



Legislative Fiscal Bureau

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November 5, 2001

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 453: Modification to Sales Tax Treatment of a Motor Vehicle Purchased After a Consumer Has Received a Refund Under a New Motor Vehicle Warranty

Assembly Bill 453 was introduced on June 26, 2001, and referred to the Assembly Committee on Ways and Means. On September 17, 2001, that Committee adopted Assembly Amendment 1 to AB 453 by a 12 to 0 vote and recommended passage of the bill, as amended, by an 11 to 1 vote. The bill was then referred to the Joint Committee on Finance.

SUMMARY OF THE BILL

Under current law, when a consumer trades in a motor vehicle as part of the purchase of another vehicle, Wisconsin sales tax generally is due only on the net purchase price of the transaction. If a consumer receives a refund for a motor vehicle under Wisconsin's "lemon law" and subsequently purchases a motor vehicle to replace the defective vehicle, however, the consumer pays sales tax based on the full purchase price of the replacement vehicle. Therefore, in these situations, the consumer fails to benefit from a statutory sales tax provision that otherwise would result in calculation of tax liability based upon net price, rather than upon full price.

Assembly Bill 453 would require a manufacturer, upon payment of a lemon-law refund, to provide the purchaser with a written statement detailing the purchase price of the defective vehicle and the date on which the manufacturer issued the refund. The bill would also provide that, if the consumer later purchased a motor vehicle and presented the written statement to the dealer, the consumer would pay sales tax only on the difference between the full purchase price of the original vehicle and the price of the replacement vehicle, so long as presentation of the written statement occurred within 180 days of the date on which the refund on the original vehicle (that is, the

defective vehicle) was issued. These provisions would take effect on the first day of the second month beginning after publication of the bill.

SUMMARY OF AMENDMENT 1 TO AB 453

Assembly Amendment 1 to AB 453 would require the manufacturer issuing the refund to specify on the aforementioned written statement the value accorded the trade-in vehicle that was part of the original transaction, rather than the full purchase price of the defective vehicle. The difference between the value of the trade-in vehicle and the price of the replacement vehicle would then constitute the gross receipts against which sales tax would be calculated.

Second, the amendment would shorten the time window during which the consumer could invoke the bill's provisions regarding the calculation of tax due from 180 days from the date of receiving the lemon-law refund to 60 days from receiving such a refund.

Finally, the amendment would limit the applicability of the bill's provisions to the first motor vehicle purchased by a person after receiving a lemon-law refund.

Assembly Amendment 1 to AB 453 would make the bill conform to the author's original intent.

FISCAL EFFECT

As amended, the provisions of the bill are estimated to have minimal fiscal effect.

Prepared by: Drew B. Larson