

Legislative Analysis



TAX ON SERVICES

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House Bill 5198 as enrolled

Public Act 93 of 2007

Sponsor: Rep. Steve Tobocman

House Committee: Tax Policy (Discharged)

Senate Committee: Finance (Discharged)

Complete to 10-3-07

A SUMMARY OF HOUSE BILL 5198 AS ENROLLED

The bill amends the Use Tax Act (MCL to tax the use or consumption of specified services in the same manner as tangible personal property is taxed. The listed services would be taxed at six percent as of December 1, 2007.

The bill's description of listed services includes the North American Industry Classification System (NAICS) category code number for the services. The bill specifies that the service is subject to tax based on the description the description of the service in the applicable NAICS code and not the classification of the establishment providing that service. Descriptions of these industry codes can be found by inserting the appropriate code number at:

www.census.gov/cgi-bin/epcd/srchnaics02ind

The following are the services to be taxed (with NAICS code and, in some cases, NAICS descriptions).

- Consulting services (NAICS 5416). This industry group includes management consulting services, environmental consulting services, and other scientific and technical consulting services.

The category of management consulting comprises establishments primarily engaged in providing advice and assistance to businesses and other organizations on management issues, such as strategic and organizational planning; financial planning and budgeting; marketing objectives and policies; human resource policies, practices, and planning; production scheduling; and control planning.

The category of environmental consulting comprises establishments primarily engaged in providing advice and assistance to businesses and other organizations on environmental issues, such as the control of environmental contamination from pollutants, toxic substances, and hazardous materials. These establishments identify problems (e.g., inspect buildings for hazardous materials), measure and evaluate risks, and recommend solutions. They employ a multidisciplined staff of scientists, engineers, and other technicians with expertise in areas such as air and water quality, asbestos contamination,

remediation, and environmental law. Establishments providing sanitation or site remediation consulting services are included in this industry.

- Carpet and upholstery cleaning services (56174).
- Business service center services (56143). This industry comprises establishments primarily engaged in providing mailbox rental and other postal and mailing services (except direct mail advertising); establishments, generally known as copy centers or shops, primarily engaged in providing photocopying, duplicating, blueprinting, and other document copying services without also providing printing services (i.e., offset printing, quick printing, digital printing, prepress services); and establishments that provide a range of office support services (except printing services), such as mailing services, document copying services, facsimile services, word processing services, on-site PC rental services, and office product sales.
- Investigation, guard, and armored car services (NAIC 56161).
- Investment advice (52393). This industry comprises establishments primarily engaged in providing customized investment advice to clients on a fee basis that do not have the authority to execute trades. Primary activities performed by establishments in this industry are providing financial planning advice and investment counseling to meet the goals and needs of specific clients.
- Janitorial services (56172).
- Landscaping services (56173).
- Office administration (5611). This industry comprises establishments primarily engaged in providing a range of day-to-day office administrative services, such as financial planning; billing and recordkeeping; personnel; and physical distribution and logistics for others on a contract or fee basis. These establishments do not provide operating staff to carry out the complete operations of a business.
- Other personal services, comprising astrology, baby shoe bronzing, bail bonding, balloon-o-gram, coin-operated blood pressure testing machines, bondsperson services, check room services, coin-operated personal service machine services, comfort stations, concierge services, consumer buying services, credit card notification services, dating services, discount buying, social escort services, fortune telling, genealogical investigation services, house sitting, social introduction services, coin-operated rental lockers, numerology, palm reading, party planning, pay telephones, personal fitness trainers, personal shopping, coin-operated photographic machines, phrenology, porter services, psychic services, rest room operations, shoeshine services, singing telegrams, wedding chapel services, and wedding planning services.

- Other travel and reservation services (56159). This industry category comprises establishments (*except travel agencies and tour operators*) primarily engaged in providing travel arrangement and reservation services. The category includes convention and visitors bureaus (establishments primarily engaged in marketing and promoting communities and facilities to businesses and leisure travelers through a range of activities, such as assisting organizations in locating meeting and convention sites; providing travel information on area attractions, lodging accommodations, restaurants; providing maps; and organizing group tours of local historical, recreational, and cultural attractions). The category also includes automobile clubs (establishments primarily engaged in providing membership travel services. Services offered include maps, roadside service for disabled cars, travel route guides, and guides to hotels or recreational activities).
- Scenic transportation services (487). On land, this would include sightseeing buses and trolleys, steam train excursions, and horse-drawn sightseeing rides. On water, this would include charter boat fishing.
- Skiing services (71392). This industry comprises establishments engaged in operating downhill, cross-country, or related skiing areas and operating equipment, such as ski lifts and tows.
- Tour operator services (56152). These are establishments primarily engaged in arranging and assembling tours.
- Warehousing and storage services (4931).
- Packaging and labeling services (56191).
- Specialized design services (5414), including industrial design, interior design, and graphic design.
- Transit and ground passenger transport services (4853). This category contains taxi and limousine services.
- Courier and messenger services (492).
- Personal care services (8121), except hair care services. This includes establishments providing nail care services and providing facials or applying makeup (except permanent makeup). It also includes diet and weight reducing centers (establishments primarily engaged in providing nonmedical services to assist clients in attaining or maintaining a desired weight. The sale of weight reduction products, such as food supplements, may be an integral component of the program. These services typically include individual or group counseling, menu and exercise planning, and weight and body measurement monitoring.) The category also includes tattoo parlors.

- Service contract services where the seller, for a single payment, agrees to provide repair, maintenance, or replacement of personal property for a period of time (but where the buyer is not required to buy such services in connection with the purchase of the property).
- Security system services (56162).
- Document preparation services (56141). These services include letter or resume writing; document editing or proofreading; typing, word processing, or desktop publishing; and stenographic (except court reporting or stenotype recording), transcription, and other secretarial services.
- Mini-warehouse services and self-storage unit services (53113).

Appropriation. The bill contains an appropriation of \$100,000 for the 2006-07 fiscal year to the Department of Treasury to begin implementing the provisions of the bill. Any portion of the amount not spent in that fiscal year would not lapse to the General Fund but would be carried forward in a work project account for the following fiscal year.

FISCAL IMPACT:

Given an effective date of December 1, 2007, HB 5198 would increase use tax revenue by an estimated \$613.8 million in FY 2007-08 and \$751.3 million in FY 2008-09. The use tax rate is 6%, of which 2% is constitutionally earmarked to the School Aid Fund (SAF), while the remaining 4% is General Fund/General Purpose (GF/GP) revenue.

Therefore, this bill would increase SAF revenue by \$204.6 million and GF/GP revenue by \$409.2 million in FY 2007-08 and increase SAF revenue by \$250.4 million and GF/GP revenue by \$500.9 million in FY 2008-09.

Consulting, janitorial, landscaping, office administration, and "other personal services" are estimated to generate 66% of the revenue increase.

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■ 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.