

# **FISCAL FOCUS**

## **Vehicle Registration Primer**

**Prepared by  
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**August 2014**



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August 2014

TO: Members of the House of Representatives

There are two primary sources of state transportation revenue in Michigan: motor fuel taxes and vehicle registration taxes. Discussions of transportation funding issues generally focus on motor fuel taxes, and in particular on the motor fuel tax on gasoline. However, starting with the fiscal year (FY) 2006-07, revenue from vehicle registration taxes has exceeded revenue from the motor fuel tax on gasoline. In FY 2012-13, revenue from vehicle registration taxes and title fees totaled \$942.7 million – \$121.1 million more than revenue generated from the motor fuel tax on gasoline and almost as much as was provided by gasoline and diesel fuel taxes combined.

This House Fiscal Agency publication, *Vehicle Registration Primer*, will present a detailed description and analysis of the major vehicle registration provisions of the Michigan Vehicle Code. The analysis will identify specific examples of the complexity of the current registration tax system and will point to potential reforms to the current system. This paper is intended to serve as a reference work for legislators considering state transportation funding issues and, more specifically, amendments to the current vehicle registration tax system.

William E. Hamilton, Senior Fiscal Analyst, is the author of this report. Kathryn Bateson, Administrative Assistant, prepared the material for publication. We wish to thank the staff at Michigan Secretary of State for assistance in developing this report.

Please do not hesitate to call if you have questions about the information in this report.

A handwritten signature in black ink that reads "Mary Ann Cleary".

Mary Ann Cleary, Director



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# INTRODUCTION AND SUMMARY

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There are two primary sources of dedicated state transportation revenue: motor fuel taxes and vehicle registration taxes. Article IX, Section 9 of the 1963 Michigan Constitution dedicates revenue from motor fuel and vehicle registration taxes for transportation purposes. These constitutional requirements are put into effect by statute, 1951 PA 51 (Act 51). Motor fuel tax and vehicle registration tax revenue is credited to the Michigan Transportation Fund (MTF). MTF revenue is distributed to other state transportation funds and programs, and to county road commissions, cities, and villages, in accordance with the provisions of Act 51.

Discussions of transportation funding issues generally focus on motor fuel taxes, and in particular on the motor fuel tax on gasoline. However, since FY 2006-07, baseline revenue from vehicle registration taxes has outpaced revenue from the motor fuel tax on gasoline. In FY 2012-13, revenue from vehicle registration taxes, including title fees, totaled \$942.7 million for credit to the MTF – \$121.1 million more than was provided by the motor fuel tax on gasoline and almost as much as was provided by gasoline and diesel fuel taxes combined. See **Figure 1** on page 6.

Motor fuel taxes are relatively easy to collect and administer. Although motor fuel taxes are reflected in the pump price paid by consumers – 19 cents per gallon for gasoline and 15 cents per gallon for diesel – the taxes are not paid by the end user, or by the retailer/service station. Motor fuel taxes are collected by the Michigan Department of Treasury from a handful of fuel *suppliers*, as defined in the Motor Fuel Tax Act (i.e., fuel terminal or refinery owners).

Vehicle registration taxes are relatively hard to collect and administer. Vehicle registration taxes can be considered more of a “retail” tax as compared to the motor fuel taxes. Registration taxes are collected by the Secretary of State from millions of vehicle owners – in part through online and mail-in processing, but primarily at 131 branch offices. In FY 2012-13, the department processed 8.3 million registration plate transactions.

The vehicle registration tax program is also hard to administer because of the extreme complexity of the program, as established in the Michigan Vehicle Code.

There are, in fact, a number of registration taxes. Section 801 of the Michigan Vehicle Code establishes 16 separate registration tax categories, with different tax bases and different tax rates. The applicable tax for any vehicle is a function of a number of factors including vehicle model year, the list price of the vehicle, the weight of the vehicle, the use of the vehicle, and, in some cases, some characteristic of the vehicle owner.

The complexity of current registration system increases opportunities for tax avoidance. A vehicle's registration tax category is often based on the representation of the vehicle owner – whether the owner qualifies for “farm plates” or intends to use the vehicle commercially or intends to use the vehicle to tow other vehicles. It is not uncommon to see identical vehicles registered under different tax categories. The Secretary of State does not verify the representations of vehicle owners.

The complexity of the current registration system also increases administrative errors and increases the administrative costs of collecting the tax.<sup>1</sup> A cost allocation study determined that the cost of administering Department of State vehicle registration programs was \$92.5 million in FY 2011-12.<sup>2</sup> Several of the current registration categories have fewer than 5,000 registrations; one category has only 84 active registrants. Administering a registration tax category for a tiny number of registrants is not efficient.

The complexity of the current registration tax system makes it hard to estimate the impact of any proposed changes to tax rates.

Some of the different registration categories and rates represent *tax expenditures* – special tax treatment for a particular industry or class of taxpayers. These tax expenditures reduce revenue available to the MTF.

The balance of this paper will present a detailed description and analysis of the major vehicle registration provisions of the Michigan Vehicle Code. The analysis will identify specific examples of the complexity of the current registration tax system and will point to potential reforms to the current system. This paper is intended to serve as a reference work for legislators considering state transportation funding issues and, more specifically, amendments to the current vehicle registration tax system.

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<sup>1</sup> See Office of Auditor General Audit 231-0200-08, May 2009, Performance Audit of the Michigan Secretary of State, Cash Receipts and Branch Office Customer Service. [http://audgen.michigan.gov/finalpdfs/08\\_09/r231020008.pdf](http://audgen.michigan.gov/finalpdfs/08_09/r231020008.pdf)

<sup>2</sup> See Michigan Secretary of State Cost Allocation Project report for Fiscal 2011-12, prepared by Maximus Consulting Services.



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# REGISTRATION TAX RATES AND TAX BASIS

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Chapter II of the Michigan Vehicle Code (Public Act 300 of 1949) provides for the registration of motor vehicles and gives authority for the vehicle registration program to the Michigan Secretary of State. Taxes associated with vehicle registrations are established in Chapter VII of the Michigan Vehicle Code, and primarily within Section 801 of that chapter. Registration taxes are assessed and collected when vehicle owners obtain new registration license plates, or renewal registration tabs, from the Michigan Secretary of State.

The largest registration tax category under Section 801 is the *ad valorem* tax on passenger cars, motor homes, pickup trucks, and vans.<sup>3</sup> The tax rates for this category are based on manufacturer vehicle list price. While the tax rates for these vehicles have not changed since 1984, revenue from this ad valorem tax has tended to increase as vehicle list price (the tax base) has increased over time.

The registration tax for most large trucks – trucks in excess of 8,000 pounds gross vehicle weight (GVW) – is based on *elected* GVW. Applicants for registration plates under this category indicate the maximum gross vehicle weight at which the vehicle will operate; the tax is based on a schedule of tax rates at various weight bands. For the Elected GVW registration category both the tax rate and tax base are effectively fixed. The tax rates for the Elected GVW category have not changed since 1997. In addition, truck GVW (the tax base) is effectively fixed by standard truck dimensions and state truck weight limitations.

In addition to these two major registration tax categories, there are 14 other registration tax categories established under Section 801. And while most of the registration tax categories are in Section 801, there are at least 11 other registration categories in other sections of the Michigan Vehicle Code.

As described in **Exhibit 1**, on page 4, there have been three major registration-related amendments to the Michigan Vehicle Code since 1983.

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<sup>3</sup> Ad valorem taxes are taxes based on value, such as sales taxes or property taxes, as opposed to weight-based registration taxes, or consumption-based excise taxes.

## Exhibit 1

### Michigan Vehicle Code

#### Registration-Related Amendments Since 1983

##### **Public Act 165 of 1983**

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

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

##### **Public Act 80 of 1997**

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

Part of a transportation bill package that included an increase in the motor fuel tax on gasoline.

##### **Public Act 152 of 2003**

- Changed the annual trailer registration tax to a permanent trailer tax, providing a one-time \$90.0 million increase in MTF revenue in 2004 as trailers were renewed at the new, higher, permanent registration tax rates. Revenue from trailer registrations fell in subsequent years.
- Created the Transportation Administration Collection Fund (TACF) as a restricted fund to support Department of State registration programs; increased registration service fees from \$5.00 to \$5.75; redirected registration service fees from the MTF to the TACF.
- Created a new \$2.25 regulatory fee for credit to a newly created Traffic Law Enforcement Safety Fund for Michigan State Police programs.
- Created a new \$3.00 title application service fee for credit to the TACF. The Legislature subsequently dedicated two additional service fees to the TACF (registration transfer and expedited title fees) which had not been included in PA 152 as originally enacted.
- Established a new \$10.00 late registration fee for credit to the state General Fund.

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

The original fiscal analysis of the two-bill package indicated that the bills would increase baseline MTF revenue by \$4.1 million annually. The bills also effectively reduced the MTF share of Department of State operations by \$16.7 million by providing a like amount in new service fee revenue to the TACF annually.

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# VEHICLE REGISTRATION TAX REVENUE HISTORY

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**Table 1** shows a thirty-year history of registration transactions and registration tax revenue as reported in the Michigan Secretary of State’s annual Summary of Fees Collected report. We chose 1983 as the baseline year because that was the last year before Michigan changed from a weight-based registration tax for passenger cars to an ad valorem registration tax.

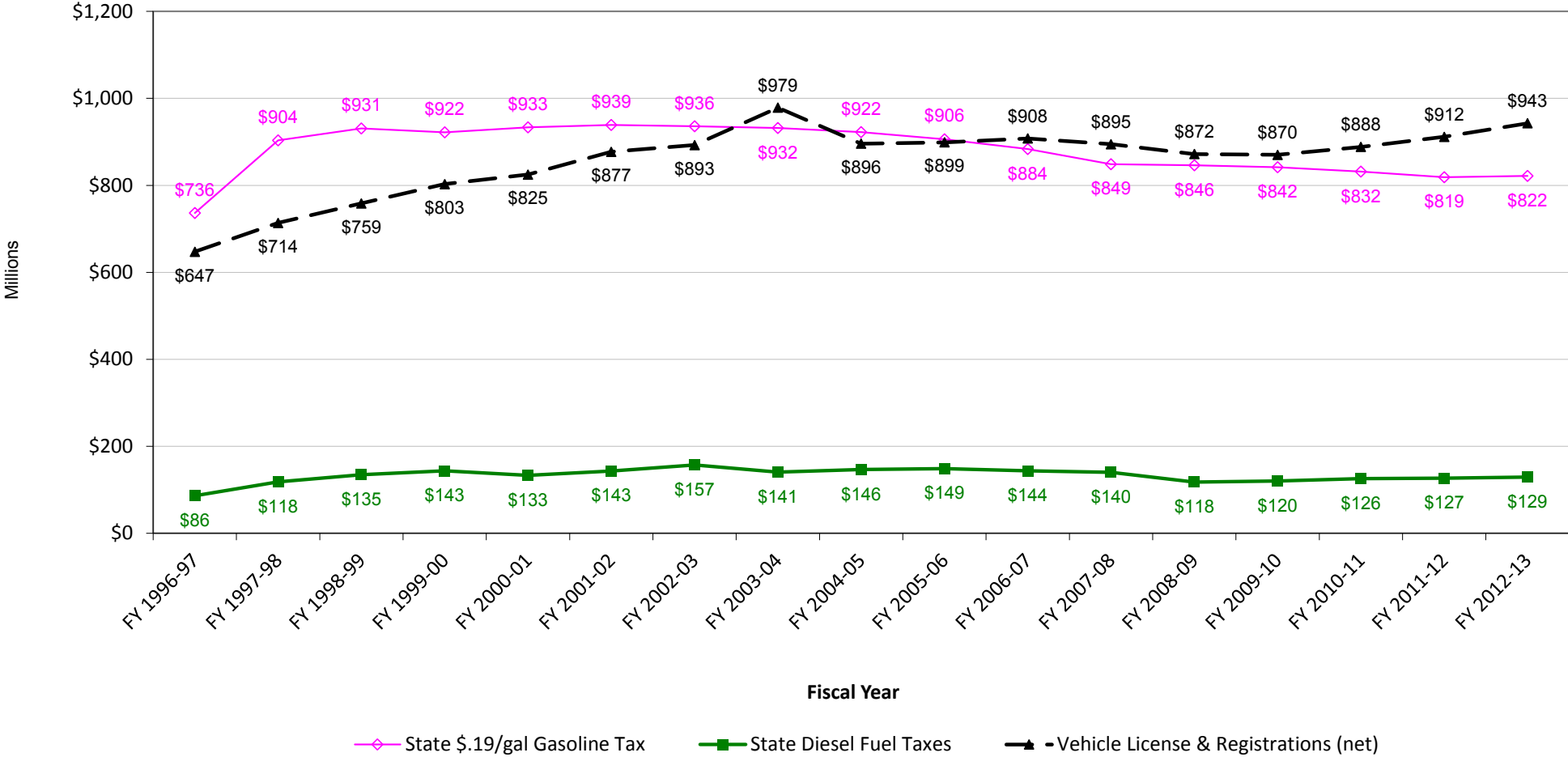
As can be seen from the table, total transactions over the period increased by approximately 1.1 million, a 15.2% increase, while registration tax revenue increased by \$628.8 million, a 264.5% increase. However, more recently, registration transactions have declined in seven of the last ten years. Registration transactions peaked in FY 2002-03 at 9.9 million; the department processed 8.3 million transactions in FY 2012-13.

Registration tax revenue, as credited to the MTF, peaked in FY 2003-04 at \$978.5 million, although that year was atypical in that it included approximately \$90.0 million in one-time revenue associated with the change from annual to permanent trailer registrations. Baseline registration revenue, excluding FY 2003-04, peaked in FY 2006-07 at \$907.8 million, declined to \$870.3 million in FY 2009-10, and rebounded to \$942.7 million in FY 2012-13.<sup>4</sup> See **Figure 2** on page 8.

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<sup>4</sup> Note that revenue amounts shown as credited to the MTF in **Figure 2** are higher than the amounts reported in the department’s Summary of Fees Collected report as shown in **Table 1**. In addition to timing differences between the two sources, the amounts shown in **Figure 2**, as credited to the MTF, include revenue from title fees collected under the authority of Section 257.217 of the Michigan Vehicle Code. Although revenue from vehicle title fees is not constitutionally restricted, title fee revenue has historically been credited to the MTF. Title fees generate approximately \$30.0 million per year.

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

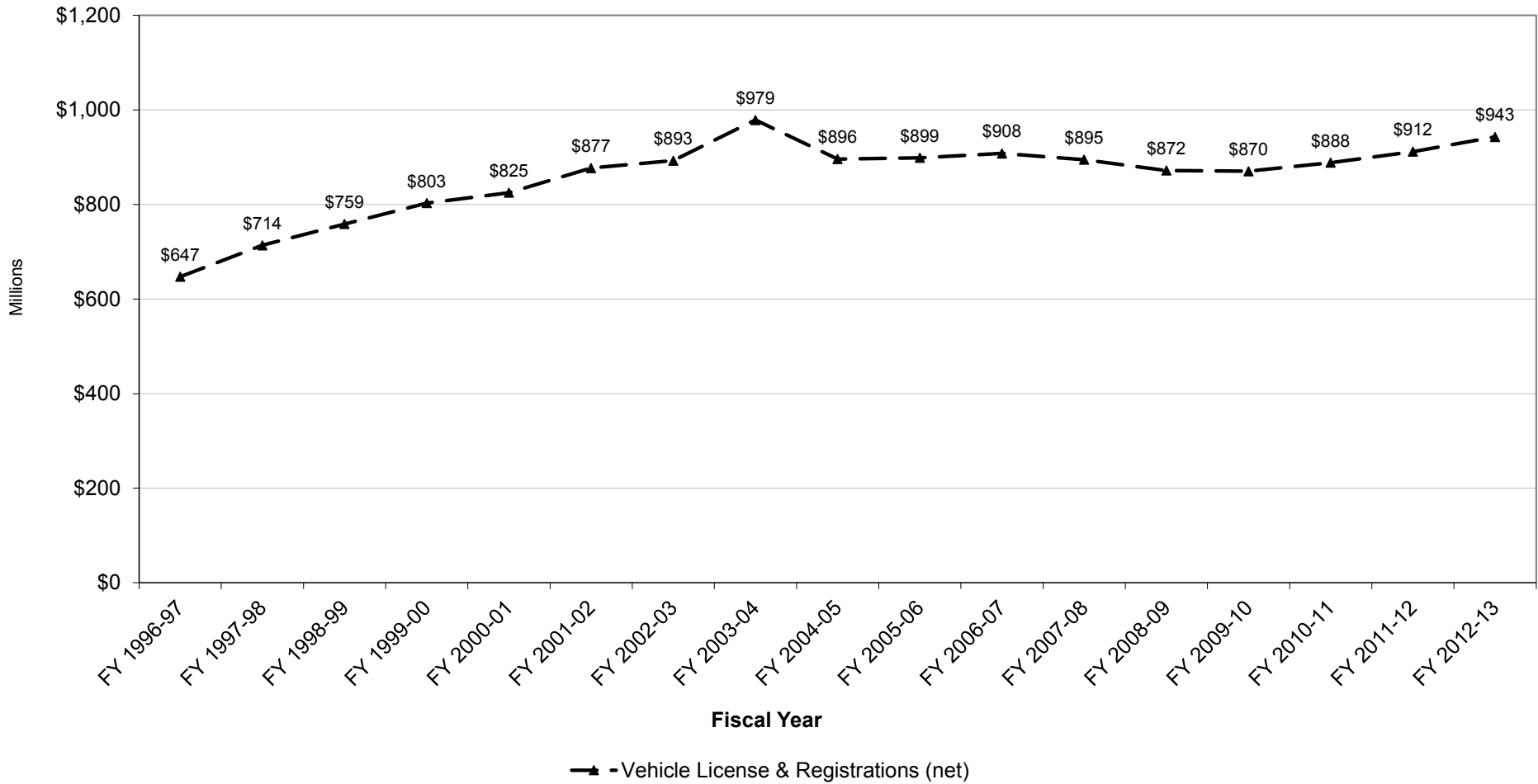


**Table 1**  
**Michigan Vehicle Registrations**  
**Thirty-Year Transaction and Revenue History**

<u>Fiscal Year</u>	<u>Total Plate Transactions</u>	<u>Difference Prior Year #</u>	<u>Percent Change</u>	<u>Registration Tax Revenue</u>	<u>Difference Prior Year \$</u>	<u>Percent Change</u>	<u>Revenue % Change Compared to Transaction % Change</u>
1983	7,170,009	(9,307)	-0.13%	\$237,724,622	\$24,193,614	11.33%	11.46%
1984	7,239,982	69,973	0.98%	255,862,631	18,138,009	7.63%	6.65%
1985	7,613,439	373,457	5.16%	286,683,713	30,821,082	12.05%	6.89%
1986	7,731,703	118,264	1.55%	299,980,206	13,296,493	4.64%	3.08%
1987	7,899,197	167,494	2.17%	315,941,648	15,961,442	5.32%	3.15%
1988	8,016,022	116,825	1.48%	363,183,844	47,242,196	14.95%	13.47%
1989	8,034,293	18,271	0.23%	397,038,510	33,854,666	9.32%	9.09%
1990	8,113,037	78,744	0.98%	409,819,989	12,781,479	3.22%	2.24%
1991	8,158,657	45,620	0.56%	420,162,272	10,342,283	2.52%	1.96%
1992	8,237,762	79,105	0.97%	441,775,914	21,613,642	5.14%	4.17%
1993	8,338,188	100,426	1.22%	461,490,637	19,714,723	4.46%	3.24%
1994	8,557,796	219,608	2.63%	492,050,220	30,559,583	6.62%	3.99%
1995	8,683,193	125,397	1.47%	523,579,795	31,529,575	6.41%	4.94%
1996	9,072,739	389,546	4.49%	563,513,809	39,934,014	7.63%	3.14%
1997	9,128,800	56,061	0.62%	593,994,084	30,480,275	5.41%	4.79%
1998	9,275,870	147,070	1.61%	664,526,913	70,532,829	11.87%	10.26%
1999	9,506,006	230,136	2.48%	709,128,908	44,601,995	6.71%	4.23%
2000	9,703,991	197,985	2.08%	757,426,707	48,297,799	6.81%	4.73%
2001	9,757,968	53,977	0.56%	776,742,152	19,315,445	2.55%	1.99%
2002	9,886,498	128,530	1.32%	824,832,980	48,090,828	6.19%	4.87%
2003	9,925,534	39,036	0.39%	847,504,982	22,672,002	2.75%	2.35%
2004	9,691,986	(233,548)	-2.35%	934,299,437	86,794,455	10.24%	12.59%
2005	8,695,195	(996,791)	-10.28%	862,073,602	(72,225,835)	-7.73%	2.55%
2006	8,506,283	(188,912)	-2.17%	864,242,867	2,169,265	0.25%	2.42%
2007	8,545,661	39,378	0.46%	875,341,967	11,099,100	1.28%	0.82%
2008	8,287,413	(258,248)	-3.02%	848,719,710	(26,622,257)	-3.04%	-0.02%
2009	8,230,616	(56,797)	-0.69%	837,087,931	(11,631,779)	-1.37%	-0.69%
2010	8,194,367	(36,249)	-0.44%	838,540,486	1,452,555	0.17%	0.61%
2011	8,222,654	28,287	0.35%	823,343,157	(15,197,329)	-1.81%	-2.16%
2012	8,208,000	(14,654)	-0.18%	838,214,130	14,870,973	1.81%	1.98%
2013	8,257,268	63,960	0.78%	866,498,948	28,284,818	3.37%	2.59%
<b>Change from 1983 to 2013</b>		<b>1,087,259</b>	<b>15.2%</b>		<b>\$628,774,326</b>	<b>264.5%</b>	

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

**Figure 2**  
**MTF Revenue History**  
**Vehicle Registration Tax History**



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# APPENDICES

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# APPENDIX A

## Section 801, Registration Tax Categories

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### Section 801 of the Michigan Vehicle Code

Section 801 of the Michigan Vehicle Code (MCL 257.801) establishes the major vehicle registration tax categories and tax rates. More specifically, registration tax provisions are found under various subdivisions of subsection (1), reviewed in detail on pages 13 through 33 of this analysis.

Although the registration tax provisions are established under subsection (1), Section 801 has seven subsections. Those subsections are summarized below:

**Section 801(1)** establishes the various registration tax categories. See pages 13 through 33.

**Section 801(2)** indicates that a *manufacturer* is *not* exempted under the act from paying *ad valorem taxes* on vehicles in stock or bond except on the specific number of vehicles registered. The bill indicates that a *dealer* is exempt from paying ad valorem taxes on vehicles in stock or bond.

It is not clear what this subsection refers to. Similar language was included in 1949 PA 300 as originally enacted: “*Nothing herein contained shall exempt manufacturers or dealers from paying ad valorem taxes on vehicles in stock or bond except on the specified number of motor vehicles registered to operate on the public highways.*” Article X, Section 22 of the 1909 Michigan Constitution also provided an exemption from certain franchise and privilege taxes to “*manufacturers and dealers on motor vehicles held in stock or bond.*” The language does not refer to the ad valorem vehicle registration taxes in Section 801(1)(p) since those provisions were not added to the Michigan Vehicle Code until 1983.

If the language refers to a manufacturer’s or dealer’s liability for personal property tax associated with motor vehicles held in stock, it is not clear if the language has any effect. Statutory provisions governing property taxes are found in the General Property Tax Act, 1893 PA 206.

**Section 801(3)** was added to Section 801 through 1987 amendment, 1987 PA 238, part of a multi-bill transportation funding package. The 1987 amendment increased registration fees by \$5.00 and directed the \$5.00 fee for credit to the MTF “*to defray the costs of processing the registrations under this section.*” For a number of years, these service fees were credited to the MTF and then returned to the Secretary of State to support the department’s vehicle registration program.

In 2003, the subsection was amended by 2003 PA 152. That amendment increased the registration service fee from \$5.00 to \$5.75 for credit to the new restricted TACF. See **Exhibit 1** on page 4.

**Section 801(4)** provides for a \$10.00 late registration fee for credit to the state General Fund. The fee was also added by 2003 amendment, 2003 PA 152.

**Section 801(5)** directs the Secretary of State to also collect local option registration taxes established under Section 801j. Section 801j was added by 2012 PA 388 to provide for local option registration taxes for the Regional Transit Authority established under 2012 PA 387.

**Section 801(6)** exempts historic vehicles from registration taxes under Subsection (1). This exemption was added by 2012 amendment, 2012 PA 498.

**Section 801(7)** defines the terms “gross proceeds,” “list price,” and “purchase price,” as used in the section.

**Pre-1984 Passenger Car Weight Schedule**

Includes motor homes, pickup trucks, and vans that weigh less than 8,001 pounds

**Michigan Vehicle Code Section 801(1)(a)**

*“For a motor vehicle, including a motor home, except as otherwise provided, and a pickup truck or van that weighs not more than 8,000 pounds, except as otherwise provided, according to the following schedule of empty weights:*

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

**Analysis**

The weight-based taxes of this subdivision had been the primary registration tax category for passenger cars prior to 1984 when registration taxes for those vehicles were changed to an ad valorem basis under Section 801(1)(p).

This subdivision also provides for the annual revision of these rates based on a calculation of state personal income. However, the department has never revised these rates.

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

**Total Registrations (April 2014)**

Department records identify 71,529 registrations under this category.

## SECTION 801(1)

### Trailer Coaches

Trailers designed as temporary living quarters (campers)

#### Michigan Vehicle Code Section 801(1)(b)

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

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

#### Basis of Taxation

This subdivision establishes a registration tax rate for trailer coaches simply by reference to the tax rate for trailers under Section 801(1)(l).

## Farm Vehicles/Wood Harvesters/Milk Trucks

### Michigan Vehicle Code Section 801(1)(c), and Section 801(1)(d)

These two subdivisions provide a discounted tax rate for certain vehicles as follows:

*Farm vehicles* – “a road tractor, modified agricultural vehicle, truck, or truck tractor owned by a farmer and used exclusively in connection with a farming operation, including hauling livestock or farm equipment for other farmers for remuneration in kind or in labor, but not for money, or used for the transportation of the farmer and the farmer’s family, and not used for hire.”

*Wood harvesters* – used exclusively to haul raw wood to processing (not processed lumber or Christmas trees).

*Milk trucks* – used exclusively for hauling milk from farm to first point of delivery.

### Basis of Taxation

74 cents per hundred pounds empty weight

### Analysis

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

See the discussion of tax expenditures on page 51.

Because the tax rates are the same for both farm plates and log truck plates, the department uses a single Log/Farm design for these plates. **Example.**



### Total Registrations (April 2014)

Farm plates .....	38,453
Log plates .....	2,362
Milk hauling trucks .....	228

## **SECTION 801(1)**

### **Hearse or Funeral Ambulance**

#### **Michigan Vehicle Code Section 801(1)(e)**

##### **Basis of Taxation**

\$1.17 per hundred pounds empty weight

##### **Total Registrations (April 2014)**

Department records identify 322 registrations under this category.

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

**Michigan Vehicle Code Section 801(1)(f)**

**Basis of Taxation**

\$5.00 per plate

**Analysis**

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

**Total Registrations (April 2014)**

Department records identify 100,876 registrations under this category.

The department issues approximately 9,000 plates in this category each year.

## **SECTION 801(1)**

### **Nonprofit School, Senior Center**

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

#### **Michigan Vehicle Code Section 801(1)(g)**

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

#### **Basis of Taxation**

\$10.00 per plate

#### **Analysis (see below)**

## **Nonprofit Dialysis, Civil Air Patrol, Veterans Center, Emergency Vehicles**

#### **Michigan Vehicle Code Section 801(1)(h)**

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

#### **Basis of Taxation**

\$10.00 per plate

#### **Analysis**

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

#### **Total Registrations (April 2013)**

Department records identify 14,614 registrations under this category.



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

**Michigan Vehicle Code Section 801(1)(i)**

*“For each truck owned and operated free of charge by a bona fide ecclesiastical or charitable corporation, or red cross, girl scout, or boy scout organization, 65 cents per 100 pounds of the empty weight of the truck.”*

**Basis of Taxation**

65 cents per hundred pounds empty weight

**Analysis**

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

**Total Registrations (April 2014)**

Department records identify 84 registrations under this category.

## SECTION 801(1)

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

#### Michigan Vehicle Code Section 801(1)(j)

(See page 21.)

#### Vehicle Categories

- Trucks 8,000 pounds or less and not used to tow a vehicle other than private pickups and vans covered under Section 801(1)(p)
- Privately owned trucks designed to tow a recreational vehicle, mobile home or trailer coach (e.g., 5th wheel trailer coaches; large boat trailers)

#### Basis of Taxation

Schedule of empty weights. See page 21.

#### Analysis

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

However, the actual language of the Michigan Vehicle Code is unclear; the relatively small number of registrants suggests this category is used as a catchall for a number of truck types not covered by other classifications.

Section 801(1)(j) ends with this sentence:

*“If the tax required under subdivision (p) for a vehicle of the same model year with the same list price as the vehicle for which registration is sought under this subdivision is more than the tax provided under the preceding provisions of this subdivision for an identical vehicle, the tax required under this subdivision is not less than the tax required under subdivision (p) for a vehicle of the same model year with the same list price.”*

This concluding sentence appears to require the department, for vehicles registered under this subdivision, to charge whichever is greater: the tax calculated under this subdivision, or the ad valorem tax calculated under subdivision (p).

#### Total Registrations (April 2014)

Department records identify 2,029 registrations under this category.

**Michigan Vehicle Code Section 801(1)(j)  
(Fixed Weight Truck Schedule)**

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

***Empty weights per 100 pounds***

<i>0 to 2,500 pounds .....</i>	<i>\$ 1.40</i>
<i>2,501 to 4,000 pounds .....</i>	<i>1.76</i>
<i>4,001 to 6,000 pounds .....</i>	<i>2.20</i>
<i>6,001 to 8,000 pounds .....</i>	<i>2.72</i>
<i>8,001 to 10,000 pounds .....</i>	<i>3.25</i>
<i>10,001 to 15,000 pounds .....</i>	<i>3.77</i>
<i>15,001 pounds and over.....</i>	<i>4.39”</i>

## SECTION 801(1)

### Elected Gross Vehicle Weight (GVW) Schedule – Large Trucks and Tractor-Trailer Combinations

#### Michigan Vehicle Code Section 801(1)(k)

(See page 23.)

#### Vehicle Categories

- Trucks 8,000 pounds or less towing a trailer
- Any truck 8,001 pounds or more

#### Basis of Taxation

Schedule of Elected Gross Vehicle Weight (GVW). See page 23.

#### Analysis

Under this tax category, the vehicle owner elects the vehicle tax band based on the highest estimated GVW of the truck plus any loaded trailer or combination of trailers. General delivery trucks, such as FedEx or UPS trucks, are frequently registered at the 24,000-pound GVW tax band. A standard interstate 5-axle truck-trailer combination (3 axles on the pulling unit, 2 axles on the trailer) might be registered at the 80,000-pound GVW tax band. A truck-tractor combination used to haul rolled steel or aggregates would be registered at the highest weight bands, up to 160,000 pounds GVW or more.

The elected GVW is reflected by a number on the license plate. In the example below, the registration plate reflects an elected GVW of 72,000 pounds.



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

Both the tax rate and tax base under this category are effectively fixed. The tax rates for the Elected GVW category have not changed since 1997. And truck gross vehicle weight (the tax base) is effectively fixed by standard truck configurations and state truck weight limitations.

Vehicles in excess of 26,000 pounds GVW are issued registration plates under this subdivision only if the vehicle is based in Michigan and does not leave the state of Michigan. Michigan-based vehicles in excess of 26,000 pounds GVW which do leave the state of Michigan (i.e., vehicles engaged in

## SECTION 801(1)

interstate commerce) are registered under the International Registration Plan (IRP) established Section 801g of the Michigan Vehicle Code. See page 35.

Section 801(1)(k) indicates that this tax category applies to “each truck weighing 8,000 pounds or less towing a trailer or any combination of vehicles...” Observational evidence suggests that large pickup trucks under 8,000 pounds, even with towing packages, are seldom registered under this category. In addition, the subdivision does not specify that the tax category applies only to commercial vehicles. However, the category appears to be used only for commercial vehicles.

### **Total Registrations (April 2013)**

Department records identify 78,468 registrations under this category. [This figure does not include Michigan-based trucks registered under the IRP.]

### **Michigan Vehicle Code Section 801(1)(k) (Elected Gross Vehicle Weight Schedule)**

*“For each truck weighing 8,000 pounds or less towing a trailer or any other combination of vehicles and for each truck weighing 8,001 pounds or more, road tractor or truck tractor, except as provided in subdivision (j) according to the following schedule of elected gross weights:*

#### ***Elected gross weight / Tax***

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

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

## **SECTION 801(1)**

As noted above, the category is used exclusively for commercial vehicles. As a result, for each vehicle registered under this subdivision, \$15.00 is credited to the Truck Safety Fund established in Act 51. Note that this \$15.00 is taken from the tax assessed under this subdivision; it is not in addition to the tax established under this subdivision.

## Trailers - Including Pole Trailers, Semitrailers, and Trailer Coaches

### Michigan Vehicle Code Section 801(1)(I)

*“For each pole trailer, semitrailer, trailer coach, or trailer, the tax shall be assessed according to the following schedule of empty weights:*

#### **Empty weights / Tax**

<i>0 to 2,499 pounds .....</i>	<i>\$ 75.00</i>
<i>2,500 to 9,999 pounds .....</i>	<i>200.00</i>
<i>10,000 pounds and over.....</i>	<i>300.00”</i>

#### **Analysis**

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

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

Interstate companies which own truck fleets have the option of registering trailers in other jurisdictions. Many companies register trailers in Maine or Tennessee – Maine’s annual base registration fee for trailers greater than 2,000 pounds is \$20.00; Tennessee’s base fee for a permanent semi-trailer registration is \$75.00. The difference between trailer registration fees/taxes in Michigan and those of Maine and Tennessee became more pronounced after the enactment of 2003 PA 152, which increased the Michigan tax for a 10,000-pound trailer from \$39.00 per year to a one-time tax of \$300.00.

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

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

**SECTION 801(1)**

**Table 2  
Trailer Registration Taxes**

<b>Fiscal Year</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Registration Transactions</b>														
Resident	1,100,544	1,157,133	1,198,837	1,219,262	1,120,834	249,853	176,140	162,390	135,088	123,056	130,562	129,403	140,394	140,227
Non-resident	14,632	14,575	14,653	15,374	13,172	3,787	3,423	3,774	2,724	2,460	3,070	3,184	3,184	3,681
<b>Total Transactions</b>	<b>1,115,176</b>	<b>1,171,708</b>	<b>1,213,490</b>	<b>1,234,636</b>	<b>1,134,006</b>	<b>253,640</b>	<b>179,563</b>	<b>166,164</b>	<b>137,812</b>	<b>125,516</b>	<b>133,632</b>	<b>132,587</b>	<b>143,578</b>	<b>143,908</b>
<b>Registration Tax Revenue</b>														
	\$26,233,704	\$26,888,474	\$30,159,810	\$29,294,563	\$121,861,222	\$28,215,812	\$21,285,742	\$20,516,965	\$16,238,895	\$14,610,802	\$15,816,810	\$16,275,917	\$17,836,114	\$18,399,840
				<b>2003/2004 Difference</b>	<b>\$92,566,659</b>									
				<b>2000-2003 Four-Year Average</b>	<b>1,183,753</b>									
	<b>Transactions</b>									<b>Transactions</b>				<b>2005-2013 Nine-Year Average</b>
	<b>Revenue</b>				<b>\$28,144,138</b>					<b>Revenue</b>				<b>157,378</b>
														<b>\$18,799,655</b>

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



## Passengers for Hire

### Michigan Vehicle Code Section 801(1)(m)

*“For each commercial vehicle used for the transportation of passengers for hire except for a vehicle for which a payment is made under 1960 PA 2, MCL 257.971 to 257.972, according to the following schedule of empty weights:*

#### **Empty weights per 100 pounds**

<i>0 to 4,000 pounds .....</i>	<i>\$ 1.76</i>
<i>4,001 to 6,000 pounds .....</i>	<i>2.20</i>
<i>6,001 to 10,000 pounds .....</i>	<i>2.72</i>
<i>10,001 pounds and over.....</i>	<i>3.25”</i>

### **Analysis**

This subdivision references Public Act 2 of 1960, an act that established a specific tax on public transportation vehicles in lieu of a weight tax. 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.

### **Total Registrations (April 2014)**

Department records identify 520 registrations under this category.

Department records also identify 3,262 vehicles registered under Public Act 2.

## **SECTION 801(1)**

### **Motorcycles**

#### **Michigan Vehicle Code Section 801(1)(n)**

The subdivision states that “for each motorcycle, [a tax of] \$ 23.00.”

The subdivision also states:

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

#### **Analysis**

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.

Although this subdivision provides for the adjustment of the tax based on state personal income, the department has never revised the tax rate.

#### **Total Registrations (April 2014)**

Department records identify 236,215 registrations under this category.

**Moving Vans/Trucks and Carnival Transport Trucks**

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

**Michigan Vehicle Code Section 801(1)(o)**

**Basis of Taxation**

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

**Total Registrations (April 2014)**

Department records identify 292 registrations under this category.

## SECTION 801(1)

### Ad Valorem Tax Schedule – Passenger Cars (1984 and Newer), Motor Homes, Pickup Trucks, Vans

#### Michigan Vehicle Code Section 801(1)(p)

This subdivision was added by 1983 amendment, 1983 PA 165.

#### Vehicle Categories

- Vehicles weighing 8,000 pounds or less, 1984 model year or newer – generally passenger cars. Through a reference to the vehicles included under subdivision (a), this subdivision also includes motor homes, trucks 8,000 pounds and less [other than trucks towing other vehicles], and vans.

#### Basis of Taxation

Most passenger cars, model year 1984 and newer, including motor homes, pickup trucks, and vans, are taxed under this subdivision. The basis for taxation under this subdivision is the manufacturer's list price of the registered vehicle.

The subsection lists various tax amounts applicable to different manufacturer's list price "bands." The initial tax rate is \$30.00 for vehicles with a list price band from \$0 to \$6,000. The subdivision schedule increases list price bands in \$1,000 increments, up to the \$29,000 to \$30,000 band for which the tax is \$148.00. For a vehicle with a list price greater than \$30,000, the maximum listed tax of \$148.00 is increased by \$5.00 for each \$1,000 the list price exceeds \$30,000. The effective tax rate under this schedule is approximately 0.5% of the applicable manufacturer's list price. See list price bands and tax rates on page 32.

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

As a result, the actual tax paid in the fourth and subsequent years is 73% of the tax required at the initial registration. The following is an example of how these provisions are applied:

#### Registration Taxes Under Section 801(1)(p)

##### Impact of Annual Reduction in Registration Tax

##### 12-Month Registration, \$30,000 to \$30,999 Tax Category:

First-year tax	\$153	
2nd year registration	\$138	90% of first year
3rd year registration	\$124	90% of second year
4th year registration	<u>\$112</u>	90% of third year (73% of original tax)
Total Tax Paid	\$527	

The registration tax for this vehicle would remain at \$112 for the life of the vehicle.

## SECTION 801(1)

The initial tax schedule listed in Subdivision (p) is based on 12-month registration periods. However, not all registrations are for 12-month periods. As provided in Section 226 of the Michigan Vehicle Code, registrations for most private vehicles expire on the owner's birthday. When someone applies for a vehicle registration, and the applicant's birthday is from 6 to 12 months away, Section 226 directs the Secretary of State to issue a registration valid until the owner's next birthday. If the applicant's birthday is less than 6 months away, Section 226 directs the Secretary of State to issue a registration valid until the owner's birthday following his or her next birthday. As a result, some registrations are valid for up to 17 months.

Section 226 also provides that for the initial registration, *"the tax shall bear the same relationship to the tax required under Section 801 for a 12-month registration as the length of the registration bears to 12 months."* As a result, someone with an original 17-month registration would pay 17/12<sup>ths</sup> of the 12-month registration. The registrant would pay the higher first-year registration tax rate for five more months than someone with a 12-month registration.

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

The subdivision provides for reduced tax rates for vans used by the disabled:

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

### Analysis

The ad valorem registration tax for passenger cars, pickup trucks, and vans is by far the largest plate category in terms of transactions and revenue – over 7.1 million vehicles were registered under this category as of April 2014. Department records indicate that the average registration tax in this category is approximately \$100 with over half the registrations between \$72 and \$112.

The ad valorem registration tax has the advantage of being generally objective and independently verifiable. The method is not foolproof. A 2009 Office of Auditor General audit report identified instances in which vehicles were improperly classified as to tax category. The Auditor General tested a sample of 141 transactions from a universe of 53,282 new registrations processed by the department in May 2008. Based on tests of that sample, the audit report found that, with a 90% confidence level, not less than 6,613 but not more than 12,281 new vehicle transactions were improperly classified as to tax category. The initial tax category is retained for the life of the vehicle.<sup>5</sup>

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<sup>5</sup> See Office of Auditor General Audit 231-0200-08, May 2009, Performance Audit of the Michigan Secretary of State, Cash Receipts and Branch Office Customer Service. [http://audgen.michigan.gov/finalpdfs/08\\_09/r231020008.pdf](http://audgen.michigan.gov/finalpdfs/08_09/r231020008.pdf)

## SECTION 801(1)

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

### Total Registrations (April 2014)

Department records identify 7,137,262 registrations under this category.

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

#### List Price/ Tax

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

**Wreckers**

**Michigan Vehicle Code Section 801(1)(q)**

**Basis of Taxation**

\$200.00 per year

**Total Registrations (April 2014)**

Department records identify 4,032 registrations under this category.





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# APPENDIX B

## Section 801g, International Registration Plan

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### Background

The International Registration Plan (IRP) is a 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).

Vehicles subject to IRP registration are described as *apportionable vehicles*, meaning any *power unit* that is used or intended for use in two or more member jurisdictions and that is used for the transportation of persons for hire or designed, used, or maintained primarily for the transportation of property and:

- ▶ has two axles and a gross vehicle weight or registered gross vehicle weight in excess of 26,000 pounds, or
- ▶ has three or more axles regardless of weight, or
- ▶ is used in combination [i.e., a power unit used with one or more trailers or semi-trailers or auxiliary axles] when the gross vehicle weight of the combination exceeds 26,000 pounds.

Typical IRP vehicles include the truck-trailer combinations frequently seen on interstate commercial corridors such as I-94, I-69, and I-75.<sup>6</sup>

Under the IRP, an apportionable vehicle, even though operating in multiple states and/or provinces, need only register in a single *base jurisdiction* and pay a single registration fee or tax in that base jurisdiction. The registration tax or fee paid is based on the applicable taxes or fees of the states or provinces in which the vehicle is expected to operate.

Upon application and payment of the computed registration tax, the base jurisdiction issues an “apportioned” registration plate for the vehicle, and a *cab card* indicating the jurisdictions and gross vehicle weight amounts covered by the registration. The registration credentials allow the vehicle to operate in all jurisdictions listed on the cab card. An example of an apportioned registration plate, and a calculation of an example showing how registration fees or taxes are apportioned, are shown on page 39 of this analysis.

The IRP was first adopted by nine states in September 1973. Michigan became an IRP member in August 1983. The December 1991 reauthorization of the federal surface transportation program,

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<sup>6</sup> The IRP registration applies to the power unit only. Trailers are not considered apportionable under the IRP. It is not uncommon to see a truck-trailer combination in which a power unit with a Michigan IRP registration plate is pulling a trailer with registration plates from another jurisdiction. See discussion of trailer registrations on page 25.

the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), effectively made participation in the IRP mandatory for states after September 30, 1996.

IRP, Inc. operates a clearinghouse where each member jurisdiction submits registration data into the clearinghouse application each month. The clearinghouse application nets fee/tax revenue – the amount due to/from each of the member jurisdictions. IRP, Inc. also facilitates those payments in a central clearinghouse bank account that collects/distributes the funds from/to member jurisdictions. Each month each member jurisdiction either receives a single lump sum payment for registration tax receivable from other member jurisdictions, or makes a single lump sum payment for registration tax due to other member jurisdictions. All monies are netted on the 15th of each month.

In Michigan, the IRP program is administered by the Secretary of State.

### **Michigan Vehicle Code - Section 801g**

Michigan's participation in the IRP is established in Section 801g of the Michigan Vehicle Code (MCL 257.801g). The section provides for the apportionment of registration "fees" under the IRP according to miles traveled in Michigan in relation to total miles traveled by the vehicle. The section applies only to trucks, truck tractors, or road tractors engaged in interstate commerce which would otherwise pay registration "fees" [taxes] imposed under Sections 801(1)(j) and 801(1)(k). Although the section references Section 801(1)(j), effectively only Section 801(1)(k), the Elected GVW registration category, is used to calculate Michigan's share of IRP registration taxes.

Unlike most noncommercial vehicle registrations, which expire on the owner's birthday, and unlike other commercial registration plates, which all expire on the last day of February each year,<sup>7</sup> Michigan has a staggered renewal system for IRP registrations; they expire on either September 30, December 31, March 31, or June 30.

In calendar year 2013, 41,904 power units were registered by the Michigan Secretary of State as Michigan-based IRP registrations. In FY 2012-13, net revenue for credit to the MTF from IRP-registered vehicles, from miles driven in Michigan, totaled \$67.9 million.

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<sup>7</sup> According to the provisions of Section 226 of the Michigan Vehicle Code.

## Seventy-Two-Hour Trip Permits

Only *apportionable vehicles*, generally interstate commercial vehicles in excess of 26,000 pounds, are required to apply for IRP registration plates. Commercial vehicles in excess of 26,000 pounds which operate only in a single jurisdiction are not subject to IRP registration. Those vehicles simply apply for the applicable registration plate of their home state; in Michigan such vehicles would typically apply for a weight-based registration under Section 801(1)(k).

In some instances, the owner of a vehicle registered only in a single state – in other words, a vehicle without an IRP registration – may want to operate the vehicle in another jurisdiction on a temporary basis. Or the owner of an IRP-registered vehicle may want to operate the vehicle in jurisdiction for which it was not originally registered – a jurisdiction not listed in the cab card. To provide for these situations, all IRP states and provinces authorize some form of temporary permitting.

Section 243(2) of the Michigan Vehicle Code provides for temporary permits for non-resident owners of “foreign vehicles.” These permits allow a commercial vehicle registered in another state to operate in Michigan for up to 72 hours. These temporary permits may also be issued to IRP-registered vehicles which had not included Michigan as an apportioned state. This section limits the use of these permits to “emergency or infrequent need.” Section 802a of the Michigan Vehicle Code provides for a \$20.00 permit fee for these 72-hour permits and directs the fee for credit to the MTF “to defray the expenses of such temporary permits.” The section was added by 1984 PA 330. Michigan’s 72-hour permit limitation, and \$20.00 permit fee, is in range with most other states.

In FY 2012-13, \$114,500 in revenue from 72-hour permit fees was credited to the MTF.

As with the IRP program, Michigan’s temporary permitting program is administered by the Secretary of State. Note that these temporary permits provided under Section 243(2) are temporary permits in lieu of IRP *registration*. These permits have nothing to do with oversize/overweight truck permits issued by the Michigan Department of Transportation.<sup>8</sup>

## Analysis

The IRP represents a significant improvement over the previous interstate registration system – a system that required commercial vehicles to register in multiple jurisdictions. However, one of the perceived problems with the original IRP program was the use of *estimated* vehicle mileage – both total mileage and the mileage driven in each member jurisdiction.

This problem is recognized in an IRP publication: “*There are several problems associated with estimated distance, including loss of revenue to a jurisdiction due to substantial under reporting [...and...] inability to audit estimated distance.*” The IRP publication goes on to note “*The current*

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<sup>8</sup> The Official Commentary to the IRP, Article VI, Section 610, notes “*The weight or number of combined Axles for which the Apportioned Vehicle is registered must appear on the face of the Cab Card so that enforcement personnel can know whether an Apportioned Vehicle is operating in excess of its registered weight or number of combined Axles. An Apportioned Vehicle must not only be properly registered in its Base Jurisdiction with regard to declared gross weight, it must also comply with existing weight laws or regulations in other Member Jurisdictions into or through which it operates. For example, the payment of Apportionable Fees in Member Jurisdiction X at a declared gross combined weight of 80,000 pounds does not of itself authorize the operation of that Vehicle at 80,000 pounds in Member Jurisdiction Y, where the legal weight limit may be lower.*”

*[IRP] model has incentives for [the trucking] industry to reduce fee costs [...] through complex administrative practices [...] it also provides both a means and an incentive to falsify applications, further costing jurisdictions revenue.”<sup>9</sup>*

To address these concerns, in October 2013, IRP members voted to adopt a *full reciprocity* plan. Under this plan, effective for registrations starting January 2015, the apportionment of registration taxes would be based on actual registration mileage travelled in each member jurisdiction, rather than estimated mileage. IRP registrants would no longer have to list jurisdictions they anticipated operating in; they could operate in all IRP jurisdictions without additional registration or permitting (i.e., “full reciprocity”).

Once fully implemented, the IRP apportionment of interstate truck registrations would be very similar to the apportionment of diesel motor fuel taxes among states under the International Fuel Tax Agreement (IFTA). Michigan’s IFTA program is administered by the Michigan Department of Treasury.

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

It is our understanding that the two agencies do not currently coordinate audit functions with regard to enforcement of IRP and IFTA tax agreements. The conversion of IRP registrations to the full reciprocity plan (i.e., to the apportionment of registration taxes based on actual mileage) should facilitate audit and enforcement coordination; the apportionment of both taxes will be based on actual mileage as reported by covered interstate commercial vehicles.

Article XII, Section 1200 of the IRP states that *“Each Member Jurisdiction shall expend reasonable resources to enforce the provisions of the Plan, and to be vigilant against fraud and sham, particularly in the areas of Registrant basing and distance reporting.”*

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<sup>9</sup> *Full Reciprocity Plan White Paper*, International Registration Plan, Inc., Full Reciprocity Task Force, August, 2010. These concerns about tax evasion are echoed in the publication, *Road Fund Tax Compliance* (Eger and Hackbart, Public Budgeting and Finance, Spring 2005), which notes *“The existence of multiple state [tax] rates creates incentives for the carriers to manipulate their tax and fee liabilities and payments.”*

## HOW IRP FEES ARE APPORTIONED

Following is an example of how the registration for a Michigan-based power unit might be apportioned:

The operator of this unit drives in Michigan, Indiana, Illinois, and Wisconsin and drives 25,000 miles per year in each jurisdiction, for a total annual mileage of 100,000. The operator chose the gross vehicle weight of 80,000 pounds for each state. Under the International Registration Plan, the license fee would be computed as follows:

	<b>Mileage in State</b>	<b>Percent of Total</b>		<b>Full-Year Fees of that State</b>	=	<b>Apportioned Fee</b>
Michigan	25,000	25%	X	\$1,660.00	=	\$415.00
Indiana	25,000	25%	X	\$1,457.00	=	\$364.25
Illinois	25,000	25%	X	\$2,790.00	=	\$697.50
Wisconsin	25,000	25%	X	\$1,987.50	=	\$496.88
<b>Total</b>	<b>100,000</b>	<b>100%</b>				<b>\$1,973.63</b>

### Example: Apportioned Registration Plate



*Source: Michigan Secretary of State website, accessed April 11, 2014.*



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# APPENDIX C

## Section 802, Special Registration Plates

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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.

The following table shows the various subsections of Section 802 cross-referenced to the related provisions in Chapter II.

**Table 3**  
**Michigan Vehicle Code**  
**Special Registrations Under Section 802**

MCL ref.	Registration Category	Description	Analysis	History
257.802(1)	Six-month registration plate for <i>commercial</i> vehicles	<p>For a special registration issued under Section 226(8), 1/2 the <i>tax</i> imposed under section 801 [presumably under the elected gross weight schedule] plus a service fee of \$10.00.</p> <p>Section 226(8) directs the Secretary of State, upon request, to issue a special registration for <i>commercial vehicles</i>, valid for 6 months after the date of issue, on the payment of 1/2 the full registration <i>fee</i> [i.e., tax] if the full registration <i>fee</i> [i.e., tax] exceeds \$50.00, plus the TACF service charge provided in Section 802(1).</p>	<p>The two subsections provide for a six-month tax for <i>commercial vehicles</i> at 1/2 the tax imposed under Section 801. The definition of <i>commercial vehicles</i> in Section 7, which includes motor vehicles “constructed or used for the transportation of goods, wares, or merchandise...” would appear to encompass all pickup trucks, vans, station wagons, and mini-vans.</p>	<p>Subsection added by 1987 PA 238; amended by 2003 PA 152 which moved service fee from the MTF to TACF.</p>
257.802(2)	1/2 registration tax for <i>commercial</i> vehicles	<p>Provides for a tax rate of 1/2 the tax [presumably under Section 801] for <i>commercial vehicles</i> registered after August 31 for the period ending the last day of February, except for vehicles registered by manufacturers and dealers under Sections 244 and 247.</p>	<p>It is not clear what vehicles this section applies to.</p>	
257.802(3)	14-day in-transit permit	<p>The subsection provides for a \$10.00 service fee for each special registration provided in Section 226(9). Section 226(9) authorizes temporary registration for vehicles to be moved out of state.</p> <p>Section 226(10) limits plates to 14 days from date of issuance.</p>		<p>Subsection added by 1992 PA 297; amended by 2003 PA 152 which moved service fee from the MTF to TACF.</p>



**Table 3**  
**Michigan Vehicle Code**  
**Special Registrations Under Section 802**

MCL ref.	Registration Category	Description	Analysis	History
257.802(4)	Dealer temporary registration	<p>Section 226a(1) authorizes the Secretary of State to issue temporary dealer registration plates.</p> <p>\$5.00 for each group of 5 temporary registration plates or markers.</p>	<p>Provides for 15-day temporary registrations issued by Class A, B, or D dealers to purchasers who need an original license plate. The vehicle can be a motor vehicle, trailer, or trailer coach. The temporary permit allows the purchaser to operate the newly-purchased vehicle for 15 days while the dealer applies for the purchaser's title and new plate.</p>	<p>Subsection added by 1957 PA 33; amended by 2003 PA 152 which moved service fee from the MTF to TACF.</p>
257.802(5)	30- and 60-day temporary registration	<p>Provides for taxes and service fees for temporary registrations under Section 226b:</p> <p>30-day – 1/10 of tax under Section 801 or \$20.00, whichever is greater, plus \$10.00 service fee.</p> <p>60-day – 1/5 under Section 801 or \$40.00, whichever is greater, plus \$10.00 service fee.</p>	<p>Section 226b(2) prohibits the use of temporary registration permits for transportation of passengers for hire, or the transportation of goods, wares, or merchandise, or to draw other vehicles (i.e., <i>commercial vehicles</i> as defined in Section 7).</p>	<p>Subsection added by 1992 PA 297; amended by 2003 PA 152 which moved service fee from the MTF to TACF, and deleted 14-day temporary registrations.</p>
257.802(6)	Plates for repossessors; in-transit repair; auto auctions	<p>Provides for service fee of \$20.00 for each registration plate issued under Sections 226a(5), 226a(6), and 226a(7).</p> <p>Sections 226a(5), 226a(6), and 226a(7) provide for businesses that move vehicles to repossess, to repair, for auto auctions.</p>		<p>Subsection added by 1978 PA 427; amended by 2003 PA 152 which moved service fee from the MTF to TACF.</p>
257.802(7)	Special mobile equipment plate	<p>Provides for service fees for <i>special mobile equipment</i> as provided under Section 216(d) – \$15.00 for first three, \$5.00 for each additional.</p> <p>Section 62 defines <i>special mobile equipment</i> as equipment <i>not</i> designed or used primarily for the transportation of persons or property.</p>		<p>Subsection added by 1959 PA 155; amended by 2003 PA 152 which moved service fee from the MTF to TACF.</p>

**Table 3**  
**Michigan Vehicle Code**  
**Special Registrations Under Section 802**

MCL ref.	Registration Category	Description	Analysis	History
257.802(8)	Three-month elected GVW plate	Authorizes the Secretary of State to issue a registration, valid up to three months, for vehicles with an elected GVW of 24,000 pounds or more on payment of 1/4 of the tax under the elected GVW schedule of Section 801, plus a \$10.00 service fee.		PA 238 of 1987; amended by 2003 PA 152 which moved service fee from the MTF to TACF.
257.802(9)	Farm truck, truck tractor, road tractor – exclusive farm use.	Provides for a special registration for <i>“an owner of a truck, truck tractor, or road tractor that is used exclusively for the purpose of gratuitously transporting farm crops or livestock bedding between the field where produced and the place of storage, feed from on-farm storage to an on-farm feeding site, or fertilizer, seed, or spray material from the farm location to the field.”</i> Defines “Feed” as “hay or silage,” and “Livestock bedding” as “straw, sawdust, or sand.”  Service fee under this subsection is \$20.00.	It is not clear how these plates are different from farm plates issued under Section 801(1)(c), or how these vehicles are different from “implements of husbandry” as defined in 2012 PA 589.	Subsection added by 1997 PA 80; amended by 2003 PA 152 which moved service fee from the MTF to TACF.
257.802(10)	Three-month or more registration for farm truck, truck tractor, road tractor.	Authorizes the Secretary of State to issue a special registration, valid for three or more months, for a <i>“road tractor, truck, or truck tractor, used exclusively in connection with the farmer’s farming operations or for the transportation of the farmer and the farmer’s family and not for hire.”</i>  Provides a tax rate of 1/10 provided under Section 801(1)(c) for farm vehicles times the number of months requested, plus a \$10.00 service fee.	It is not clear how these plates are different from farm plates issued under Section 801(1)(c), or how these vehicles are different from “implements of husbandry” as defined in 2012 PA 589.	Subsection added by 1987 PA 238; amended by 2003 PA 152 which moved service fee from the MTF to TACF.

**Table 3**  
**Michigan Vehicle Code**  
**Special Registrations Under Section 802**

<b>MCL ref.</b>	<b>Registration Category</b>	<b>Description</b>	<b>Analysis</b>	<b>History</b>
257.802(11)	Three-month and longer elected GVW plate	Authorizes the Secretary of State to issue a registration, valid up to three months or more, for vehicles with an elected GVW of 24,000 pounds or more, on payment of 1/12 of the elected GVW tax under the Section 801, times the number of months requested, plus a \$10.00 service fee.	This subsection corresponds to Section 802(8) which provides for a special registration plate <i>up to</i> three months.	Subsection added by 1987 PA 238; amended by 2003 PA 152 which moved service fee from the MTF to TACF.
257.802(12)	TACF service fees	Directs service fees to the TACF.		2003 PA 152 moved service fees from the MTF to TACF.



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# APPENDIX D

## Section 803

### Special Manufacturer/Transporter/Dealer Plates

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#### **Basis of Taxation**

\$10.00 per year

#### **Analysis**

Section 244 of the Michigan Vehicle Code authorizes the department to issue plates to vehicle manufacturers, transporters, and dealers. The section states that “the Secretary of State shall determine the number of special plates reasonably needed by a manufacturer, transporter, or dealer.” However, there is no apparent criteria for making the determination and no restrictions on the use of these plates. The plates are not assigned to a specific vehicle.

The fee associated with special manufacturer, transporter, and dealer plates is established in Section 803 of the Michigan Vehicle Code – \$10.00 for each registration plate issued under Section 244. The \$10.00 fee has not been changed since the Michigan Vehicle Code was enacted in 1949.

#### **Total Registrations (April 2014)**

Department records identify 87,969 registrations under this category.



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# APPENDIX E

## Section 809

### Transfer of Registration Plates

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**Purchase/Birthday Date Difference** – 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.” Because of this language, 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.

We have not estimated the revenue loss to the MTF due to not collecting all or part of new registration taxes at the time of vehicle 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 receiving transferred registration plates, and relation between the purchase date and vehicle owner’s birthday.





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# APPENDIX F

## Michigan Vehicle Code Tax Expenditures

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According to a November 2012 Government Accountability Office (GAO) publication, tax expenditures are “*reductions in a taxpayer’s tax liability that are the result of special exemptions and exclusions from taxation, deductions, credits, deferrals of tax liability, or preferential tax rates.*”<sup>10</sup>

Tax expenditures may be used to advance policy goals in a way similar to direct appropriations. However, unlike appropriations, tax expenditures are not reviewed annually by the Legislature.

Tax expenditures made in the Michigan Vehicle Code reduce MTF revenue available for state transportation programs. We did not estimate the cost of these tax expenditures on MTF revenue; data necessarily to develop an estimate is not readily available.

The following are examples of tax expenditures in the Michigan Vehicle Code.

### **Vans Used by the Disabled**

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

Department records identify 4,736 registrations under this category.

### **Historic Vehicle Plates**

Section 801(6) indicates that “*this section [i.e., the section of the Michigan Vehicle Code that establishes vehicle registration taxes] does not apply to a historic vehicle.*” This explicit exemption was added by 2012 amendment, Public Act 498 of 2012.

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

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

Department records identify 74,115 registrations under this category.

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<sup>10</sup> *Tax Expenditures: Background and Evaluation Criteria and Questions*, GAO 13-167SP, November 2012.  
<http://www.gao.gov/assets/660/650371.pdf>

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

Department records indicate that as of April 2014 there were 53,219 authentic historic plates in its system.

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 Department of State’s website (accessed May 20, 2014) states: that “*Since 1956, the state has issued historic and authentic license plates for antique vehicles used in parades, fairs, car shows, swap meets and other events.*” And mirroring the definition of Section 20a (“*not used for general transportation*”), the department’s website also indicates “*A vehicle registered with a historical or authentic plate cannot be used for routine, day-to-day transportation.*” However, it is not clear to what extent police agencies enforce these limitations.

Note that under the Section 20a definition of historic vehicle, as of 2009, all of the pre-1984 vehicles, which would otherwise be taxed under Section 801(1)(a), would qualify for historic plates at least with regard to the vehicle age.

### **Farm Trucks**

As described on page 15, Section 801(1)(c) of the Michigan Vehicle Code provides registration tax rates for farm trucks. The tax rates for vehicles registered under this subdivision are substantially lower than the rates for comparable vehicles.

For a 2013 Ford F-150 FX2 pickup truck with a curb weight of 5,000 pounds and a list price of \$36,500, the 12-month registration tax under the Section 801(1)(p) ad valorem schedule would be \$191.00. For the same truck registered under the Section 801(1)(c) empty weight schedule for farm trucks, the registration tax would be \$37.00 – an 80% tax reduction.

It is hard to estimate the revenue impact of the farm truck registration category because it is often not clear what tax category many farm vehicles would fall under. Some vehicles with farm plate registrations are older than 1984 and could fall under the pre-1984 weight schedule or might be registered as historic vehicles, depending on use. Pickup trucks 1984 and newer might otherwise be taxed under the ad valorem tax schedule. Farm trucks weighing more than 8,000 pounds would normally be registered under the Elected GVW schedule of Section 801(1)(k).

Note that vehicles registered as farm trucks are taxed at 74 cents per hundred pounds *empty* weight. Vehicles registered under the Elected GVW schedule of Section 801(1)(k) are taxed based on the *gross vehicle weight* of the loaded truck pulling unit and any trailer or trailer combination.

It is not clear how the department verifies that the vehicle owner qualifies for the farm registration plate. In addition, it is not clear to what extent police agencies enforce the requirements of this subdivision. The challenges associated with administering and enforcing provisions regarding farm vehicles are compounded by the confusing and contradictory language of the Michigan Vehicle Code. Several sections of the Michigan Vehicle Code have language regarding farm vehicles:

**Section 801(1)(c)** provides a registration tax rate for certain farm vehicles described as *“a road tractor, modified agricultural vehicle, truck, or truck tractor owned by a farmer and used exclusively in connection with a farming operation, including hauling livestock or farm equipment for other farmers for remuneration in kind or in labor, but not for money, or used for the transportation of the farmer and the farmer’s family, and not used for hire.”*

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

**Section 802(10)** authorizes the Secretary of State to issue a special registration, valid for three or more months, for a *“road tractor, truck, or truck tractor, used exclusively in connection with the farmer’s farming operations or for the transportation of the farmer and the farmer’s family and not for hire.”* This section provides a tax rate of 1/10 the tax rate provided under Section 801(1)(c) for farm vehicles times the number of months requested, plus a \$10.00 service fee.

**Section 802(9)** provides for a special registration for *“an owner of a truck, truck tractor, or road tractor that is used exclusively for the purpose of gratuitously transporting farm crops or livestock bedding between the field where produced and the place of storage, feed from on-farm storage to an on-farm feeding site, or fertilizer, seed, or spray material from the farm location to the field.”* Applicants for this registration plate do not pay a registration tax for credit to the MTF but pay only a \$20.00 service fee for credit to the TACF.

In addition to the preferential rates for farm vehicles, recent legislation may have exempted many farm vehicles from registration requirements altogether. **Section 216** of the Michigan Vehicle Code exempts from registration requirements *“implements of husbandry.”* Public Act 589 of 2012 amended the definition of *implements of husbandry* in Section 21 to include *“a vehicle or trailer in use for the exclusive function of serving agricultural, horticultural, or livestock operations.”*

Department of State records indicate that there were 38,453 vehicles (April 2014) with farm truck registrations. Department of State records also identify 5,358 special farm vehicle registrations (May 2013).

### **Wood Harvesters/Milk Haulers**

As described on page 15, Section 801(1)(d) of the Michigan Vehicle Code provides registration tax rates for wood harvesters (i.e., log trucks) and milk haulers. The tax rates for vehicles registered under this subdivision are substantially lower than the rates for comparable vehicles. Many of these vehicles operate at maximum legal load limits.

If registered under Section 801(1)(k), an 11-axle truck-trailer combination with an Elected GVW of 161,400 pounds would pay a registration tax of \$3,117.00, plus a \$300.00 permanent trailer fee. If registered as a wood harvester, the registration tax would be computed only on the empty weight of the truck or pulling unit. A six-axle 40,000-pound (empty weight) log truck would be required to pay only a \$300.00 registration tax, plus a \$300.00 permanent trailer fee.<sup>11</sup>

According to Department of State records there were 2,362 vehicles registered as wood harvesters (April 2014).

According to Department of State records there were 228 milk-hauling truck registrations (April 2014).

### **Special Manufacturer/Transporter/Dealer Plates**

As described on page 47, Section 803 of the Michigan Vehicle Code establishes a \$10.00 annual fee for manufacturer, transporter, and dealer plates authorized under Section 244. Section 244 directs the Secretary of State to “*determine the number of special plates reasonably needed by a manufacturer, transporter, or dealer.*” However, there is no apparent criteria for making the determination and no restrictions on the use of these plates. The plates are not assigned to a specific vehicle.

The \$10.00 fee has not been changed since the Michigan Vehicle Code was enacted in 1949.

While dealer plates are generally used for vehicles held for sale by the automobile dealers, observational evidence suggests that these plates are sometimes used on the personal-use vehicles of auto dealer employees. The use of these plates does not appear to be closely monitored by the Department of State or police agencies.

Department records identify 87,969 registrations under this category.

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<sup>11</sup> Information on log truck weight and configuration taken from Michigan Log Truck Study Final Report, November 2005, Michigan Technological University.

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# APPENDIX G

## Note on the Terms “Tax” and “Fee”

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

The terminology in the Michigan Vehicle Code is not consistent. The compiler of Chapter VII has labeled the chapter “Registration Fees.” Section 226 refers to “tax” five times and “fee” or “registration fee” seven times. Section 801g refers to “fees” imposed under Sections 801(1)(j) and 801(1)(k) – subdivisions which establish specific registration *taxes*.

These anomalies were present in 1949 PA 300 as originally enacted. While “Registration Fees” was used as the heading for both Chapter VII and Section 801, the section began “*The Secretary of State shall collect the following specific taxes at the time of registering a vehicle.*”

Since enactment of 2003 PA 152, which established the Transportation Administration Collection Fund (TACF), bill drafters have attempted to use the term “tax” in reference to the constitutionally dedicated registration taxes, and the term “fee” to reference Department of State service fees that accrue to the TACF.



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# APPENDIX H

## Note on the Terms “Commercial Vehicle” and “Commercial Motor Vehicle”

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The terms “commercial vehicle” and “commercial motor vehicle” are both defined terms within the Michigan Vehicle Code.

### **Commercial vehicle**

Section 7 defines *commercial vehicle* to include “*all motor vehicles used for the transportation of passengers for hire, or constructed or used for transportation of goods, wares or merchandise, and/or all motor vehicles designed and used for drawing other vehicles and not so constructed as to carry any load thereon either independently or any part of the weight of a vehicle or load so drawn.*”

This definition was part of the Michigan Vehicle Code as originally enacted in 1949.

The term appears in 13 other sections of the Michigan Vehicle Code.

### **Commercial motor vehicle**

Section 7a defines *commercial motor vehicle* to mean “*a motor vehicle designed to transport 16 or more passengers, including the driver; a motor vehicle, having a gross vehicle weight rating of 26,001 or more pounds; a motor vehicle with a gross combination weight rating of 26,001 pounds or more including a towed unit with a gross vehicle weight rating of more than 10,000 pounds; or a motor vehicle carrying hazardous material and on which is required to be posted a placard as defined and required under 49 C.F.R. parts 100 to 199. A commercial motor vehicle does not include a vehicle used exclusively to transport personal possessions or family members for nonbusiness purposes.*”

This definition was added by 1988 amendment, 1988 PA 346.

The term appears in 43 other sections of the Michigan Vehicle Code.

Some sections of the Michigan Vehicle Code appear to equate *commercial vehicle* with large trucks, and while large trucks registered under the Elected GVW registration category are all assumed to be commercial vehicles, not all commercial vehicles are large trucks. Light trucks and vans may be *commercial vehicles* depending on use. *Commercial motor vehicles* are by definition large trucks – generally trucks in excess of 26,000 pounds GVW.

The designation that a vehicle is a “commercial vehicle” or “commercial motor vehicle” has no impact on the registration taxes applied to the vehicle.

The term “commercial motor vehicle” appears to be used primarily in relation to the sections of the Michigan Vehicle Code adopted to reflect the Federal Motor Carrier Safety Act. However, the use of the two terms is not consistent in the Michigan Vehicle Code.

Section 217 appears to equate *commercial vehicle* with large trucks in that it requires a scale weight receipt with the registration application, even though the registration tax for a commercial light truck or van is not based on vehicle weight.

Section 226 indicates that a vehicle registration plate expires on the owner’s birthday except for a *commercial vehicle* registration with expires on the last day of February.

Section 255 indicates that a person who violates the registration provisions of the Michigan Vehicle Code is responsible for a civil infraction, except for violations related to a “*commercial vehicle which is required to be registered according to the schedule of elected gross vehicle weights under Section 801(1)(k)*” which are misdemeanors. In this instance the section appears to equate *commercial vehicle* with trucks registered under Section 801(1)(k).

Section 256, which prescribes penalties for unlawful lending or use of vehicle registration plates, establishes higher penalties for violations related to a *commercial vehicle*. This section also appears to equate *commercial vehicle* with vehicles registered under Section 801(1)(k).

Section 909 of the Michigan Vehicle Code directs the distribution of revenue from civil fines ordered for the violation of the Michigan Vehicle Code or similar local ordinance regulating the operation of *commercial motor vehicles*. In this instance, the intended term may have been *commercial vehicle*.

### **Commercial Registration Plates**

The Michigan Secretary of State issues a “commercial” license plate series to certain vehicles under 8,000 pounds – primarily vans and light trucks – based on the representation of the registrant that the vehicle is owned and used by a commercial enterprise. These plates are distinguished in appearance from plates issued to passenger plates. However, these vehicles are generally registered under the ad valorem tax schedule of Section 801(1)(p) – the same as non-commercial cars, vans, and light trucks. The *commercial* designation makes no difference in the registration tax paid.

Not all commercial vans and light vehicles are issued commercial series plates; an unincorporated business may register a company van or light truck in the owner’s name and be issued a standard non-commercial plate.

Although Section 7 defines commercial vehicle, neither the definition nor any other section of the Michigan Vehicle Code mandates a separate *commercial vehicle* plate series. There is no advantage to the registrant in having a commercial series plate, and there may be some disadvantage. Penalties for violations of some sections of the Michigan Vehicle Code are higher for commercial vehicles.



### Example: Commercial Series Ad Valorem Registration Plate



#### Registration Tax Revenue from Commercial Vehicles

The Department of State segregates registration tax revenue in its accounting records in several categories, including for *commercial registrations*. However, these accounting categories do not generally correspond to any of the Section 801 registration tax categories. The *commercial* revenue account includes larger trucks registered under Section 801(1)(k), but it also includes a number of vans and light trucks registered under the ad valorem tax category but issued commercial series plates. As a result, revenue recorded as *commercial* is not an accurate representation of revenue received from large commercial trucks. In fact, it is not readily possible to identify the revenue contribution of any of the registration categories in Section 801 from the department's accounting records.



# APPENDIX I

## Michigan Vehicle Registrations by MCL Section

MCL 257. Section	Description	Number of Unexpired Plates
<b>UNEXPIRED ANNUAL PLATES, as of April 2014</b>		
801(1)(a)	Pre-1984 autos, vans and pickups under 8,001 lbs., <i>weight schedule</i>	71,529
801(1)(c)	Farm trucks - <i>74 cents per hundredweight</i>	38,453
801(1)(d)	Wood-harvester trucks - <i>74 cents per hundredweight</i>	2,362
	Milk-hauling trucks - <i>74 cents per hundredweight</i>	228
801(1)(e)	Hearses - <i>\$1.17 per hundredweight</i>	322
801(1)(g)&(h)	Vans and other vehicles owned by nonprofits - <i>\$10 per plate</i>	14,614
801(1)(i)	Trucks owned by churches, Scouts, Red Cross - <i>65 cents per hundredweight</i>	84
801(1)(j)	Commercial trucks under 8,001 lbs.; trucks towing campers - <i>weight schedule</i>	2,029
801(1)(k)	Elected gross vehicle weight, by weight class:	
	0 to 24,000 pounds   \$491	36,300
	24,001 to 26,000 pounds   \$558	7,848
	26,001 to 28,000 pounds   \$558	1,735
	28,001 to 32,000 pounds   \$649	4,443
	32,001 to 36,000 pounds   \$744	3,279
	36,001 to 42,000 pounds   \$874	1,743
	42,001 to 48,000 pounds   \$1,005	2,643
	48,001 to 54,000 pounds   \$1,135	5,441
	54,001 to 60,000 pounds   \$1,268	1,249
	60,001 to 66,000 pounds   \$1,398	1,048
	66,001 to 72,000 pounds   \$1,529	2,684
	72,001 to 80,000 pounds   \$1,660	2,913
	80,001 to 90,000 pounds   \$1,793	1,072
	90,001 to 100,000 pounds   \$2,002	759
	100,001 to 115,000 pounds   \$2,223	795
	115,001 to 130,000 pounds   \$2,448	781
	130,001 to 145,000 pounds   \$2,670	570
	145,001 to 160,000 pounds   \$2,894	2,475
	over 160,000 pounds   \$3,117	690
	Total - Elected Gross Vehicle Weight	78,468
801(1)(m)	Buses hauling passengers for hire - <i>weight schedule</i>	520
801(1)(n)	Motorcycles, <i>\$23 per plate</i>	236,215
801(1)(o)	Moving vans over 8,000 lbs. - <i>80% of Sec. 801(1)(k) weight schedule</i>	292
801(1)(p)	<i>Ad valorem taxes</i> autos and light trucks	7,137,262
	<i>Ad valorem</i> motor homes	25,672
	<i>Vans used by the disabled, 50% discount</i>	4,736
801(1)(q)	Wrecker - <i>\$200 per plate</i>	4,032
801e	Mopeds - <i>\$15 for 3 years</i>	46,314

MCL 257. Section	Description	Number of Unexpired Plates
<b>OTHER THAN ANNUAL PLATES, As of April 2014</b>		
801(1)(f)	Municipal, university, and other publicly-owned vehicles - <i>5-year plates</i>	100,876
801(1)(l)	Trailers - <i>permanent plates, tax schedule by weight class:</i>	
	0 to 2,499 pounds - <i>\$75 per plate</i>	163,117
	2,500 to 9,999 pounds - <i>\$200 per plate</i>	342,608
	10,000 pounds or more - <i>\$300 per plate</i>	<u>133,899</u>
	Total Trailer plates	639,624
803a	Historic vehicles, department-issued plates - <i>\$30 for 10 years</i>	74,115
803p	"Authentic" historic vehicle plates - <i>\$35 lifetime</i>	<u>53,219</u>
	Total Historic plates	127,334
245/803	Manufacturer, transporter, and dealer - <i>\$10 per plate</i>	87,969

Source: Michigan Department of State

Note: This table of unexpired registration plates does not include the 41,904 power units registered by the Michigan Secretary of State as Michigan-based IRP registrations in 2013.



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    Public Health/Aging/Medicaid-Backup ..... Susan Frey

    Medicaid/Children’s Special Health Care Services ..... Matthew Ellsworth; Steve Stauff

Corrections ..... Robin R. Risko

Education (Department) ..... Bethany Wicksall

Environmental Quality ..... Viola Bay Wild

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