

SUBSTITUTE FOR  
SENATE BILL NO. 880

A bill to amend 1937 PA 94, entitled  
"Use tax act,"  
by amending section 4p (MCL 205.94p), as added by 1999 PA 117.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1       Sec. 4p. (1) The tax under this act does not apply to property  
2 sold to an extractive operator for use or consumption in extractive  
3 operations.

4       (2) The property under subsection (1) is exempt only to the  
5 extent that the property is used for the exempt purposes stated in  
6 this section. The exemption is limited to the percentage of exempt  
7 use to total use determined by a reasonable formula or method  
8 approved by the department.

1           (3) Extractive operations include the actual production of  
2 oil, gas, brine, or other natural resources. Property eligible for  
3 the exemption includes the following:

4           (a) Casing pipe or drive pipe.

5           (b) Tubing.

6           (c) Well-pumping equipment.

7           (d) Chemicals.

8           (e) Explosives or acids used in fracturing, acidizing, or  
9 shooting wells.

10          (f) Christmas trees, derricks, or other wellhead equipment.

11          (g) Treatment tanks.

12          (h) Piping, valves, or pumps used before movement or  
13 transportation of the natural resource from the production area.

14          (i) Chemicals or acids used in the treatment of crude oil,  
15 gas, brine, or other natural resources.

16          (j) Tangible personal property used or consumed in depositing  
17 tailings from hard rock mining processing.

18          (k) Tangible personal property used or consumed in extracting  
19 the lithologic units necessary to process iron ore.

20          (4) The extractive operation exemption does not include the  
21 following:

22          (a) Tangible personal property consumed or used in the  
23 construction, alteration, improvement, or repair of buildings,  
24 storage tanks, and storage and housing facilities.

25          (b) Tangible personal property consumed or used in  
26 transporting the product from the place of extraction, except for  
27 tangible personal property consumed or used in transporting

1 extracted materials from the extraction site to the place where the  
2 extracted materials first come to rest in finished goods inventory  
3 storage.

4 (c) Tangible personal property that is a product the  
5 extractive operator produces and that is consumed or used by the  
6 extractive operator for a purpose other than the manufacturing or  
7 producing of a product for ultimate sale. The extractor shall  
8 account for and remit the tax to the state based upon the product's  
9 fair market value.

10 (d) Equipment, materials, and supplies used in exploring,  
11 prospecting, or drilling for oil, gas, brine, or other natural  
12 resources.

13 (e) Equipment, materials, and supplies used in the storing,  
14 withdrawing, or distribution of oil, gas, or brine from a storage  
15 facility.

16 (f) Vehicles, including special bodies or attachments,  
17 required to display a vehicle permit or license plate to operate on  
18 public highways.

19 (5) As used in this section:

20 (a) "Extractive operations" means the activity of taking or  
21 extracting for resale ore, oil, gas, coal, timber, stone, gravel,  
22 clay, minerals, or other natural resource material. An extractive  
23 operation begins when contact is made with the actual type of  
24 natural raw product being recovered. Extractive operation includes  
25 all necessary processing operations before shipment from the place  
26 of extraction. Extractive operations ~~includes~~ **INCLUDE** all necessary  
27 processing operations and movement of the natural resource material

1 until the point at which the natural raw product being recovered  
2 first comes to rest in finished goods inventory storage at the  
3 extraction site. **EXTRACTIVE OPERATIONS FOR TIMBER INCLUDE**  
4 **TRANSPORTING TIMBER FROM THE POINT OF EXTRACTION TO A PLACE OF**  
5 **TEMPORARY STORAGE AT THE EXTRACTION SITE AND LOADING OR**  
6 **TRANSPORTING TIMBER FROM A PLACE OF TEMPORARY STORAGE AT THE**  
7 **EXTRACTION SITE TO A VEHICLE OR OTHER EQUIPMENT LOCATED AT THE**  
8 **EXTRACTION SITE THAT WILL REMOVE THE TIMBER FROM THE EXTRACTION**  
9 **SITE.**

10 (b) An extractive operator is a person who, either directly or  
11 by contract, performs extractive operations.