



Senate Fiscal Agency
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BILL ANALYSIS



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House Bill 4834 (Substitute S-2 as reported)
Sponsor: Representative Deborah Whyman
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bill would amend the Use Tax Act to exempt from the use tax the purchase of certain telecommunication equipment. Currently, an exemption is provided for the purchase of machinery and equipment for the use or consumption in the rendition of a service, the use or consumption of which is taxable under Section 3a(a) of the Use Tax Act; however, the exemption is limited to the tangible personal property located on the premises of the subscriber and the necessary exchange equipment. (Section 3a(a) provides for the taxation of the use or consumption of intrastate telephone, telegraph, leased wire, and other similar communication, including local telephone exchange and long distance telephone service that both originate and terminate in Michigan, and telegraph, private line, and teletypewriter service between places in Michigan, but excluding telephone service by coin-operated installations, switchboards, concentrator-identifiers, interoffice circuitry and their accessories for telephone answering service, and directory advertising proceeds.)

The bill would provide an exemption for the purchase of machinery and equipment for use or consumption in the rendition of *any combination of services*, including the current exemption for the equipment described above, as well as the following: interstate telephone communications that either originated or terminated in Michigan and for which the charge for the service was billed to a Michigan service address or phone number by the provider either within or outside the State including calls between Michigan and any place within or without the United States outside of Michigan. The exemption would be limited to the tangible personal property located on the premises of the subscriber and to central office equipment or wireless equipment, directly used or consumed in transmitting, receiving, or switching or the monitoring of switching of a two-way interactive communication, not including distribution equipment including cable or wire facilities.

MCL 205.94

Legislative Analyst: G. Towne

FISCAL IMPACT

In FY 1996-97, on a full-year basis, it is estimated that House Bills 4834 (S-2) and 4835 (S-2) would reduce sales and use tax revenue by a combined \$3.1 million. The loss in revenue would have an impact on several budget areas in the following estimated amounts: General Fund/General Purpose revenue would be down \$1.6 million, School Aid Fund revenue would be down \$1.4 million, and revenue sharing would be reduced \$100,000. These estimates are based in part on information from the Department of Treasury.

Date Completed: 5-23-96

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.