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BILL ANALYSIS



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House Bill 6277 (Substitute H-1 as passed by the House)  
House Bill 6278 (Substitute H-1 as passed by the House)  
Sponsor: Representative Fulton Sheen  
House Committee: Tax Policy  
Senate Committee: Finance

Date Completed: 12-11-06

### **CONTENT**

**House Bills 6277 (H-1) and 6278 (H-1) would amend the General Sales Tax Act and the Use Tax Act, respectively, to delete a requirement for the review and redetermination of a presumption that 90% of the total use of telecommunications machinery and equipment is for exempt purposes.**

The Use Tax Act provides for the taxation of intrastate telephone, telegraph, leased wire, and other similar communications, including local telephone exchange and long distance telephone service that both originates and terminates in Michigan; interstate telephone communications that originate or terminate in Michigan and for which the charge for service is billed to a Michigan service address or phone number by the provider within or outside of this State; and mobile telecommunications services.

Both the Use Tax Act and the General Sales Tax Act provide an exemption for the purchase of machinery and equipment for use or consumption in the provision of services taxable under these provisions of the Use Tax Act. The exemption is limited to tangible personal property located on the premises of the subscriber and to central office equipment or wireless equipment, directly used or consumed in transmitting, receiving, or switching, or in the monitoring of two-way interactive communication.

Under each Act, the property is exempt only to the extent that it is used for the exempt purposes specified in the Act. There is an irrebuttable presumption that 90% of total use is for exempt purposes. The presumption was in effect from April 1, 1999, to April 1, 2006. At that time, the Department was required to review and redetermine the presumption, and the redetermined presumption is to be in effect for the following seven years. Every seven years after April 1, 2006, the presumption must be reviewed and redetermined, and applied to the following seven years.

The bill would retain the irrebuttable presumption that 90% of total use is for exempt purposes, and delete the requirements for the presumption to be reviewed and redetermined.

MCL 205.54v (H.B. 6277)  
205.4q (H.B. 6278)

Legislative Analyst: Suzanne Lowe

## **FISCAL IMPACT**

Under current law, certain equipment purchased to provide taxable communications services is exempt from the sales and use taxes. These exemptions are providing tax reductions totaling an estimated \$18.0 million a year. These bills would maintain these existing sales and use tax exemptions and therefore would not result in any additional or new fiscal impact.

Fiscal Analyst: Jay Wortley

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