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BILL



ANALYSIS

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Senate Bills 512, 513, and 514 (Substitute S-1)  
Sponsor: Senator Robert Geake (S.B. 512 & 513)  
Senator Michael J. O'Brien (S.B. 514)  
Committee: Finance

Date Completed: 9-15-95

**SUMMARY OF SENATE BILLS 512 and 513 as introduced 5-9-95 and SENATE BILL 514 (Substitute S-1):**

Senate Bill 512 would amend the General Sales Tax Act, and Senate Bill 514 (S-1) would amend the Use Tax Act, to provide that, effective January 1, 1993, sales of tangible personal property to an industrial processor who laundered or cleaned "textiles" for reuse, sale, or rental under a service or rental agreement with a term of at least five days would be *excluded* from the tax, if used or consumed in the laundering of the textiles. To claim a refund for sales or use taxes paid since January 1, 1993, a person who laundered or cleaned textiles would have to file within 90 days after the effective date of the bills. Further, under Senate Bill 512, the sales tax *would apply* to the laundering or cleaning of textiles under a sale, rental, or service agreement with a term of at least five days.

Currently, laundering or cleaning of clothing, uniforms, tablecloths, towels, etc. is considered a service and as such is not taxed; however, the goods and materials used to launder or clean are taxed, because they do not qualify for the industrial processor exemption. (Under the Acts, property sold to an industrial processor for use or consumption in industrial processing is exempt from the taxes, if the industrial processor transforms or modifies the property for ultimate sale at retail. Since the materials laundered or cleaned by a launderer are not generally sold to the customer, because the customer already owns the materials or is renting them from the launderer, the launderer does not qualify for the industrial processor tax exemption.)

Under the bills, "textiles" would mean goods that were made of or incorporated woven or nonwoven fabric, including, but not limited to, clothing, shoes, hats, handkerchiefs, curtains, towels, sheets, pillows, pillow cases, tablecloths, napkins, aprons, linens, floor mops, floor mats, and thread. Textiles also would include materials used to repair or construct textiles, or other goods used in the rental, sale, or cleaning of textiles.

Senate Bill 513 would amend Public Act 72 of 1979, which requires the Governor to report certain tax expenditures in the annual budget message, to revise the citation of a section number that would be changed by Senate Bill 512.

Currently, under the Act, the Governor is required to report an estimate of the amount of sales tax revenue foregone "pursuant to section 1(1)(g)" (of the General Sales Tax Act) from the imposition of the tax upon the difference between the agreed upon value of a motor vehicle used as part payment toward the purchase of a new vehicle and the full price of the new vehicle, rather than

upon the full price of the new vehicle. Section 1(1)(g) of the General Sales Tax Act, however, does not refer to vehicle sales (although Section 1(1)(h) does pertain to vehicle sales). Senate Bill 512 would amend the General Sales Tax Act in such a way as to cause Section 1(1)(h) to become 1(1)(i). Senate Bill 513, then, would change “pursuant to section 1(1)(g)” to “pursuant to section 1(1)(i)”.

Senate Bill 513 is tie-barred to Senate Bill 512.

MCL 205.51 et al. (S.B. 512)  
21.275 (S.B. 513)  
205.92 et al. (S.B. 514)

Legislative Analyst: G. Towne

### **FISCAL IMPACT**

These bills would have essentially no net fiscal impact in FY 1995-96, but would result in a tax increase of an estimated \$10.4 million in FY 1996-97. These bills would remove the sales and use tax currently assessed on tangible personal property purchased by industrial launderers and instead assess the sales tax on the final retail sales of industrial launderers. This change would generate a net gain in revenue of \$10.1 million in FY 1995-96 and \$10.4 million in FY 1996-97. Under Senate Bill 512, however, the sales and use tax exemptions on the equipment and inputs purchased by industrial launderers would become effective retroactively to January 1, 1993. This means that in FY 1995-96, refunds would have to be made on the sales and use tax already paid by industrial launderers when they purchased equipment and inputs in 1993, 1994 and 1995. It is estimated that these one-time refunds would essentially offset the net gain in revenue that would be realized from shifting the tax to the final retail sales in FY 1995-96.

In addition to the overall impact on the State budget as outlined above, these bills would have varying impacts on the General Fund/General Purpose (GF/GP) revenue, School Aid Fund (SAF), and revenue sharing. Even though there is no net revenue impact projected for FY 1995-96, it is estimated that these areas of the State budget would be affected by varying amounts because, 1) it is estimated that there would be a shift away from the use tax to the sales tax due to the tax changes proposed in these bills, and 2) the sales and use tax revenues are distributed differently among these State budget areas. While actual data do not exist on the breakdown of the existing tax paid by industrial launderers between the sales and use if it is assumed that 1) under current law, the tax paid by industrial launderers on their personal property purchases is 50% sales tax and 50% use tax, and 2) the new tax on their retail sales, created under these bills, would be 100% sales tax, then it is estimated that these areas of the budget would be affected in the following ways in FY 1995-96 even though no net overall revenue impact is expected: GF/GP, down \$3.5 million; SAF, up \$2.8 million; and revenue sharing, up \$0.7 million. In addition to the reasons listed above, these budget areas would be affected in FY 1996-97 because of the estimated \$10.4 million net increase in revenues. The estimated revenue impacts by budget area for FY 1996-97 are as follows: GF/GP, up \$0.8 million; SAF, up \$8.4 million; and revenue sharing, up \$1.2 million.

Fiscal Analyst: J. Wortley

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