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SFA BILL ANALYSIS

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House Bill 5212 (Substitute H-1 as passed by the House)
House Bill 5213 (Substitute H-1 as passed by the House)
Sponsor: Representative Kirk A. Profit
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 5-26-98

CONTENT

House Bill 5212 (H-1) would amend the General Sales Tax Act, and House Bill 5213 (H-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 House Bill 5212 (H-1), 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.

In addition, under the bills, the sales or use tax would not apply to sales of tangible personal property to a restaurant or other retail sales business, whether or not it was an industrial processor, if the property were a textile that had been laundered or cleaned for reuse, sale, or rental under a service or rental 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, gloves, 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.

MCL 205.51 et al. (H.B. 5212)
205.92 et al. (H.B. 5213)

Legislative Analyst: S. Lowe

FISCAL IMPACT

It is estimated that these bills would reduce sales and use tax revenue by a net $1.0 million in FY 1998-99 and FY 1999-2000. In addition, refunds for sales and use tax paid on tangible personal property purchased by industrial launderers since 1993, would result in one-time refunds totaling an estimated $13.2 million in FY 1998-99. Therefore, the total fiscal impact of these bills would be to reduce sales and use tax revenue by a net $14.2 million in FY 1998-99 and $1.0 million in FY 1999-2000.

This loss in revenue would affect the School Aid Fund (SAF), revenue sharing, and General Fund/General Purpose (GF/GP) revenue. While actual data are not available on the breakdown between the sales and use tax currently being paid by the launderers, it is assumed that 50% of it is sales tax and 50% is use tax. It is also assumed the new tax that would be paid by nonrestaurant customers of the industrial launderers would be 100% sales tax. Based on these assumptions, the estimated loss in revenue in FY 1998-99 and FY 1999-2000 would have the following fiscal impacts by budget areas: SAF revenue would decline by $6.6 million in FY 1998-99 and increase $0.4 million in FY 1999-2000; revenue sharing would decline by $1.2 million in FY 1998-99 and increase $0.4 million in FY 1999-2000; and General Fund/General Purpose revenue would fall by $6.4 million in FY 1998-99 and decline by $1.8 million in FY 1999-2000.

Fiscal Analyst: J. Wortley