



**House
Legislative
Analysis
Section**

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JUL 16 1987

INDUSTRIAL COMPUTERS: USE TAX

Senate Bill 323 (S-1) with House committee
amendments

First Analysis (6-16-87)

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Sponsor: Sen. Doug Carl
Senate Committee: Finance
House Committee: Taxation

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THE APPARENT PROBLEM:

Sales of tangible personal property for use or consumption in industrial processing are exempt from the state's sales and use taxes. This means, among other things, that firms do not have to pay sales or use tax on machinery and equipment they use in manufacturing. As computer-integrated manufacturing has developed, tax specialists say, the exemption has been applied to computers used in industrial design and to operate machinery. Conflict has arisen over the tax status of computers bought not by manufacturing firms but by computer specialists and engineering companies that manufacturers hire to provide them with technical assistance, including the remote control of machinery. These relatively new and rapidly growing enterprises do not in and of themselves produce products but their computers directly assist the production processes of manufacturing firms, notably the automobile industry. The tax status of these computers needs clarification.

THE CONTENT OF THE BILL:

The bill would amend the Use Tax Act to exempt the following kinds of tangible personal property after December 31, 1984: computers used in operating industrial processing equipment; equipment used in a computer assisted manufacturing system, equipment used in a computer assisted design or engineering system integral to an industrial process; or a subunit or electronic assembly that is a component in a computer integrated industrial processing system.

Under the bill, exemptions for other tangible personal property for use or consumption in industrial processing would apply only to "industrial processors". The bill would define that term to mean "a person who transforms, alters, or modifies tangible personal property by changing the form, composition, or character of the property for ultimate sale at retail or sale to another industrial processor to be further processed for ultimate sale at retail." Sales to a person performing a service who does not act as an industrial processor while performing the service would not be excluded from the use tax (except for the aforementioned computer exemption).

The bill would further amend the Use Tax Act to exempt a passenger van or bus with a manufacturer's rated seating capacity of ten or more that was used primarily for the transportation of people for religious purposes when the vehicle was sold to a regularly organized church or house of religious worship.

MCL 205.94

HOUSE COMMITTEE ACTION:

The House Taxation Committee added two amendments to the Senate-passed version of Senate Bill 323. One amendment added the exemption for church vans and buses (found in House Bill 5211 of last session, which

passed both houses but then failed to become law due to a technicality). The other was a technical grammatical amendment.

BACKGROUND INFORMATION:

House Bill 4696 of this session would amend the General Sales Tax Act to provide the same exemption from sales taxes as Senate Bill 323 would provide for use taxes. House Bill 4696 has already passed the House.

FISCAL IMPLICATIONS:

The Senate Fiscal Agency has said the computer sale exemption would result in an indeterminate reduction in revenues. (6-2-87) A Senate Republican staff analysis notes that estimates of revenue changes depend upon assumptions about the outcome of cases before the Tax Tribunal and Court of Appeals, and cites the Department of Treasury as believing that the computer exemption will have no effect on revenues. (6-1-87) Last session, the Senate Fiscal Agency said the exemption for church vans and buses would cause a slight revenue loss.

ARGUMENTS:

For:

The use tax exemption for computers used in the manufacturing process ought to be based on the nature of the use of the computers, not on the nature of ownership. A rapidly growing industry in this state uses the latest computer technologies to provide direct services to manufacturers, such as the automobile companies. The bill makes it clear that these companies, which can help make Michigan a world leader in electronic manufacturing, should have the same tax exemptions for their computers as manufacturing firms. Exemptions should apply for computers used in the manufacturing process whether they belong to the manufacturing firm or to a firm providing services to the manufacturer under contract. The bill will settle disputes between the treasury department and engineering firms in a manner agreeable to both sides.

For:

The legislature passed a use tax exemption for church vans and buses during the 1985-1986 session corresponding to a similar sales tax exemption. The exemption was inadvertently repealed, according to legislative staff, when two use tax bills were signed in the wrong order. This bill would restore the that use tax exemption, which was aimed at assisting churches that buy vehicles to transport members of the congregation to religious services.

POSITIONS:

The sales and use tax exemptions for computer-related manufacturing are supported by the Department of Treasury and the National Association of Engineering Companies. (6-3-87)

S.B. 323 (6-16-87)