

Legislative Analysis



MICHIGAN VEHICLE CODE – PRORATION OF REGISTRATION TAXES

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House Bill 6608

Sponsor: Rep. Philip LaJoy

Committee: Transportation

Complete to 12-7-06

A SUMMARY OF HOUSE BILL 6608 AS INTRODUCED 11-09-06

The bill would amend Section 801 of the Michigan Vehicle Code (Public Act 300 of 1949) to provide for the proration of the ad valorem registration taxes established in Subsection (p).

BACKGROUND INFORMATION:

The Michigan Vehicle Code provides for the registration of motor vehicles and gives authority for the vehicle registration program to the Michigan Secretary of State. Section 801 of the Michigan Vehicle Code provides for the collection of registration taxes at the time of registration. Most vehicles (other than trucks and commercial vehicles) are taxed under the provisions of Section 801(1)(p) which establishes a schedule of registration taxes based on the vehicle manufacturer's original list price. Taxes for a vehicle with a list price up to \$6,000 would be \$30. Taxes for more expensive vehicles would be incrementally higher; the tax for a \$50,000 vehicle would be \$248. Based on the department's *Summary of Fees Collected* for the fiscal year ending September 30, 2005, the average passenger car registration tax is \$84.

Under provisions of Section 801(1)(p), the tax for the second year of registration would be 90% of the tax assessed under subparagraph i (original registration), the tax for the third year would be 90% of the second year's tax, and the tax for the fourth and subsequent registrations would be 90% of the third year's tax. The \$50,000 vehicle taxed at \$248 in the first year, would be taxed \$223 the second year, \$200 the third year, and \$180 the fourth and each subsequent year. However, there are two provisions of the Michigan Vehicle Code which reduce the registration tax paid by some owners, thus lowering registration tax revenue.

Purchase/Birthday Date Difference – 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. The owner doesn't have to pay the new and usually higher registration tax until the registration is renewed on his or her next birthday. Section 226 of the Michigan Vehicle Code indicates that the vehicle registration expires on the owner's birthday.

Annual Plate Transfers – The Department of State believes 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 situations an owner would register a car with a relatively low list price (Ford Focus or Geo Metro for example) and pay a relatively low registration tax. The owner would then transfer the plate to a newer more expensive car (Lexis, Hummer, Navigator) paying only an \$8.00 transfer fee. The owner could purchase another registration plate for the low-cost vehicle (if he or she intends to drive it), or could simply garage the low-cost vehicle and not register it. The owner could repeat these transactions annually. The annual savings to the owner could be \$200 or more.

Fiscal Impact – Revenue from vehicle registration taxes is constitutionally dedicated to transportation. It is first credited to the Michigan Transportation Fund (MTF) and then distributed to the following recipients:

- The Comprehensive Transportation Fund for public transportation programs.
- The State Trunkline Fund for preservation/improvement of state trunkline system
- County road commissions, cities and villages for local road/street systems.

The Michigan Secretary of State estimates that the practice of transferring registration plates from a less expensive vehicle to a more expensive vehicle, through the purchase of a new vehicle, results in lost revenue to the MTF of from \$19 million to \$24 million. The department cannot readily determine how much revenue is lost when owners transfer plates from an older low-tax vehicle to a more expensive but not necessarily new vehicle.

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