



House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

SALES TAX EXEMPTIONS: DEF'N. OF "IN GOOD FAITH"

House Bill 4891
Sponsor: Rep. Clark Bisbee
Committee: Tax Policy

Complete to 2-10-00

A SUMMARY OF HOUSE BILL 4891 AS INTRODUCED 9-28-99

The General Sales Tax Act requires a taxpayer (i.e., a retail seller) to collect the sales tax on transfers of tangible property and remit the tax to the state. Many kinds of transactions are exempt from the sales tax, such as sales to nonprofit organizations, churches, schools, farmers, and industrial processors. When an exemption is claimed, a seller must keep a record of the sale, including the name and address of the buyer, the sale date, the article purchased and the use to be made of it, the sale amount, and the buyer's sales tax license number (if the buyer has a license). If the seller maintains the appropriate records and accepts an exemption certificate from a buyer in good faith on a Department of Treasury-approved form, then the seller is not liable for collections of unpaid taxes if it is later determined that the sale did not qualify for an exemption.

Currently, the phrase "in good faith" means that the taxpayer "exercised reasonable care and effort to determine that the purchaser was entitled to the exemption being claimed." House Bill 4891 would amend the act to define "in good faith" to mean that the taxpayer "received a completed and signed exemption certificate from the buyer." The bill also would replace the requirement that sellers maintain a record of the use to be made of the article being sold and would instead require a record of the type of exemption claimed.

Public Act 254 of 1995 provided for blanket exemptions. A blanket exemption certificate covers all tax-exempt transactions between a taxpayer-seller and a buyer for a given period of time. A blanket exemption can apply for up to three years, with the period to be agreed upon by the buyer and seller. House Bill 4891 would allow blanket exemption certificates to apply for up to four years, instead of three years.

MCL 205.67

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.