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SFA BILL ANALYSIS

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Senate Bill 988 (Substitute S-1 as reported)
Senate Bill 989 (Substitute S-1 as reported)
Sponsor: Senator Joanne G. Emmons
Committee: Finance

CONTENT

Senate Bill 988 would amend the General Sales Tax Act, and Senate Bill 989 would amend the Use Tax Act, to specify that, beginning September 20, 1999, the taxes would apply to the transmission and distribution of electricity, whether the electricity was purchased from the delivering utility or from another provider. Further, Senate Bill 989 provides that the use tax would apply to electricity, natural or artificial gas, or steam.

Currently, the General Sales Tax Act taxes the sale of electricity, natural or artificial gas, or steam, if the sale is made to the consumer or user for consumption or use rather than for resale. Senate Bill 988 would retain this provision, and require that the sale of the transmission and distribution of electricity also be made to the consumer or user of the electricity for consumption or use.

Senate Bill 988 (S-1) is tie-barred to Senate Bill 555. As passed by the House, the bill would amend the General Sales Tax Act to exempt form the tax sales of nonalcoholic beverages in a sealed container, sold from a vending machine or mobile facility.

MCL 205.51 (S.B. 988) Legislative Analyst: G. Towne
205.92 (S.B. 989)

FISCAL IMPACT

Under Michigan's current regulated electric industry, the price charged for electricity reflects the costs incurred to generate, transmit, and distribute the electricity, and the sales tax is assessed on this total price. If the electric industry in Michigan were restructured as proposed in other legislation, the generation, transmission, distribution, and other aspects of providing electricity, plus any new transition charges, would be unbundled and appear as separate items on customers' bills. Under current sales tax law, an unbundled structure would allow the sales tax to be assessed only on the charge for purchasing electricity, a tangible product, from an in-State company, assuming the unbundled items would be provided by different businesses. The sales tax could not presently be assessed on electricity purchased from an out-of-State company, on the prices charged for the services of transmitting and distributing the electricity, or on the transition charge. Assuming a scenario was in place in FY 2000-01 that included, 1) unbundled electricity prices (at current levels), 2) the current sales tax law, and 3) the purchase of all electricity from in-State companies, then sales tax revenue would be reduced an estimated $131 million, which would reduce School Aid Fund revenue $87 million, revenue sharing $40 million, and General Fund/General Purpose revenue $4 million. Under the provisions in these bills, the sales and use taxes would continue to be assessed on the price of generating, transmitting, and distributing electricity even if the electric industry were restructured; however, other current components of the price of electricity related to billing and ancillary charges, would not be taxed. Therefore, the bills would reduce the potential loss in sales tax revenue from the sale of electricity from $131 million to an estimated $20 million.

Date Completed: 5-15-00 Fiscal Analyst: J. Wortley

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.