



## Michigan Boating Industries Association

### Frequently Asked Questions Guide for Sales Tax on the Difference

Public Act 160 of 2013

Gov. Rick Snyder signed into law bills that will reduce taxes for people who trade-in a car, boat or RV when purchasing a new or used model, thus boosting Michigan's economy while maintaining fiscal responsibility. The bills, commonly called "sales tax on the difference" (STOD) will also benefit Michigan's boat dealers, consumers and marine industry. Bill language may be found in *Enrolled Senate Bill 89* (which now becomes Public Act 160 of 2013).

The most important part of the bill resides within section (xi), which pertains directly to watercraft: "Beginning November 15, 2013, credit for the agreed-upon value of a titled watercraft used as part payment of the purchase price of a new titled watercraft or used titled watercraft if the agreed-upon value is separately stated on the invoice, bill of sale, or similar document given to the purchaser."

Michigan Boating Industries Association and Muchmore, Harrington, Smalley and Associates have worked hard over the past few years and are proud to present the following FAQ for your business. We always recommend consulting your professional attorney or CPA for additional questions when working with any new state or federal law.

#### FAQs

**Q: When will the law take effect for watercraft?**

A: STOD transactions may begin on November 15, 2013.

**Q: Is there a phase-in period for watercraft as stated for automobiles?**

A: No. There is no phase-in period for watercraft.

**Q: Is there a limit on the value to be used for watercraft as in the new law stated for automobiles?**

A: No. The trade in value of a boat is not limited by a cap, it has full value.

**Q: Does this apply to watercraft sales between two consumers?**

A: No. STOD applies only between a consumer and boat dealer.

**Q: Does this apply to only new boat sales?**

A: Both new and used boat sales qualify.

**Q: Does the new law apply to brokerage boat sales and transactions?**

A: Brokerage sales and transactions are not included under STOD.

**Q: If a dealer takes a \$50,000 boat in on a broker sale of a \$100,000 boat and the seller of the \$100,000 boat takes title to the \$50,000 boat will the purchaser of the \$100,000 boat get the \$50,000 sales tax reduction?**

A: Brokerage sales are not included under STOD. The purchaser would be required to pay use tax, which does not include the STOD exemption.

**Q: If a dealer receives and then purchases (takes legal ownership) a trade-in on a \$50,000 boat in on a broker sale of a \$100,000 boat, will the purchasing consumer of the \$100,000 boat receive the benefit of STOD?**

A: Brokerage sales are not included under STOD. The purchasing consumer would be required to pay use tax, which does not include the STOD exemption. The retail seller and party receiving ownership of the trade must be the same.

**Q: Are trade-in transactions involving a PWC and a boat eligible for STOD?**

A: Yes. PWCs are considered a watercraft.

**Q: Are trade-in transactions involving an ATV or snowmobile for the purchase of a boat eligible for STOD?**

A: No. ATVs and snowmobiles are not considered watercraft.

**Q: If a customer purchases a boat out-of-state – will STOD apply when the customer registers in Michigan?**

A: The purchaser would be required to pay use tax, which does not include the STOD exemption.

**Q: How will dealers be able to program their systems to calculate the tax with this new law?**

A: It is recommended that dealers speak with their computer software support personnel or vendors to see if they possess or offer an upgrade or fix. Most states currently have some form of STOD and may have the software version available to upgrade.

**Q: What penalties will dealers face for not calculating STOD transactions precisely?**

A: Dealers would face the same penalties that currently apply for underreporting sales tax. There are no increased penalties.

**Q: Will STOD law discontinue for boats if Medicaid Expansion were to get pulled by the State?**

A: No. Only the growth of the “automobile cap” on the value of the trade-in would discontinue. Currently, the value of the trade-in for automobiles and recreational vehicles is capped at \$2,000.

**Q: Will dealers be audited because of this new law?**

A: Because this is a new law with new transactions, there will likely be an increased audit potential for dealerships. It is recommended that dealers use their same vigilant internal procedures in place for sales tax monitoring and regulatory compliance.