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DUST CONTROL CHEMICALS

House Bill 4691 as introduced
Sponsor: Rep. Scott Shackleton

Senate Bill 466 as passed by the Senate
Sponsor: Sen. Joel D. Gougeon

Committee: Tax Policy
First Analysis (6-2-99)

THE APPARENT PROBLEM:

Governmental entities enjoy exemptions from the sales tax and the use tax. 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 companies and local units have complained that it makes little sense to make contractors pass on taxes to local units who would be exempt if they made the purchases or stored the materials themselves.

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. Senate Bill 466 would amend the General Sales Tax Act (MCL 205.54r). House Bill 4691 would amend the Use Tax Act (MCL 205.94p). House Bill 4691 would be effective for taxes levied after May 29, 1990.

BACKGROUND INFORMATION:

Two similar bills, House Bills 5798 and 5799, passed the House in the 1997-98 legislative session.

FISCAL IMPLICATIONS:

The Senate Fiscal Agency reports that the bills would reduce sales and use taxes by under \$1 million. Most of this would come from the sales tax, which would reduce the school aid fund revenue by \$0.7 million,

general fund/general purpose revenue by \$0.02 million, and state revenue sharing payments to local

units of government by \$0.3 million. (SFA floor analysis dated 5-11-99)

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 Michigan County Road Association has indicated support for the bill. (6-2-99)

The Michigan Townships Association has indicated support for the bill. (6-2-99)

The Department of Treasury is opposed to the bill. (6-2-99)

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.