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EXEMPT LAUNDRY OPERATIONS

House Bills 5212 and 5213 as introduced
First Analysis (11-12-97)

Sponsor: Rep. Kirk A. Profit
Committee: Tax Policy

THE APPARENT PROBLEM:

Representatives of commercial laundries, who supply clean linens such as tablecloths, sheets, towels, uniforms, aprons, and rugs to customers, argue that they are at a competitive disadvantage with competitors in neighboring states. Michigan laundry operations say they must pay the sales or use tax on the textiles they purchase to service their customers, but their competitors in Ohio do not under their state law. They say that in Ohio, transactions between laundries and their customers are subject to a sales tax but that the laundries do not have to pay tax on the products they purchase. This means than an Ohio laundry that does business in Michigan neither pays tax when it purchases the textiles it intends to supply to customers nor collects tax when delivering clean laundry to its Michigan customers. So, the Ohio laundry has a competitive advantage in bidding for business in Michigan. At the same time, a Michigan laundry doing business in Ohio pays either a sales or use tax on its textiles (depending on whether it purchase them in-state or out of state) and must collect the Ohio sales tax from its Ohio customers. So, Michigan laundries are at a competitive disadvantage when operating in Ohio. (Apparently, the same situation occurs with Indiana competitors.) Michigan laundries have requested legislation that will "level the playing field."

THE CONTENT OF THE BILLS:

There is an exemption under the General Sales Tax Act for property sold to an industrial processor for use or consumption in industrial processing and a similar exemption for property under the Use Tax Act. The bills would specify that effective January 1, 1993, the term "industrial processor" includes, but is not limited to, a person who launders or cleans textiles for reuse, sale, or rental under a service or rental agreement with a term of at least five days.

The bills would also classify as a "sale at retail" the laundering or cleaning of textiles under a sale, rental, or service agreement with a term of at least five days. However, the bill would exempt sales to a restaurant or other retail business, whether or not the restaurant or business is an industrial processor, of textiles that have been laundered or cleaned for reuse, sale, or rental under a service agreement with a term of at least five days.

The term "textiles" would refer to goods that are made of or incorporate woven or nonwoven fabric, including, but not limited to, clothing, shoes, hats, gloves, handkerchiefs, curtains, towels, sheets, pillows, pillow cases, tablecloths, napkins, aprons, linens, floor mops, floor mats, and thread. The term also includes materials used to repair or construct textiles, or other goods used in the rental, sale, or cleaning of textiles.

A claim for a refund under the bills for persons who launder or clean textiles would have to be filed not later than 90 days after the effective date of the bills.

House Bill 5212 would amend the General Sales Tax Act (MCL 205.51 et al.) and House Bill 5213 would amend the Use Tax Act (MCL 205.92 et al.)

FISCAL IMPLICATIONS:

The House Fiscal Agency says the bills would result in a $900,000 revenue reduction for the 1997-98 fiscal year. Further, the HFA cites Department of Treasury estimates that there would be $11.1 million in refunds for the period of January 1, 1993 through September 30, 1997. This means the loss in the first year would be $12 million. The HFA estimates the revenue loss after that at $1 million per year. (11-3-97)

ARGUMENTS:

For:

The bills aim at allowing commercial laundry operations based in Michigan to compete on an even basis with similar operations in neighboring states. Without this kind of exemption, Michigan companies are at a competitive disadvantage, particularly in southeastern and southwestern Michigan, where there are large markets close to the state border. If they cannot compete, business will suffer and jobs will be lost. Industry representatives have provided information indicating that they have lost well over $1 million in annual revenue to out-of-state competitors during the last three years. The bills would classify commercial laundries as an industrial processor, and grant them the exemption from sales and use taxes that industrial processors currently receive under tax statutes.

Against:
This is a significant exception to current tax practices and it singles out one kind of enterprise for special treatment. Further, in order to fully compare the tax treatment of Michigan laundry operations and their competitors in other states, it would be necessary to know the complete tax structures of the two states and not just the treatment of laundries under the sales and use taxes. This special tax exemption will result in a loss of revenues that otherwise would go to schools.

POSITIONS:

The Michigan State Chamber of Commerce supports the bills. (11-11-97)

Representatives from a number of laundries, including Domestic Linen, Domestic Uniform Rental, Superior Linen, Cadillac Overall, Marathon Linen and Uniform Service, and Palace Quality Service Industries, either testified in support of the bills or otherwise indicated their support before the House Tax Policy Committee. (10-15-97)

The executive board of the Textile Processors, Service Trades, Health Care Professional and Technical Employees International Union, Local 129, supports the bill. (11-11-97)

The Michigan Restaurant Association supports the bills. (11-11-97)

The Department of Treasury is opposed to the bills. (11-5-97)

Analyst: C. Couch

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.