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BILL ANALYSIS

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Senate Bill 198 (as introduced 2-5-09)
Sponsor: Senator Michelle A. McManus
Committee: Finance

Date Completed: 6-3-09

CONTENT

The bill would amend the Use Tax Act to extend the industrial processing exemption to sawmill operations, including timber and vehicles.

Under the Act, the use tax does not apply to property sold to the following, to the extent that the property is used for the exempt purpose:

- An industrial processor for use or consumption in industrial processing.
- A person, whether or not an industrial processor, if the tangible personal property is intended for ultimate use in, and is used in, industrial processing by an industrial processor.
- A person who uses the tangible personal property to perform an industrial processing activity for or on behalf of an industrial processor.
- A person, whether or not an industrial processor, if the tangible personal property is a computer used in operating industrial processing equipment, or is related computer equipment, as described in the Act.

Industrial processing includes specified activities, such as production or assembly, research, and engineering related to industrial processing. The bill would amend this provision, as well as the definition of "industrial processing", to include the operation of a sawmill.

The Act lists various types of property that are not eligible for the industrial processing exemption. The list includes tangible personal property used for receiving or storing natural resources extracted by the user or consumer. Under the bill, this nonexempt property would not include timber received or stored in relation to a sawmill operation.

The list of nonexempt property also includes vehicles required to display a vehicle permit or license plate to operate on public highways, subject to several exceptions. The bill also would make an exception for a vehicle used to transfer timber from a forest, woodlot, or cutting site to a sawmill operation.

MCL 205.94o

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce use tax revenue by less than \$1.0 million annually. This loss in revenue would reduce the General Fund and the School Aid Fund, as two-thirds of use tax revenue is earmarked to the General Fund and the remaining one-third of the revenue is earmarked to the School Aid Fund. This bill would have no direct impact on local units of government.

Fiscal Analyst: Jay Wortley

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