

Legislative Analysis



MICHIGAN VEHICLE CODE: VEHICLE REGISTRATION TAX RATES

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Analysis available at
<http://www.legislature.mi.gov>

House Bill 4736 as enacted

Public Act 174 of 2015

Sponsor: Rep. Michael D. McCready

House Committee: Transportation and Infrastructure (Discharged)

Senate Committee: Committee of the Whole

Complete to 11-17-15

SUMMARY:

House Bill 4736, as enacted, would amend Section 801 of the Michigan Vehicle Code, the section that establishes registration taxes for most Michigan motor vehicles, including passenger cars, vans, light trucks, large "commercial" trucks, trailers, motorcycles, as well as a number of special registration categories. The bill would make the following changes to Section 801:

- Increase registration tax rates by 20% for the elected gross vehicle weight (GVW) registration category, the registration category assigned to most commercial trucks (trucks weighing more than 8,000 pounds and truck-tractors designed to pull trailers).
- Increase by 20% *ad valorem* (value-based) registration tax rates levied on passenger cars, vans, and light trucks.
- Create a new registration tax surcharge for electric-powered motor vehicles.

These changes would take effect January 1, 2017.

The estimated increase in gross Michigan Transportation Fund (MTF) revenue in the first full year of implementation would be \$206.2 million. Because the bill would make the rate changes effective on January 1, 2017, this first year impact would fall between two fiscal years: three-quarters of the first year impact would fall in FY 2016-17, with the balance in FY 2017-18.

We also estimate that revenue from the changes in the ad valorem tax rates would tend to grow as newer vehicles with higher manufacturer's list prices were registered and older fully depreciated vehicles were retired. Our estimate assumes a 3% annual revenue growth rate as a result of this change.

As a result of the changes described above, we estimate that the bill would increase MTF revenue by \$154.6 million in FY 2016-17, \$210.8 million in FY 2017-18, \$217.2 in FY 2018-19, and \$223.7 million FY 2019-20, and \$230.4 million in FY 2020-21. These revenue impacts are shown in **Table A** at the end of this analysis.

The increases in MTF revenue would be distributed according to the provisions of Section 10 of 1951 PA 51, specifically 10% to the Comprehensive Transportation Fund, with the balance distributed 39.1% to the State Trunkline Fund, 39.1% to county road commissions, and 21.8% to cities and villages.

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 \$973.7 million in FY 2013-14, and approximately \$1.0 billion for FY 2014-15. 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, characteristics of the vehicle owner.

For a description of registration taxes under current law, see the memorandum [Vehicle Registration Taxes, Fiscal Focus: Vehicle Registration Primer](#), dated August 21, 2014, on the House Fiscal Agency website. (<http://www.house.mi.gov/hfa/home.asp>)

DETAILED ANALYSIS:

House Bill 4736 would amend Section 801 of the Michigan Vehicle Code, the section that establishes registration taxes for most vehicle registration categories. House Bill 4736 would make substantive changes to only 2 of the 13 registration tax subdivisions established under Section 801(1): Subdivision *k* which establishes weight-based tax rates for trucks greater than 8,000 pounds or truck-tractors towing a trailer or trailer combination; and Subdivision *p* which establishes ad valorem tax rates for passenger cars, vans, and light trucks. In addition, House Bill 4736 would add a new subsection, Subsection 7, to establish a new registration tax surcharge for electric-powered vehicles.

Section 801(1)(k) – Weight-Based Truck Registrations

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 May 2015 there were 89,500 vehicles registered under this subdivision.

Under this tax category, the vehicle owner elects the vehicle registration tax band based on the highest estimated GVW of the truck or truck-tractor plus any loaded semi-trailer, trailer, or semi-trailer/trailer combination. General delivery trucks are frequently registered at the 24,000- pound GVW tax band. Standard interstate 5-axle truck/semi-trailer combinations (3 axles on the pulling unit, 2 axles on the semi-trailer) are frequently registered at the 80,000-pound GVW tax band. A truck-tractor/semi-trailer/trailer combination used to haul gravel or other aggregates might be registered at the highest weight bands, 160,000 pounds GVW or more.

House Bill 4736 would increase the tax rates for vehicles registered under this subdivision by 20% effective January 1, 2017.

Note that the vehicles registered under this subdivision are assumed to be commercial vehicles and are generally limited to operation within the state of Michigan. However, the rates established in this subdivision are also used in apportioning Michigan registration taxes to both Michigan-based and "foreign" vehicles in excess of 26,000 pounds GVW engaged in interstate or cross-border commerce. These taxes are apportioned through the state's participation in the International Registration Plan (IRP) authorized under Section 801g of the Michigan Vehicle Code.

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. The tax is based on the vehicle's original manufacturer's list price. Department records indicate that as of May 2015 there were 7.2 million vehicles registered under this category.

House Bill 4736 would increase the ad valorem tax rates by 20% beginning October 1, 2017. The change would apply to all currently registered vehicles as well as to new registrations.

The current average registration tax under this subdivision is approximately \$100.00. House Bill 4736 would effectively increase that average by \$20.00, to \$120.00. For a vehicle with a manufacturer's list price between \$29,000 and \$30,000 – roughly the current average for new cars – the first 12-month registration tax is currently \$148.00; under House Bill 4736, the first 12-month registration tax would be \$178.00; an increase of \$30.00.

Note that 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. This is sometimes described as a recognition of vehicle depreciation.

House Bill 4736 would *not* change the recognition of "depreciation" established in current law.

Section 801(7) –Tax Surcharge for Electric-Powered Vehicles

House Bill 4736 would add a new subsection 7 to Section 801 to increase the registration taxes for vehicles powered by electricity. For a *hybrid vehicle* with an empty weight of 8,000 pounds or less, the bill would impose a \$30.00 registration surcharge. For a *hybrid vehicle* with an empty weight greater than 8,000 pounds, the registration surcharge would be \$100.00.

For a *nonhybrid electric vehicle* with an empty weight of 8,000 pounds or less, the bill would impose a \$100.00 registration surcharge. For a *nonhybrid electric vehicle* with an empty weight greater than 8,000 pounds, the registration surcharge would be \$200.00.

The bill defines *hybrid vehicle* as a vehicle propelled at least in part by electricity and using a battery storage system of at least 4 kilowatt hours, but also capable of using motor fuel for propulsion.

The bill defines *nonhybrid electric vehicle* as a vehicle propelled solely by electrical energy and not capable of using motor fuel for propulsion.

The bill also links the registration surcharges for electric-powered vehicles to changes in the motor fuel tax on gasoline.

Enacting Sections:

Enacting Section 1 - Effective Date

The effective date stated in the bill is April 1, 2016, although the changes in tax rates made in the bill would not take effect until January 1, 2017.

Enacting Section 2

House Bill 4736 was tie-barred to House Bills 4370, 4614, 4616, 4737, and 4738, and to Senate Bill 414, all of which have been enacted.

FISCAL IMPACT:

House Bill 4736 would have the following fiscal impacts:

- Increase tax revenue for credit to the MTF by increasing elected GVW registration tax rates for "commercial" trucks.

- Increase tax revenue for credit to the MTF by increasing ad valorem registration taxes for cars, vans, and light trucks.
- Increase tax revenue for credit to the MTF by establishing a registration tax surcharge for electric-powered vehicles.
- Increase Department of State programming and administrative costs by an indeterminate amount.

Our estimate of the fiscal impact of the above changes is summarized in **Table A**.
A calculation of the weight-based registration tax changes is found in **Table B**.
A comparison of current and amended *ad valorem* tax rates is found in **Table C**.

Fiscal Analyst: William E. Hamilton

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

Table A
House Bill 4736 (S-4)
Summary of Fiscal Impacts

| | <u>Vehicle Registration Tax Revenue</u> | | | <u>MTF Revenue Changes as a result of House Bill 4736 (S-4)</u> | | | | |
|--|---|---|---------------------------------------|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | <u>Actual</u> <u>FY 2013-14</u> | <u>Preliminary</u> <u>FY 2014-15</u> | <u>Estimated</u> <u>FY 2015-16</u> | <u>FY 2016-17</u> <u>Change</u> | <u>FY 2017-18</u> <u>Change</u> | <u>FY 2018-19</u> <u>Change</u> | <u>FY 2019-20</u> <u>Change</u> | <u>FY 2020-21</u> <u>Change</u> |
| Ad valorem (current registrations) ⁽¹⁾ | \$732,655,000 | \$754,635,000 | \$777,274,000 | \$116,591,000 | \$38,864,000 | | | |
| Ad valorem (new registrations) ⁽¹⁾ | | | | 14,023,000 | 4,674,000 | | | |
| Elected GVW registration taxes ⁽²⁾ | 81,427,000 | 81,427,000 | 81,427,000 | 12,246,000 | 4,082,000 | | | |
| International registration plan (IRP) ⁽³⁾ | 70,000,000 | 70,000,000 | 70,000,000 | 10,507,000 | 3,502,000 | | | |
| Electric vehicles ⁽⁴⁾ | | | | 1,275,000 | 425,000 | | | |
| Other registration categories ⁽⁵⁾ | 56,730,000 | 72,109,000 | 56,299,000 | | | | | |
| Assumed 3% increase to ad valorem change | | | | | 4,639,000 | 6,325,000 | 6,515,000 | 6,710,000 |
| Total (Comptroller Object Code 1080) | \$940,812,000 | \$978,171,000 | \$985,000,000 | | | | | |
| Increase | | | | \$154,642,000 | \$56,186,000 | \$6,325,000 | \$6,515,000 | \$6,710,000 |
| Cumulative Increase from FY 2015-16 baseline | | | | \$154,642,000 | \$210,828,000 | \$217,153,000 | \$223,668,000 | \$230,378,000 |

Notes:

- (1) Ad valorem registrations under Section 801(1)(p) of the Michigan Vehicle Code are assessed on cars, vans, and light trucks (under 8,000 lbs.). FY 2013-14 figures are from the Michigan Secretary of State's FY 2013-14 Summary of Fee's Collected report and other accounting records. Our analysis assumes 3% annual growth in baseline revenue through FY 2015-16. The analysis reflects a 20% increase in ad valorem tax rates effective January 1, 2017, allocated between FYs 2016-17 and 2017-18.
- (2) These are weight-based registrations for Michigan commercial trucks, including truck-tractors pulling trailers, with a gross vehicle weight over 8,000 lbs.
- (3) These are apportioned weight-based registrations for interstate and cross-border motor carriers.
- (4) This is a midpoint estimate.
- (5) This is a balancing figure, used to balance to registration tax revenue as recorded in Comptroller Object Code #1080.

Table B
House Bill 4736 (S-4)
Comparison of Current Law and As Amended Weight-based Tax Rates
Michigan Vehicle Code, Section 801(1)(k)
Change effective January 1, 2017

| <u>Weight Range</u> | <u>Registrations</u> | | | <u>Tax Rates</u> | | | <u>Weight-Based Revenue</u> | | | <u>Rate</u> | <u>Rate</u> |
|---------------------------|----------------------|-------------------------------|----------------|---------------------|---------------------|---------------------|-----------------------------|-------------------|--|-------------|-------------|
| | <u>May 2015</u> | <u>Current Law</u> | <u>HB 4736</u> | <u>Current Law</u> | <u>HB 4736</u> | <u>Difference</u> | <u>Difference</u> | <u>% Increase</u> | | | |
| 0 to 24,000 pounds | 39,605 | \$491 | \$590 | \$19,446,055 | \$23,366,950 | \$3,920,895 | \$99 | 20.2% | | | |
| 24,001 to 26,000 pounds | 9,089 | 558 | 670 | 5,071,662 | 6,089,630 | 1,017,968 | 112 | 20.1% | | | |
| 26,001 to 28,000 pounds | 1,920 | 558 | 670 | 1,071,360 | 1,286,400 | 215,040 | 112 | 20.1% | | | |
| 28,001 to 32,000 pounds | 4,785 | 649 | 779 | 3,105,465 | 3,727,515 | 622,050 | 130 | 20.0% | | | |
| 32,001 to 36,000 pounds | 3,844 | 744 | 893 | 2,859,936 | 3,432,692 | 572,756 | 149 | 20.0% | | | |
| 36,001 to 42,000 pounds | 1,980 | 874 | 1,049 | 1,730,520 | 2,077,020 | 346,500 | 175 | 20.0% | | | |
| 42,001 to 48,000 pounds | 3,032 | 1,005 | 1,206 | 3,047,160 | 3,656,592 | 609,432 | 201 | 20.0% | | | |
| 48,001 to 54,000 pounds | 6,680 | 1,135 | 1,362 | 7,581,800 | 9,098,160 | 1,516,360 | 227 | 20.0% | | | |
| 54,001 to 60,000 pounds | 1,527 | 1,268 | 1,522 | 1,936,236 | 2,324,094 | 387,858 | 254 | 20.0% | | | |
| 60,001 to 66,000 pounds | 1,222 | 1,398 | 1,678 | 1,708,356 | 2,050,516 | 342,160 | 280 | 20.0% | | | |
| 66,001 to 72,000 pounds | 3,306 | 1,529 | 1,835 | 5,054,874 | 6,066,510 | 1,011,636 | 306 | 20.0% | | | |
| 72,001 to 80,000 pounds | 3,177 | 1,660 | 1,992 | 5,273,820 | 6,328,584 | 1,054,764 | 332 | 20.0% | | | |
| 80,001 to 90,000 pounds | 1,438 | 1,793 | 2,152 | 2,578,334 | 3,094,576 | 516,242 | 359 | 20.0% | | | |
| 90,001 to 100,000 pounds | 966 | 2,002 | 2,403 | 1,933,932 | 2,321,298 | 387,366 | 401 | 20.0% | | | |
| 100,001 to 115,000 pounds | 1,029 | 2,223 | 2,668 | 2,287,467 | 2,745,372 | 457,905 | 445 | 20.0% | | | |
| 115,001 to 130,000 pounds | 895 | 2,448 | 2,938 | 2,190,960 | 2,629,510 | 438,550 | 490 | 20.0% | | | |
| 130,001 to 145,000 pounds | 694 | 2,670 | 3,204 | 1,852,980 | 2,223,576 | 370,596 | 534 | 20.0% | | | |
| 145,001 to 160,000 pounds | 3,326 | 2,894 | 3,473 | 9,625,444 | 11,551,198 | 1,925,754 | 579 | 20.0% | | | |
| over 160,000 pounds | 985 | 3,117 | 3,741 | 3,070,245 | 3,684,885 | 614,640 | 624 | 20.0% | | | |
| | | Total (Rounded) | | \$81,427,000 | \$97,755,000 | \$16,328,000 | | | | | |
| | | IRP revenue (rounded average) | | \$70,000,000 | | | | | | | |
| | | Registration Tax Increase | | 20.0% | | | | | | | |
| | | Increase in IRP revenue | | \$14,009,000 | | | | | | | |
| | | Total Increase | | \$30,337,000 | | | | | | | |

Table C
House Bill 4736 (S-4)
Comparison of Current Law and As Amended Ad Valorem Tax Rates
Michigan Vehicle Code, Section 801(1)(p)
Change effective January 1, 2017

| <u>Manufacturer's List Price</u> | <u>Current Law Year 0 *</u> | <u>House Bill 4736 (S-4) Year 0 *</u> | <u>Increase</u> | <u>Percent Increase</u> |
|--|-------------------------------------|---|-----------------|-----------------------------|
| <i>\$ 0 - \$ 6,000.00</i> | \$ 30.00 | \$ 36.00 | \$ 6.00 | 20.0% |
| <i>More than \$ 6,000.00 - \$ 7,000.00</i> | \$ 33.00 | \$ 40.00 | \$ 7.00 | 21.2% |
| <i>More than \$ 7,000.00 - \$ 8,000.00</i> | \$ 38.00 | \$ 46.00 | \$ 8.00 | 21.1% |
| <i>More than \$ 8,000.00 - \$ 9,000.00</i> | \$ 43.00 | \$ 52.00 | \$ 9.00 | 20.9% |
| <i>More than \$ 9,000.00 - \$ 10,000.00</i> | \$ 48.00 | \$ 58.00 | \$ 10.00 | 20.8% |
| <i>More than \$ 10,000.00 - \$ 11,000.00</i> | \$ 53.00 | \$ 64.00 | \$ 11.00 | 20.8% |
| <i>More than \$ 11,000.00 - \$ 12,000.00</i> | \$ 58.00 | \$ 70.00 | \$ 12.00 | 20.7% |
| <i>More than \$ 12,000.00 - \$ 13,000.00</i> | \$ 63.00 | \$ 76.00 | \$ 13.00 | 20.6% |
| <i>More than \$ 13,000.00 - \$ 14,000.00</i> | \$ 68.00 | \$ 82.00 | \$ 14.00 | 20.6% |
| <i>More than \$ 14,000.00 - \$ 15,000.00</i> | \$ 73.00 | \$ 88.00 | \$ 15.00 | 20.5% |
| <i>More than \$ 15,000.00 - \$ 16,000.00</i> | \$ 78.00 | \$ 94.00 | \$ 16.00 | 20.5% |
| <i>More than \$ 16,000.00 - \$ 17,000.00</i> | \$ 83.00 | \$ 100.00 | \$ 17.00 | 20.5% |
| <i>More than \$ 17,000.00 - \$ 18,000.00</i> | \$ 88.00 | \$ 106.00 | \$ 18.00 | 20.5% |
| <i>More than \$ 18,000.00 - \$ 19,000.00</i> | \$ 93.00 | \$ 112.00 | \$ 19.00 | 20.4% |
| <i>More than \$ 19,000.00 - \$ 20,000.00</i> | \$ 98.00 | \$ 118.00 | \$ 20.00 | 20.4% |
| <i>More than \$ 20,000.00 - \$ 21,000.00</i> | \$ 103.00 | \$ 124.00 | \$ 21.00 | 20.4% |
| <i>More than \$ 21,000.00 - \$ 22,000.00</i> | \$ 108.00 | \$ 130.00 | \$ 22.00 | 20.4% |
| <i>More than \$ 22,000.00 - \$ 23,000.00</i> | \$ 113.00 | \$ 136.00 | \$ 23.00 | 20.4% |
| <i>More than \$ 23,000.00 - \$ 24,000.00</i> | \$ 118.00 | \$ 142.00 | \$ 24.00 | 20.3% |
| <i>More than \$ 24,000.00 - \$ 25,000.00</i> | \$ 123.00 | \$ 148.00 | \$ 25.00 | 20.3% |
| <i>More than \$ 25,000.00 - \$ 26,000.00</i> | \$ 128.00 | \$ 154.00 | \$ 26.00 | 20.3% |
| <i>More than \$ 26,000.00 - \$ 27,000.00</i> | \$ 133.00 | \$ 160.00 | \$ 27.00 | 20.3% |
| <i>More than \$ 27,000.00 - \$ 28,000.00</i> | \$ 138.00 | \$ 166.00 | \$ 28.00 | 20.3% |
| <i>More than \$ 28,000.00 - \$ 29,000.00</i> | \$ 143.00 | \$ 172.00 | \$ 29.00 | 20.3% |
| <i>More than \$ 29,000.00 - \$ 30,000.00</i> | \$ 148.00 | \$ 178.00 | \$ 30.00 | 20.3% |
| <i>For each \$1,000 increase</i> | \$ 5.00 | \$ 6.00 | \$ 1.00 | 20.0% |

* "Year 0" represents the 12-month registration tax for the first registration that is not a renewal registration.