



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 5502 (Substitute H-1 as reported by the Committee of the Whole)
Sponsor: Representative Lorence Wenke
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bill would amend the Use Tax Act to do the following:

- Revise the definitions of "purchase price", "tangible personal property", and other terms, and define new terms.
- Provide for the determination of the source of a sale subject to the use tax.
- Add the transmission and distribution of electricity and other items to the list of what is taxed in the same manner as tangible personal property.
- Create new exemptions from the use tax and modify some existing exemptions.
- Provide that a person engaged in selling personal property for storage, use, or other consumption in the State would not have to register under the Use Tax Act if the person were registered under the Streamlined Sales and Use Tax Agreement.
- Provide for the liability of "certified service providers" that failed to collect the use tax.
- Revise the deduction of a seller's bad debt.
- Establish new record-keeping requirements for sellers of tangible personal property if Michigan became a member of the Streamlined Sales and Use Tax Agreement.

The bill, together with House Bills 5503 (H-1), 5504 (H-2), and 5505 (H-1), would authorize Michigan's participation in the Streamlined Sales Tax Project (a multistate effort to simplify and modernize sales and use tax collection and administration). All of the bills are tie-barred to each other. House Bill 5502 (H-1) would take effect September 1, 2004.

MCL 205.92 et al.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

House Bills 5502 (H-1) through 5505 (H-1) would affect sales and use tax collections in two ways:

1) Revenue Loss Due to Adoption of Uniform Definitions: These bills include changes needed to bring Michigan's sales and use tax statutes into conformity with the Streamlined Sales Tax Agreement. The proposed changes primarily include adopting common definitions of certain items, particularly for some food items. These changes would reduce tax collections an estimated \$18 million in FY 2004-05.

2) Increased Tax Compliance. These bills are designed to encourage e-commerce businesses voluntarily to collect Michigan's sales and use taxes. To the extent that this happened, it would help offset, or potentially completely offset, the loss in revenue from the tax base definition changes. It is difficult to estimate how much revenue would be generated from this voluntary compliance, but it is estimated that Michigan is currently losing at least \$250 million annually in sales and use tax collections from e-commerce transactions. In order to offset the entire estimated \$18 million that would be lost due to

the definition changes, the changes aimed at encouraging e-commerce businesses voluntarily to collect Michigan's sales and use taxes would have to lead to the collection of only 7% of the amount that is currently not being collected.

Date Completed: 6-8-04

Fiscal Analyst: Jay Wortley