Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4939 (Substitute H-1 as passed by the House)
House Bill 4940 (Substitute H-1 as passed by the House)
Sponsor: Representative John Damoose (H.B. 4939)
Representative Joe Tate (H.B. 4940)
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 2-8-22

CONTENT

House Bill 4939 (H-1) and House Bill 4940 (H-1) would amend the General Sales Tax Act and the Use Tax Act, respectively, to amend the definition of "sales price" and "purchase price", as applicable, to eliminate, beginning January 1, 2022, manufacturer rebates on motor vehicles from those definitions.

The General Sales Tax Act levies a 6.0% tax on the gross proceeds (i.e., "sales price") of a business that makes sales at retail. The Use Tax levies a 6.0% tax on the price (i.e., "purchase price") of tangible personal property used, stored, or consumed in Michigan.

"Sales price" means the total amount of consideration, including cash, credit, property, and services, for which tangible personal property or services are sold, leased, or rented, valued in money, whether received in money or otherwise, and applies to the measure subject to sales tax. "Purchase price" or "price" means the total amount of consideration paid by the consumer to the seller, including cash, credit, property, and services, for which tangible personal property or services are sold, leased, or rented, valued in money, whether received in money or otherwise, and applies to the measure subject to use tax.

The terms include certain categories of costs and charges, including delivery and installation charges incurred or to be incurred before the completion of the transfer of ownership of tangible personal property from the seller to the purchaser. Under the bills, these would apply except as provided below.

The terms exclude from the respective definitions other listed charges, credits, and amounts. Under the bill, beginning on January 1, 2022, manufacturer rebates on motor vehicles would be excluded.

Under the bills, all revenue lost to the State School Aid Fund (SAF) as a result of the above exclusions would have to be deposited into the SAF. A person who excluded manufacturer rebates from the sales price or purchase price, as applicable, of a motor vehicle to calculate the tax due under the General Sales Tax Act or Use Tax Act would have to report the amount of the rebates on an existing or amended form at the time and in a manner prescribed by the Department of Treasury. The Secretary of State would have to make the rebate information available to the Department.

MCL 205.51 & 205.75 (H.B. 4939)
205.92 & 205.111 (H.B. 4940)

Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bills would reduce State General Fund and State Comprehensive Transportation Fund revenue, and local unit revenue by an amount that could vary significantly from year to year, depending on a variety of economic factors. Important economic factors include vehicle sales levels, vehicle prices, the level of incentives offered by manufacturers, the types of incentives offered, and relative levels of vehicle supply and demand. Since 2015, incentive spending (across all types of incentives) has varied by more than 25% in different years, and the number of new vehicles sold in Michigan has varied by more than 20%. Based on current vehicle price levels and average incentive levels of the last five years, the bills would reduce revenue by approximately $25.5 million to $31.2 million per year on average.

The impact of the revenue reduction across funds would depend on the relative share of sales taxed under the sales tax versus the use tax, which also depends on the relative share of outright purchases versus leases. If 80% of the impact reflected a reduction in sales taxes, the bill would reduce General fund revenue by between approximately $22.6 million and $27.7 million per year, constitutional revenue sharing to local units by between approximately $2.0 million and $2.5 million per year, and Comprehensive Transportation Fund revenue by between $800,000 and $1.0 million per year.

While a portion of both sales and use taxes are earmarked to the SAF, the bills require the General Fund to reimburse the SAF for any revenue loss associated with the bills. As a result, the bills would have no impact on SAF revenue but the impact on the General Fund would be greater than it would be without the reimbursement provisions.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.