phrase "*that is not a transfer registration under Section 809...*" The subparagraph as amended would read: "*for the first registration and for the first registration after a transfer registration under Section 809 and beginning on January 1, 2016, for each subsequent registration of a vehicle that was not registered under this subsection before January 1, 2016.*" This change may affect the department's ability to prorate registration taxes at the time of registration transfer under Section 809. See additional discussion below regarding Section 809.

House Bill 4630 (S-3) would retain but modify language within this subdivision that currently provides a 50% discounted tax rate for certain "handicap vans" – department records indicate that as of April, 2014, 4,736 vehicles had received discounted registration plates under these provisions. The revised language would provide a 50% registration tax discount for "*a passenger motor vehicle that has been modified with a permanently installed wheelchair lift mechanism and that is owed 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.*"

Section 801(1)(q) – Wreckers/Other Commercial Vehicles

Current law provides a tax rate of \$200.00 per vehicle for wreckers. The department indicates that as of April, 2014, there were 4,032 vehicles registered under this category.

House Bill 4630 (S-3) would effectively eliminate the special registration rate specific to wreckers. The bill would add a new tax category, numbered as Section 801(1)(j), for "*a wrecker or commercial vehicle not otherwise subject to tax under this section.*" The tax would be based on a schedule of empty weights: for vehicles up to 26,000 pounds empty weight, \$400.00; for vehicles weighing over 26,000 pounds empty weight, \$590.00

Section 801(3) – Service and Regulatory Fees

Current law provides for the assessment of two fees in addition to the registration taxes imposed under Section 801(1): a \$2.25 regulatory fee for credit to the Traffic Law Enforcement Safety Fund (TLESF) for Michigan State Police programs; and a \$5.75 registration service fee for credit to the Transportation Administration Collection Fund (TACF), a restricted fund used to support Department of State registration programs.

House Bill 4630 (S-3) would change the amount of each of the two fees. The bill would reduce the TLESF regulatory fee from \$2.25 to \$1.00 and would increase the current

\$5.75 TACF registration service fee to \$9.00. The net impact would be a \$2.00 increase in total fees – from \$8.00 to \$10.00.

The bill would also strike the current October 1, 2015, sunset date for these fees.

Under provisions of the bill, certain Section 801(1) registration categories which had not previously been subject to regulatory and service fees would be subject to the fees, specifically: trailer coaches, non-profit vehicles, Elected GVW registrations, trailers, motorcycles, and wreckers. [These categories are Section 801(1) subdivisions (b), (g), (h), (k), (l), (n), and (q), respectively, as those subdivision references appear in current law.]

The bill would also make the following additional registration categories subject to the TLESF and TACF service fees for the first time: moped registrations, Section 801(e); in-transit repair registrations, Section 802(6); dealer/manufacturer registrations, Section 803; and historic plate registrations, Section 803a.

Section 801(4) – Late Registration Penalty

Current law requires the Secretary of State to collect a \$10.00 late fee if the taxes established under Section 801 are not received by the vehicle registration expiration date. Annual late fee revenue is approximately \$10.0 million. Under current law, revenue from this late fee is dedicated to the state General Fund. House Bill 4630 (S-3) would redirect late fee revenue to the MTF.

The bill also directs that the department not assess a late fee for a partial year registrations under Section 802(10) and (11).

Section 801e – Registration of Mopeds

Section 801e currently provides for moped registrations and registration fees. The bill would increase the current \$15.00 registration "fee" to \$25.00. Moped registrations are valid for a three year period.

As noted above, House Bill 4630 (S-3) would move provisions dealing with motorcycle registrations from Section 801 to Section 801e, establish a registration tax on motorcycles from \$25.00, and increase the earmark to the Motorcycle Safety Fund to from \$3.00 to \$5.00.

Section 801g –International Registration Plan (IRP)

The IRP is cooperative registration program of the forty-eight contiguous states, the District of Columbia, and ten Canadian provinces, i.e. member jurisdictions. The IRP provides for registration reciprocity for certain types of vehicles operating in two or more member jurisdictions, i.e. vehicles engaged in interstate, inter-province, or cross-border commerce. Subsection (3) currently provides for payment of half of the apportioned fees at the time of registration with the balance due within 180 days. The subsection also provides for an extra \$10.00 service fee for registrants electing this payment method.

House Bill 4630 (S-3) would amend this section to clarify that the apportioned Michigan "fees" under the IRP are based on the elected GVW tax rates. This is not a substantive change, simply a technical clarification.

The bill would also redirect the \$10.00 partial payment service fee from the MTF to the TACF. The department indicates that 7,708 applicants elected the partial payment method in FY 2012-13.

Amendments to Section 802:

Section 802 – Special Registration Plates

Through twelve separate subsections, Section 802 currently provides for taxes and fees for several categories of "special registration plates." While Section 802 establishes the various taxes and fees for special registration plates, special registration plates are actually authorized and defined in Chapter II of the Michigan Vehicle Code – Section 201 et seq. Some of the special registrations in Section 802 represent partial year registrations of full-year registrations established in Section 801.

House Bill 4630 (S-3) makes technical changes to several subsections of Section 802 – primarily to change language written in the passive voice to the active voice and to change cross references to reflect the section number changes made by the bill. Substantive changes to the section are described below:

Repossessors, In-Transit Repair, and Auto Auctions

House Bill 4630 (S-3) would amend Subsection (6) dealing with registration plates for repossessors, in-transit repair, and auto auctions. Under current law the fee for two registration plates is \$40.00 and for each additional plate \$20.00. The bill would increase these fees to \$50.00 and \$25.00, respectively.

Partial Year Farm Registrations

The bill would also amend Subsection (10), which provides for partial year farm registration plates. Specifically, the bill would require that vehicles registered under this subsection be "designated by proper signs showing the entity or organization operating the vehicle." The bill does not include similar provisions for vehicles registered under Subsection (9), which provides for what are known as special farm registration plates.

TACF Service Fees

Under Section 802(12), the service fees established under the section are dedicated to the TACF through October 1, 2015. House Bill 4630 (S-3) would strike this sunset.

Amendments to Section 803:

Section 803 – Manufacturer/Dealer/Transporter Registration Plates

Section 244 of the Michigan Vehicle Code provides for special registration plates for manufacturers, transporters, and dealers. Section 803 currently provides for a \$10.00 *fee* *

for each plate under Section 244. Department records indicate that as of April, 2014, there were 87,969 valid plates under this category.

[* The section uses the term "fee" although we believe these charges are registration *taxes* for credit to the MTF.]

House Bill 4630 (S-3) would retain the current \$10.00 fee for each special plate issued under Section 244, but would add new Subsection (2) to establish fees for special plates issued to a dealer or transporter under Section 244. The bill would direct the Secretary of State to also charge a \$100.00 fee for the first five special plates issued to a dealer or transporter under Section 244. We read this to mean that the fee would total \$100.00 for the first five plates – effectively \$20.00 each. The fee for the sixth and each additional plate would be \$10.00. This new subsection does not appear to apply to manufacturer plates.

The proposed amendments to this section are somewhat indirect and unclear. The bill appears to leave the registration fee for manufacturers' plates unchanged at \$10.00 per registration plate, but would increase the registration fee for dealers and transporters from \$10.00 to \$20.00 for each of the first five registration plates. However, one might read the bill to mean that with respect to dealer and transporter registration plates the fee for *each* of the first five plates is \$100.00.

Section 803a – Historic Registration Plates

Section 20a of 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 is not used for general transportation.*" A 2012 amendment, 2012 PA 239, added to the definition to indicate that "*for purposes of this section, use of the vehicle during the month of August of each year is considered an exhibition.*"

The Michigan Vehicle Code currently provides for two types of historic vehicle registration plates: an historic vehicle plate issued by the Secretary of State under Section 803a; and an "*authentic Michigan registration plate*" issued under Section 803p.

Section 803a currently authorizes the Secretary of State to issue a registration with the designation "historic vehicle." The registration tax is \$30.00 and is valid for 10 years. Under current law, historic vehicle plates expire on April 15 in the 10th year following issuance. Historic vehicle plates are transferable with payment of an \$8.00 transfer fee under Section 809.

Section 803p currently authorizes *authentic Michigan registration plates*. The registration tax under this section is currently \$35.00 and plates are effectively permanent with respect to the owner – the plate is valid until the vehicle is sold to another owner.

House Bill 4630 (S-3) would repeal Section 803p and would bring *authentic Michigan registration plates* into Section 803a along with historic vehicle registration plates.

House Bill 4630 (S-3) would increase the registration fee to \$100.00 for both *historic vehicle* plates issued by the department and *authentic Michigan registration* plates.

Under provisions of the bill, *historic vehicle* registration plates would expire on April 15 in the 10th year following issuance; and *authentic Michigan registration plates* would be effectively permanent with respect to the owner – these provisions are the same as current law.

The bill indicates that a *historic vehicle* registration plate is transferrable to another historic vehicle; an *authentic Michigan registration plate* is not transferable – these provisions are the same as current law.

Amendments to Section 803b:

Section 803b – Amateur Radio/Personalized Registration Plates

Section 217a currently provides for special amateur radio plates inscribed with official amateur radio call letters. Under current law, applicants pay the regular registration *fee* * plus a service fee of \$2.00.

[* The section uses the term "fee" in what appears to be a reference to registration *taxes* under Section 801.]

House Bill 4630 (S-3) would repeal Section 217a and move provisions of that section into Section 803b, the section that currently provides for personalized registration plates. Under provisions of House Bill 4630 (S-3), applicants for amateur radio plates would pay the same as applicants for other personalized registration plates: for the first registration, a regular registration *fee* [i.e., tax, presumably under Section 801] plus a service fee of \$8.00 for the first month and \$2.00 for each additional month of the registration period; for renewal registrations, a \$15.00 service fee in addition to the regular registration *fee* [i.e. tax].

House Bill 4630 (S-3) would also repeal a suballocation in Section 803b(3) of an earmark of certain personalized plate renewal fee revenue to the State Trunkline Fund for litter pickup and roadside cleanup. This suballocation is impractical and we do not believe is recognized in practice.

Under current law, certain personalized plate service fees are dedicated to the TACF through October 1, 2015. House Bill 4630 (S-3) would strike this sunset.

The bill would strike language that currently prohibits the Secretary of State from issuing a "new exact duplicate" of an expired personalized plate unless the plate is illegible and the owner pays a service fee and registration fee for an original personalized registration plate.

Amendments to Section 803e:

Section 803e – Special Veterans Plates

House Bill 4630 (S-3) would add language authorizing Congressional Medal of Honor plates, moved to this section from Section 217d.

Amendments to Section 803g:

Section 803g– Congressional Member Plates

Section 803g currently authorizes the Secretary of State to issue special registration plates to the Michigan Congressional delegation and indicates that the registration "fees" for those plates are as provided under either the weight-based schedule for pre-1984 vehicles or the ad valorem schedule for passenger cars and light trucks. House Bill 4630 (S-3) would simply changes the references in this section to conform to the new numbering established in the bill.

Amendments to Section 806:

Section 806 – Application for Title Fees

Section 806(1) currently provides for a \$10.00 title application fee, plus a \$3.00 service fee. An additional \$5.00 service fee is required for expedited service requests. Revenue from the \$10.00 application fee is credited to the MTF; the \$3.00 service fee and \$5.00 expedited service fee are credited to TACF.

Authorization to collect the \$10.00 title application fee, and the dedication of service fee revenue to the TACF, are currently authorized through October 1, 2015. House Bill 4630 (S-3) would strike the sunsets related to the authority to collect the title application fee and the dedication of the service fees to the TACF.

The bill would also strike the current December 31, 2015, sunset for the \$1.50 tire disposal surcharge for credit to the Scrap Tire Fund.

The bill also changes the fee under Section 806(2) related to the application for a Special Identifying Number title, as authorized under Section 230 of the Michigan Vehicle Code. Section 230 apparently deals with instances in which the Vehicle Identification Number (VIN) has been destroyed or is missing. Section 806(2) currently provides for a \$10.00 fee for Special Identifying Number title applications. The bill would increase this fee to \$100.00. The department had indicated that inspections and site visits needed to satisfy the requirements of Section 230 cost substantially more than is provided through the current \$10.00 fee. The department indicates that approximately 1,400 Special Identifying Number title inspections are performed each year.

Amendments to Section 807:

Section 807 – Dealer License Fees

Section 807 established fees for various automobile dealer licenses established under Section 248. Under current law these fees are credited to the MTF. House Bill 4630 (S-3) would redirect fee revenue to the TACF.

Amendments to Section 809:

Section 809 – Transfer of Registration

When someone purchases a vehicle, the purchaser may elect to simply transfer a valid registration plate from an old vehicle to the newly purchased vehicle. At least with regard to cars, vans, and light trucks, the Department of State does not collect additional registration tax from the purchaser/owner at the time of registration transfer; the department collects only an \$8.00 transfer fee as provided under Section 809. The owner would not pay the registration taxes applicable to the new vehicle until the first registration after the transfer registration – typically on the owner's next birthday. [As provided in Section 226 of the Michigan Vehicle Code, registrations for most private vehicles expire on the owner's birthday.]

The tax treatment of transfer registrations described above does not appear to conform to the requirements of Section 809(2), which states that if the *12-month registration fee* * for the vehicle to which the registration plates are transferred is greater than the registration plate fee *paid* upon registration of the vehicle from which the registration was removed, then the difference shall be paid by the applicant for the new registration. The subsection also states that if the fee [i.e. the 12-month tax for the new vehicle] is less than the fee paid for the registration of the vehicle from which the registration was removed, the difference shall not be refunded.

[* The section uses the term "fee" in what appears to be a reference to registration *taxes* under Section 801.]

The department does not currently collect ad valorem registration taxes at the time of transfer because of the provisions of Section 801(1)(p), which provide a 12-month tax schedule "*for the first registration that is not a transfer registration under Section 809 and for the first registration after a transfer registration under Section 809.*" The department does not believe that it has authority to collect registration taxes at the time of registration transfer.

Not collecting additional registration taxes at the time of registration transfer results in lost revenue to the MTF. There are approximately 1.0 million registration transfers each year. Section 809 currently has three subsections:

Section 809 (1) currently deals with registration transfer fees related to vehicles subject to Section 801(1)(a) – the dwindling category of pre-1984 passenger cars, vans, and light

trucks. The subsection includes additional provisions regarding the transfer of registration from a pre-1984 vehicle to a motor home.

Section 809 (2) currently provides for registration transfer fees for vehicles other than those described in Subsection (1), i.e. other than pre-1984 vehicles. In effect, Subsection (2) deals with primarily with vehicles subject to the ad valorem taxes established under Section 801(1)(p).

Section 809 (3) prescribes the disposition of the registration transfer fees to the TACF.

House Bill 4630 (S-3) would strike current Subsection (2). The bill also reworks current Subsection (1) to eliminate provisions dealing with pre-1984 vehicles. As rewritten, Subsection (1) would be applicable all motor vehicles subject to Section 801(1), including vehicles subject to the Section 801(1)(p) ad valorem taxes – 1984 and newer cars, vans, and light trucks.

As rewritten by House Bill 4630 (S-3), Section 809(1) would require an \$8.00 transfer of registration application fee – the same as current law – for registration transfers from a motor vehicle subject to Section 801 to another vehicle subject to Section 801. The bill also indicates that in addition to the \$8.00 transfer fee, *"if the 12-month registration fee for the vehicle to which the registration is transferred, for the remainder of the 12-month registration period, is greater than the 12-month registration fee for the vehicle the registration is being transferred from, then the applicant shall pay the difference in the registration fees."*

The bill would also indicate that *"if the registration fee for the vehicle the registration is being transferred to is less than that paid for the registration fee of the vehicle from which the plate was removed, the secretary of state shall not refund the difference in registration fees."*

As with current law, the proposed amendments use the term "fee" in what appears to be a reference to registration *taxes* under Section 801.

The \$8.00 transfer of registration fee assessed under this section is currently dedicated to the TACF through October 1, 2015. House Bill 4630 (S-3) would strike this sunset.

Section 811 – Operator, Chauffeur, Minor Restricted [Driver's] Licenses

Under current law, the application fee for original operator's licenses is \$25.00 and for renewal operator's licenses, \$18.00. However, if the operator's license is expired at the time of renewal, the renewal fee is the same as the original fee, \$25.00. In effect, late renewals are subject to a \$7.00 penalty.

House Bill 4630 (S-3) would increase baseline operator's renewal fees from \$18.00 to \$25.00 – the same as original operator's licenses. The bill would change the distribution of revenue collected under the section. Specifically the bill would direct \$7.00 from each operator's renewal license fee for credit to the TLESF.

Section 812 – Fee for Duplicate or Corrected [Driver's] License

Section 812 currently establishes fees for duplicate or corrected driver's licenses. The fees under current law are \$18.00 for a duplicate chauffeur's license and \$9.00 for a duplicate operator's license. House Bill 4630 (S-3) would add a new subsection (3) to indicate that for each duplicate chauffeur's license and each corrected license the Secretary of State collect a fee of \$2.00 for credit to the TLESF. The bill would also add a new subsection (4) to indicate that for each duplicate operator's license the Secretary of State collect a fee of \$1.00 for credit to the TLESF.

The proposed fees appear to be in addition to the current fees established in Section 802(1) and Section 312e.

As discussed on page 5 of this analysis, House Bill 4630 (S-3) would also amend Section 312e to establish a new \$2.00 TLESF regulatory fee for each for each corrected license fee collected under Section 312e(7). As a result, the bill effectively includes the \$2.00 TLESF fee for corrected licenses in two sections – in Section 312e and in Section 812.

Enacting Sections:

Enacting Section 1 - Repealers

House Bill 4630 (S-3) would repeal the following sections of the Michigan Vehicle Code:

- **Section 217a – Amateur radio plates**; included in Section 803b, as described above.
- **Section 217d – Congressional Medal of Honor plates**; included in Section 803d, as described above.
- **Section 803p – Authentic historic registration plates**, included in Section 803a, as described above.

Enacting Section 2 - Effective Date

House Bill 4630 (S-3) would take effect January 1, 2015.

Enacting Section 3 - Effective Date for Secretary of State

House Bill 4630 (S-3) would require the Secretary of State to implement the changes made by the amendments made in the bill *no later than* January 1, 2016.

Enacting Section 4 - Appropriation

House Bill 4630 (S-3) would appropriate \$4.0 million to the Secretary of State "*for the purpose of completing the programming necessary to implement the changes made by [the enacted bill.]*" The bill does not indicate the appropriation fund source.

Tie Bars

Unlike previous substitutes, House Bill 4630 (S-3) is not tie-barred to other bills. However, Senate Bill 149, as passed the Senate, is tie-barred to House Bill 4630. Senate Bill 149 would amend Section 10 of Act 51 to phase out MTF support for Department of

State costs of administering the Michigan Vehicle Code vehicle registration program. That MTF support is currently \$20.0 million, the maximum amount currently permitted under provisions of Section 10.

For the fiscal year ending September 30, 2015, Senate Bill 149 would provide a fixed appropriation of \$20.0 million from the MTF *"for the necessary expenses incurred by the department of state in the administration and enforcement of Sections 801 to 810 of the Michigan Vehicle Code."*

For the fiscal year ending September 30, 2016, the bill states that *"the appropriations for necessary expenses made to the Department of State from the Michigan Transportation Fund shall only be made between October 1, 2015 and December 31, 2015,"* and that *"beginning January 1, 2016, no further appropriations for necessary expenses incurred by the Department of State shall be made from the Michigan Transportation Fund under this section."*

FISCAL IMPACT:

House Bill 4630 (S-3) would have the following primary fiscal impacts:

- Eliminate sunset dates on current vehicle registration regulatory and service fees and title application fees and surcharges.
- Reduce TLESF regulatory fees, increase TACF service fees; make additional registration plate categories subject to TLESF and TACF regulatory and service fees.
- Increase fees for reposessor, in-transit repair, and auto auction registration plates for credit to the TACF.
- Increase VIN Special Identifying Number title fees for credit to the TACF.
- Increase certain driver's license fees for credit to the TLESF.
- Shift earmarks of some fee revenue between funds.
- Increase some vehicle registration taxes for credit to the MTF, primarily through eliminating ad valorem tax rate "depreciation."
- Provide for the proration of ad valorem taxes at the time of registration transfer from one vehicle to another.
- Appropriate \$4.0 million to implement the changes proposed in the bill.

These impacts are discussed in additional detail below and are **summarized on Table A. Tables B, C, and D provide detail supporting the summary. Table E lists fee sunset dates and the impact of House Bill 4630 (S-3) on those sunsets.**

Fee Sunsets

Many of the current statutory earmarks of registration regulatory and service fee revenue to the TLESF and TACF are due to sunset on October 1, 2015. Failure to lift these sunsets would cause \$17.0 million in regulatory fee revenue currently dedicated to the TLESF and \$57.2 million in registration service fee revenue currently dedicated to the TACF to revert to the MTF beginning in FY 2015-16.

In addition, the current dedication of look-up fee revenue to the TACF is due to sunset October 1, 2015. Failure to lift this sunset would cause \$34.8 million in look-up fee revenue to revert to the state General Fund.

The current statutory dedication of certain title application and related service fee revenue to the MTF and TACF is due to sunset on October 1, 2015. In fact, with regard to the \$10.00 application for title fee, not only does the current dedication of fee revenue to MTF sunset on October 1, 2015, but the authority to collect the fee appears to expire on that date as well. Failure to lift these sunsets would result in a loss of \$30.1 million to the MTF. However, \$10.2 million in title service fees currently dedicated to the TACF would revert to the MTF.

In addition, a current \$1.50 tire disposal surcharge to certificate of title applications is authorized and dedicated to the Scrap Tire Fund through December 31, 2015. Failure to lift this sunset will result in a loss of \$4.3 million to the Scrap Tire Fund.

House Bill 4630 (S-3) would lift some, although not all, of these sunsets. A table showing the above noted fees, revenue, fund dedication, sunset dates, and whether the sunset dates would be lifted in House Bill 4630 (S-3) is shown as **Table E** at the end of this analysis.

Changes in Registration and Title Fees and Taxes, Fund Shifts.

House Bill 4630 (S-3) would make changes in the amount and disposition of certain fees, including vehicle title and registration fees and taxes, driver's license fees, and dealer licensing fees. These proposed changes are reviewed in the Detailed Analysis section above and, except as noted below, these changes will not be reviewed in detail in this Fiscal Impact section. Our estimate of the fiscal impact of these changes is summarized and detailed on the following tables at the end of this analysis:

Table A – Summary of Impacts

Table B – Impact on Registration Taxes/Fee Categories

Table C – Other Registration and License Fee Impacts

Table D – Impact of Eliminating Depreciation of Ad Valorem Tax Rates

Our review of the bill's fiscal impact review does expand the discussion of the impacts of two changes to the ad valorem registration tax on passenger cars, vans, and light trucks: specifically, the elimination in the "depreciation" of ad valorem tax rates, and the collection of registration taxes at the time of registration transfer.

Elimination of "Depreciation" of Ad Valorem Tax Rates

House Bill 4630 (S-3) would not directly change the tax rates or tax base currently established in Section 801(1)(p) for cars, vans, and light trucks. However, the bill would eliminate the current step down or "depreciation" of tax rates. Under provisions of House Bill 4630 (S-3), the tax rate established at the first registration would be the tax rate for the life of the vehicle.

The bill would make this change effective January 1, 2016. However, the bill would not make this change retroactive for vehicles already registered. The bill directs that "*the registration tax for a vehicle that had a valid registration on January 1, 2016, shall be the same as the most recently paid registration tax for that vehicle.*" As a result, a vehicle with a valid registration on January 1, 2016, in its second, third, or fourth registration year, would be locked into the second, third, or fourth year tax rate, as applicable, for the life of the vehicle.

As shown in **Table D**, we estimate that this change would increase MTF revenue by \$14.5 million in the first full year of implementation (effectively, calendar year 2016), and \$41.5 million in the second year (2017). In each subsequent year, the change would increase MTF revenue by \$20.7 million as compared to the prior year: the net revenue increase would be \$62.2 million in the third year (2018), \$82.9 million in the fourth year (2019), and \$103.7 million in the fifth year of implementation (2020).

These estimates are based on the assumption that 500,000 new cars are sold in Michigan each year, with an average sales price of \$30,000.

Note that the Michigan ad valorem vehicle registration tax is currently a deductible expense in computing federal income tax. The specific criteria for deductibility according to Internal Revenue Service publication Number 17, *Your Federal Income Tax*, is that the tax is a tax charged on personal property, is based only on the value of the personal property, and is on a yearly basis, even if it is collected more or less than once a year. The publication specifically includes as a qualified [for deduction] personal property tax "*a yearly tax based on value even if it is called a registration fee and is for the privilege of registering motor vehicles or using them on the highways.*" It is not clear if eliminating the current recognition of the depreciation of value in registration tax rates would affect deductibility of those taxes for federal income tax purposes.

Registration Tax at Time of Transfer

As described in the above discussion of Section 809, when someone purchases a new vehicle, the purchaser may elect to simply transfer a valid registration plate from an old vehicle to the newly purchased vehicle. At least with regard to cars, vans, and light trucks, the Department of State does not collect additional registration tax from the purchaser/owner at the time of registration transfer; the department collects only an \$8.00 transfer fee as provided under Section 809. The department does not collect the registration taxes applicable to the new vehicle until the first registration after the transfer registration – typically on the owner's next birthday. The department believes that

because of provisions of Section 801(1)(p), it does not have the authority to collect ad valorem registration taxes at the time of registration transfer.

Not collecting all or part (prorating) of the typically higher registration tax applicable to the new vehicle at the time of registration transfer results in a loss of MTF revenue.

House Bill 4630 (S-3) would amend Section 809 provisions dealing with registration transfer fees. In addition, the bill would amend subparagraph (i) within Section 801(1)(p), a subparagraph that defines what registrations are subject to the subdivision's ad valorem tax schedule.

It appears that these amendments taken together would give the Department of State authority to collect ad valorem registration taxes at the time of registration transfer.

We have not estimated the revenue impact that would result from collecting ad valorem registration taxes at the time of registration transfer. Data necessary to develop an estimate is not readily available. With respect to vehicles subject to the ad valorem tax schedule of Section 801(1)(p), the revenue impact is a function of the number, manufacturer's list price, and registration year of previously registered vehicles, the number and manufacturer's list price of the vehicles using transferred registration plates, and relation between the purchase date and vehicle owner's birthday.

Department of State Costs/Appropriation

The changes proposed in House Bill 4630 (S-3) would not reduce Department of State costs related to the administration of the vehicle registration programs. A cost allocation study determined the cost of that program was \$92.5 million in FY 2011-12.

House Bill 4630 (S-3) would appropriate \$4.0 million to the Secretary of State "for the purpose of completing the programming necessary to implement the changes made by [the enacted bill.]" The bill does not indicate the fund source for the appropriation.

As noted above, Senate Bill 149, which is tie-barred to House Bill 4630 (S-3) would phase out the current \$20.0 million appropriation of MTF revenue used in support of Department of State costs of administering the vehicle registration program. Specifically, the bill states that for the fiscal year ending September 30, 2016, "*the appropriations for necessary expenses made to the department of state from the Michigan transportation fund shall only be made between October 1, 2015 and December 31, 2015,*" and that "*beginning January 1, 2016, no further appropriations for necessary expenses incurred by the department of state shall be made from the Michigan transportation fund under this section.*"

Senate Bill 149 does not limit MTF *allotments* to, or *expenditures* by, the Department of State; the bill would limit *appropriations* to the period between October 1, 2015 and December 31, 2015. Appropriation bills generally take effect on October 1 – the beginning of the state fiscal year. The entire \$20.0 million MTF *appropriation* could be made to the department effective October 1, 2015 with the department making

expenditures and drawing allotments of MTF revenue over the course of the 2015-2016 fiscal year. We believe that in prohibiting MTF *appropriations* for Department of State "necessary expenses" after January 1, 2016, the bill does not effectively prohibit those appropriations until the 2016-2017 fiscal year, although the Legislature could reduce or eliminate the MTF appropriation to the Department of State for the 2015-2016 fiscal year through the appropriations process.

Effective Date of Changes

Enacting Section 2 of House Bill 4630 (S-3) indicates that the bill would take effect January 1, 2015. However, Enacting Section 3 would require the Secretary of State to implement the changes made by the amendments made in the bill *no later than* January 1, 2016. As a result, some of the fee increases and fund shifts established in the bill could take effect during the 2014-2015 fiscal year, while other changes in vehicle registration taxes might not take effect until sometime during the 2015-2016 fiscal year.

Provisions of the bill that would eliminate the current step down or "depreciation" of tax rates would not take effect until January 1, 2016, i.e. during the 2015-2016 fiscal year. However, because the bill would not make this change retroactive for vehicles already registered on January 1, 2016, a vehicle with a valid registration on January 1, 2016, in its second, third, or fourth registration year, would be locked into the second, third, or fourth year tax rate, as applicable, for the life of the vehicle. As a result, the bill would have little or no effect on the registration taxes assessed on vehicles purchased prior to 2013 and revenue growth associated with this change would occur primarily as vehicles purchased after January 1, 2016 were registered.

As noted above, Senate Bill 149, which is tie-barred to House Bill 4630 (S-3) does not appear to prohibit MTF appropriations for Department of State "necessary expenses" until the 2016-2017 fiscal year.

Note on Methodology

In developing our estimates of the fiscal impacts of the changes proposed in the bill, our analysis uses as a baseline actual FY 2012-13 revenue as recorded for specific comptroller and agency object codes within the applicable funds. We also used figures reported in the Secretary of State's Summary of Fees Collected report for FY 2012-13, Department of State records of vehicle registrations by category as of April 2014, as well as other data provided by the department.

In some cases, the revenue and transaction figures used to develop the estimates are highly reliable and consistent from year to year. In these instances we have relatively high confidence the revenue estimates. However, because of limited data and/or significant unknown variables, our confidence in the estimated impacts of two major changes proposed in the bill is more qualified.

Our estimate of the impact of eliminating the "depreciation" of ad valorem tax rates is based on 500,000 new vehicles sales in Michigan each year, starting in 2013 and through 2019, with an average vehicle list price of \$30,000. Clearly these are broad estimates and

the actual revenue impact will depend on actual vehicle sales and actual manufacturer's vehicle prices. However, we can say with confidence that the impact of this change will likely increase over time.

In addition, as described above, we are unable to estimate the impact of the proposed changes to Section 809 dealing with registration transfers.

Fiscal Analyst: William E. Hamilton

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

Table A
House Bill 4630 (S-3)
Summary of Fiscal Impacts
First Year Impacts*

	<u>GF/GP</u>	<u>MTF</u>	<u>TACF</u>	<u>TLESF</u>	<u>Motorcycle Safety</u>	<u>Net</u>
Ongoing Changes						
Registration/Title Fees and Taxes (Table B)	0	3,363,000	5,762,422	613,158	530,000	10,268,580
Other License Fees (Table C)	(10,700,000)	9,864,000	25,392,000	1,470,000	0	26,026,000
Subtotal - Ongoing changes	(10,700,000)	13,227,000	31,154,422	2,083,158	530,000	36,294,580
Dynamic Changes						
Eliminate ad valorem tax rate "depreciation"		14,535,000				14,535,000
Subtotal	(10,700,000)	27,762,000	31,154,422	2,083,158	530,000	50,829,580
Other Changes						
\$4.0 million one-time appropriation						(4,000,000)
SB 149 - Eliminate \$20 million IDG		20,000,000	(20,000,000)			0
Total	(\$14,700,000)	\$47,762,000	\$11,154,422	\$2,083,158	\$530,000	\$46,829,580

*Although this table is labeled "First year impacts" some of the changes proposed in the bill could take effect in the 2015-2016 fiscal year, while other changes could take effect in the 2016-17 fiscal year. See "Effective Date of Changes" section of the analysis.

** This impact would tend to increase over time. See Table D

*** The bill does not specify when this appropriation would be made or the fund source. This analysis assumes a first year impact and use of General Fund as revenue source.

**** Senate Bill 149 would phase out the MTF reimbursement to the Department of State, no earlier than the 2015-2016 fiscal year. See "Tie Bars" section of the analysis.

Table B
House Bill 4630 (S-3)
Impact on Vehicle Registration Tax and Fee Categories

MCL Section 257 REGISTRATION TAX CATEGORIES	Estimated Units	Revenue Impact and Distribution					Motorcycle Safety	Net Impact	Notes
		GF/GP	MTF	TACF	TLESEF				
801(1)(a) Pre-1984 weight classes - \$20 to \$50	60,000	1,260,000					1,260,000	Estimate assumes 60,000 units currently taxed at \$29; increase to \$50.	
801(1)(c) and (d) Farm/Log/Milk Plates							0	House Bill 4630 (S-3) does not change taxes or fees related to farm/log/milk truck registrations.	
801(1)(e) Hearses							0	Impact immaterial or not estimated.	
801(1)(f) Institutional plates - total/annual	9,000		29,250		(11,250)		18,000	Estimate assumes 9,000 new or renewal registrations per year; previously subject to TACF/TLESEF fees so estimate reflects proposed fee increase and fund distribution. House Bill 4630 (S-3) would increase college and university plates from \$5 to \$10; we believe the impact of this change is immaterial.	
801(1)(g)(h) Non-profit/Civic - total/annual	3,000		27,000		3,000		30,000	Non-profit/charitable plates are valid for five years; we assume 3,000 new or renewal each year. House Bill 4630 (S-3) makes these plates subject to TACF/TLESEF fees for the first time. The impact of adding emergency vehicles for transportation of patients or medical equipment is unknown.	
801(1)(i) Ecclesiastical/Charitable							0	Impact immaterial or not estimated.	
801(1)(j) GVW trucks - empty weight	2,000		6,500		(2,500)		4,000	House Bill 4630 (S-3) would eliminate category. Previously subject to TACF/TLESEF fees; estimate reflects proposed fee increase and fund distribution.	
801(1)(k) Elected-GVW trucks	78,000		702,000		78,000		780,000	House Bill 4630 (S-3) does not change registration tax rates for this category but does make them subject to TACF/TLESEF fees for the first time.	
801(1)(l) Permanent trailer (annual)	140,000		1,295,172		143,908		1,439,080	While trailer plates are permanent with respect to the owner, there are approximately 140,000 new or transfer registrations each year. House Bill 4630(S-3) does not change registration tax rates for this category but does make them subject to TACF/TLESEF fees for the first time.	
801(1)(m) Passengers for hire							0	Impact immaterial or not estimated.	
801(1)(n) Motorcycles - MTF @ \$20	265,000		2,385,000		265,000		2,650,000	House Bill 4630 (S-3) does not change registration tax rates for this category but does make them subject to TACF/TLESEF fees for the first time.	
Motorcycles - MSF fee from \$3 to \$5	265,000					530,000	530,000	House Bill 4630 (S-3) increases Motorcycle Safety Fund earmark.	

<u>Estimated Units</u>	<u>Revenue Impact and Distribution</u>				
	<u>GF/GP</u>	<u>MTF</u>	<u>TACF</u>	<u>TLESF</u>	<u>Motorcycle Safety</u>

Net Impact Notes

Revenue Impact and Distribution

MCL Section 257 REGISTRATION TAX CATEGORIES	Estimated Units	GF/GP	MTF	TACF	TLESF	Motorcycle		Notes
						Safety	Net Impact	
801(1)(o) Moving vans	282							0 Impact immaterial or not estimated.
801(1)(p) Eliminate 90% rate "depreciation" Registration taxes at transfer								See Table D and discussion in Fiscal Impact section. See discussion in Fiscal Impact section.
801(1)(q) Wrecker - \$200 to MTF	4,000		800,000	36,000	4,000			Reflects doubling for tax for wreckers from \$200 to \$400. House Bill 4630 (S-3) makes these plates subject to TACF/TLESF fees for the first time.
801(1)(q) Wrecker - TACF/TLESF	4,000							
801(1)(j) (New) Wrecker/Commercial								We are unable to estimate the number of vehicles that would register under this new category.
801e Moped, \$15 to \$25	15,000		150,000	135,000	15,000			Increases tax on moped registrations from \$15 to \$25. House Bill 4630 (S-3) makes these plates subject to TACF/TLESF fees for the first time.
801e Moped, \$15 to \$25	15,000							
801g IRP plates - \$10 service fee	7,700		(77,000)	77,000				0 Redirects \$10 IRP partial payment service fee from the MTF to the TACF.
244 & 803 Dealer plates, \$10 to \$20 (first 5)	70,500		705,000	634,500	70,500			Increases first five dealer plates from \$10 to \$20. House Bill 4630 (S-3) makes these plates subject to TACF/TLESF fees for the first time.
244 & 803 Dealer plates - TACF/TLESF	70,500							
803a & 803p Historic vehicles, authentic Historic vehicles, department issued Annual - Increase in registration tax	40,000		400,000	360,000	40,000			House Bill 4630 (S-3) makes these plates subject to TACF/TLESF fees for the first time.
803a & 803p Historic vehicles, authentic Historic vehicles, department issued Annual - Increase in registration tax	53,200 74,100 7,500		525,000					Estimate assumes 7,500 historic plate registrations each year; historic plates previously registered at \$30, increase to \$100.
803b Personalized/HAM Radio plates Annual HAM Radio plates	7,500 5,000 500			67,500 7,500	7,500			House Bill 4630 (S-3) makes these plates subject to TACF/TLESF fees for the first time. Assumes plates will renew every 10 years.
Total Registration Tax Categories		\$0	\$3,363,000	\$5,762,422	\$613,158	\$530,000	\$10,268,580	

	TACF Fees	TLESF Fees
Current Law	\$5.75	\$2.25
HB 4630 (S-3)	9.00	1.00
Difference	\$3.25	(\$1.25)

Table C
House Bill 4630 (S-3)
Other Registration and Licensing Fee Impacts

MCL Section 257	Estimated Units	Current Revenue (Estimate)	Revenue HB 4630 (S-3)	Revenue Impact and Distribution					Notes	
				Difference	GF/GP	MTF	TACF	TLESF		Motorcycle Safety
TACF/TLESF FEE INCREASE										
801(3) Transactions	7,500,000									
TACF fees		43,125,000	67,500,000	24,375,000			24,375,000			24,375,000
TLESF fees		16,875,000	7,500,000	(9,375,000)				(9,375,000)		(9,375,000)
TACF/TLESF Revenue Total				\$15,000,000	\$0	\$0	\$24,375,000	(\$9,375,000)	\$0	\$15,000,000
OTHER TACF/TLESF IMPACTS										
Driver's Licenses										
811(1) Operator-license renewal - \$7 increase	1,500,000	27,000,000	37,500,000	10,500,000				10,500,000		10,500,000
312e, 812 Duplicate licenses - new \$1 fee	185,000	185,000	185,000	185,000				185,000		185,000
312e, 812 Corrected license - \$2	80,000	160,000	160,000	160,000				160,000		160,000
Other License and Title Fees										
217 & 234 Late title-transfer fee to TACF		26,000	26,000			(26,000)	26,000			0
802(6) Repossessors, in-transit repair - Increase fee \$5	11,000			55,000			55,000			55,000
807 Dealer and Salvage license fees - shift from MTF to TACF		810,000				(810,000)	810,000			0
806(2) & 230 Special Identifying Number VIN fee	1,400	14,000	140,000	126,000			126,000			126,000
Total - Other TACF/TLESF Impacts				\$11,026,000	\$0	(\$836,000)	\$1,017,000	\$10,845,000	\$0	\$11,026,000
LATE REGISTRATION FEE FUND SHIFT										
801(4) Shift \$10 late fee from GF/GP to MTF		10,700,000	10,700,000		(10,700,000)		10,700,000			0
Revenue Total				(\$10,700,000)	\$9,864,000	\$25,392,000	\$1,470,000	\$0	\$26,026,000	

	TACF Fees	TLESF Fees
Current Law	\$5.75	\$2.25
HB 4630 (S-3)	9.00	1.00
Difference	\$3.25	(\$1.25)

Table D
House Bill 4630 (S-3)

Ad Valorem Registration Taxes

Impact of eliminating "depreciation" of tax rates January 1, 2016
Based on the tax rates for a vehicle in the \$30,000 to \$30,999 tax category

	Registration Tax Rates			New Vehicle Sales				
	Current Law	HB 4630 (S-3)	Difference	2016	2017	2018	2019	2020
New Vehicle Sales – 2016 through 2019								
First registration tax	\$153	\$153	\$0					
2nd year (90% of 1st registration)	138	153	15	500,000	7,650,000	7,650,000	7,650,000	7,650,000
3rd year (90% of 2nd registration)	124	153	29	500,000	2017	14,535,000	14,535,000	14,535,000
4th year (90% of 3rd registration)	112	153	41	500,000	2018	20,731,500	20,731,500	20,731,500
Total tax paid over four years	\$527	\$612	\$85	500,000	2019			
Revenue Impact				\$0	\$7,650,000	\$22,185,000	\$42,916,500	\$63,648,000
	Registration Tax Rates			Vehicle Sales 2015				
	Current Law	HB 4630 (S-3)	Difference	2016	2017	2018	2019	2020
Vehicles sold in 2015 *								
First registration tax	\$153	\$153	\$0					
2nd year (90% of 1st registration)	138	153	15	500,000	2015	7,650,000		
3rd year (90% of 2nd registration)	124	153	29	500,000	2015	14,535,000		
4th year (90% of 3rd registration)	112	153	41	500,000	2015	20,731,500		
Total tax paid over four years	\$527	\$612	\$85					
Revenue Impact				\$7,650,000	\$14,535,000	\$20,731,500	\$20,731,500	\$20,731,500
	Registration Tax Rates			Vehicle Sales 2014				
	Current Law	HB 4630 (S-3)	Difference	2016	2017	2018	2019	2020
Vehicles sold in 2014 **								
First registration tax	\$153	\$153	\$0					
2nd year (90% of 1st registration)	138	138	0					
3rd year (90% of 2nd registration)	124	138	14	500,000	2014	6,885,000		
4th year (90% of 3rd registration)	112	138	26	500,000	2014	13,081,500		
Total tax paid over four years	\$527	\$567	\$40					
Revenue Impact				\$6,885,000	\$13,081,500	\$13,081,500	\$13,081,500	\$13,081,500
	Registration Tax Rates			Vehicle Sales 2013				
	Current Law	HB 4630 (S-3)	Difference	2016	2017	2018	2019	2020
Vehicles sold in 2013 ***								
First registration tax	\$153	\$153	\$0					
2nd year (90% of 1st registration)	138	138	0					
3rd year (90% of 2nd registration)	124	124	0					
4th year (90% of 3rd registration)	112	124	12					
Total tax paid over four years	\$527	\$539	\$12					
Revenue Impact				\$0	\$6,196,500	\$6,196,500	\$6,196,500	\$6,196,500
Total revenue impact				\$14,535,000	\$41,463,000	\$62,194,500	\$82,926,000	\$103,657,500

* Assumes all vehicles sold in 2015 will be locked into Level 0 registration tax rates
 ** Assumes all vehicles sold in 2014 will be locked into Level 1 registration tax rates
 *** Assumes all vehicles sold in 2013 will be locked into Level 2 registration tax rates

Table E
Vehicle Title and Registration Regulatory and Service Fee Revenue
 Fiscal Year Ending September 30, 2013

<u>Title or Registration Fee</u>	<u>MCL</u>	<u>Fee</u>	<u>Sunset Date</u>	<u>Amended by HB 4630 (S-3)</u>	<u>Disposition of Fee Revenue</u>		
					<u>MTF</u>	<u>TACF</u>	<u>TLESF</u>
Registration Fees							
Registration Regulatory Fee	257.801(3)	\$2.25	10/1/2015	Yes			17,029,040
Registration Service Fee	257.801(3)	\$5.75	10/1/2015	Yes	43,528,196		
Commemorative Plate Fee	257.804(1)	\$5.00	10/1/2015	No	832,862		
Personalized Plates - Original	257.803(b)	\$30.00	10/1/2015	Yes	1,063,303		
Special Permits Fees	257.802	various	10/1/2015	Yes	1,383,564		
15 Day Temp Permit Fee	257.802(4)	\$5.00	10/1/2015	Yes	456,494		
30/60 Day Permits	257.802(5)	\$5.00	10/1/2015	Yes	551,250		
Replacement Plates	257.804(2)	\$5.00/\$10.00	10/1/2015	No	575,066		
Fundraising Plate Service Fee	257.811(h)	\$10.00	10/1/2015	No	217,782		
Transfer Registration Fee	257.809	\$8.00	10/1/2015	Yes	8,136,908		
Subtotal - Registration Fees					\$0	\$56,745,425	\$17,029,040
Title Fees							
Application for Title Fee	257.806(1)	\$10.00	10/1/2015	Yes	30,071,012		
Title Service Fee	257.806(1)	\$3.00	10/1/2015	Yes		8,507,388	
Expedited Title Fee	257.806(1)	\$5.00	10/1/2015	Yes		1,696,115	
Tire Disposal Surcharge	257.806(2)	\$1.50	12/31/201	Yes			4,253,366
Subtotal - Title Fees					\$30,071,012	\$10,203,503	\$0
Other Fee Revenue							
Look-up fees	257.208b, 257.232		10/1/2015	No		34,780,512	
Common Cash Earnings			N/A			10,190	
Misc/Correction			N/A			465,722	
Revenue Total					\$30,071,012	\$102,205,352	\$17,029,040
							\$4,253,366

Source: Revenue from MAIN/Business Objects data retrieval.