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SFA BILL ANALYSIS

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Senate Bill 433 (Substitute S-4 as reported by the Committee of the Whole)
Sponsor: Senator Joanne G. Emmons
Committee: Finance

CONTENT

The bill would create the "Streamlined Sales and Use Tax Administration Act" to do the following:

-- Allow the State to enter into a multistate streamlined sales and use tax agreement.
-- Create a board of governance that could represent this State in meeting with other states that were authorized by statute to enter into the agreement; and create a business advisory council to advise and make recommendations to the board.
-- Provide for the registration of sellers, who would have to select a method for the collection and remittance of sales and use taxes.
-- Allow sellers to contract with certified service providers for the collection and remittance of taxes; and establish qualifications for certification as a service provider.
-- Provide for the use of an automated system that would calculate each jurisdiction's tax on a transaction; and establish requirements for certification of an automated system.
-- Limit the liability of a seller for taxes on transactions made before the seller's registration.
-- Provide for consumer privacy.
-- Repeal the proposed act effective December 31, 2002.

Legislative Analyst: G. Towne

FISCAL IMPACT

The fiscal impact of this bill cannot be identified at this time. While the State is currently not collecting anywhere from $100 million to $300 million in sales and use taxes from taxable Internet and mail order transactions, this bill by itself would not solve this collection problem. This bill does, however, propose a major step toward possibly solving this problem. Under the bill, the State would be allowed to join a multistate compact whose intended purpose would be to simplify and streamline the sales and use taxes among the states and to develop a uniform collection process that would not be burdensome to businesses or consumers. The scope of this potential compact among the states, as outlined in the bill, could require Michigan eventually to make changes in its sales and use tax bases, particularly in regard to adopting uniform definitions of particular goods and services, which could have both positive and negative fiscal impacts. In addition, the State also would potentially have to eliminate its current special reduction in the tax rate, from 6.0% to 4.0%, granted on residential use of electricity, natural gas, and home heating fuels. Any additional sales and use tax revenue that this bill would eventually help collect would primarily benefit the School Aid Fund, local revenue sharing, and the General Fund/General Purpose budget. About 73% of the sales tax is earmarked to the School Aid Fund and most of the remaining sales tax revenue is distributed to local governments. The use tax is distributed to the School Aid Fund (33%) and the General Fund/General Purpose budget (67%).

The Department of Treasury would need to acquire the capacity for electronic acceptance of tax registration information and the electronic collection of sales and use taxes. The Department estimates this cost at $2 million. The first $1 million of this cost was included in the FY 2000-01 appropriation to the Department of Treasury. The remaining $1 million is requested in the appropriation for FY 2001-02.

Date Completed: 5-16-01 Fiscal Analyst: J. Wortley, J. Runnels