Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4834 (Substitute H-3 as passed by the House)
House Bill 4835 (Substitute H-2 as passed by the House)
Sponsor: Representative Deborah Whyman
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 5-21-96

## CONTENT

**House Bill 4834 (H-3) would amend the Use Tax Act and House Bill 4835 (H-2) would amend the General Sales Tax Act to exempt from the use and sales taxes the purchase of certain telecommunication equipment.**

Currently, under both Acts, 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 bills would provide an exemption for the purchase of machinery and equipment for use or consumption in the rendition of *any combination of services*, including not only the current exemption for the equipment described above, but also 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.

The bills would take effect April 1, 1997.

MCL 205.94 (H.B. 4834)
205.54a (H.B. 4835)

Legislative Analyst: G. Towne

## FISCAL IMPACT

In FY 1996-97, these bills would be in effect for half of the year and would reduce sales tax revenue by an estimated $600,000 and use tax revenue by $1.9 million, for a total revenue loss of $2.5 million. In FY 1997-98, when these bills would be in effect for the entire year, it is estimated that sales tax revenue would be reduced by $1.3 million and use tax revenue by $3.8 million, for a total reduction in revenue of $5.1 million. Based on the current distributions of the sales and use tax revenues, in FY 1996-97, General Fund/General Purpose (GF/GP) revenue would be reduced $1.4 million, School Aid Fund (SAF) revenue would be decreased $1.0 million, and revenue sharing would be reduced $100,000. In FY 1997-98, GF/GP revenue would be reduced $2.7 million, SAF revenue would be decreased $2.3 million, and revenue sharing would be reduced $100,000. These estimates are based in part on information from the Department of Treasury.

Fiscal Analyst: J. Wortley

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