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DUST CONTROL CHEMICALS

House Bills 5798 and 5799 as introduced First Analysis (5-12-98)

Sponsor: Rep. Eileen DeHart
Committee: Tax Policy

THE APPARENT PROBLEM:

Governmental entities enjoy an exemption from the sales and use taxes. However, if a private contractor carries out work for a governmental entity, it does not enjoy the exemptions. This issue has been raised in connection with companies that contract with local governmental units to spread dust control chemicals on gravel roads.

THE CONTENT OF THE BILLS:

The bills would provide an exemption from the sales and use taxes for the sale or the storage, use, or consumption of dust control chemicals purchased by a person with a service contract with a local governmental unit to spread the dust control chemicals on gravel roads within that unit. House Bill 5798 would amend the General Sales Tax Act (MCL 205.54r). House Bill 5799 would amend the Use Tax Act (MCL 205.94q).

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that an analysis of the fiscal impact of this bill is in progress. (5-4-98)

ARGUMENTS:

For:

It seems illogical that dust control chemicals are exempt from sales and use taxes if acquired or used by a local unit of government but are not exempt if acquired or used by a private firm under contract to carry out the work on the unit's behalf. If the private contractor must pay the taxes, they are passed on to the local units.

Against:

The bill carves out a narrow special exemption from the sales tax for one kind of business or product. It also contributes to the erosion of sales and use tax revenues.

POSITIONS:

The Department of Treasury is opposed to the bill. (5-8-98)

The Michigan Education Association has indicated its opposition to the bill. (5-6-98)

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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.