



Senate Fiscal Agency
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BILL



ANALYSIS

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Senate Bill 883 (as reported without amendment)
Sponsor: Senator Nancy Cassis
Committee: Finance

(as enrolled)

Date Completed: 1-20-10

RATIONALE

People who use heavy earthmoving equipment commonly purchase remanufactured "core" parts, rather than replacing worn-out components with new ones or simply having the old cores repaired. When a rebuilt core is purchased, the business selling it not only charges for that part but also imposes a core charge, in order to encourage the customer to bring in the worn-out part, which then can be remachined and resold. The core charge typically is equivalent to the price of the rebuilt part, and the seller must collect sales tax on both amounts. For example, if a rebuilt core costs \$600 and the core charge is \$600, the seller will collect the 6% sales tax on \$1,200. When the customer brings in the old core, the seller will refund the core charge but cannot return the sales tax collected on it. Evidently, a number of other states provide for a sales tax exemption on core charges, and it has been suggested that Michigan do so as well.

CONTENT

The bill would amend the Streamlined Sales and Use Tax Revenue Equalization Act to allow a refund of the sales tax paid on a core charge attributable to a recycling fee, deposit, or disposal fee for a component, part, or battery for heavy earthmoving equipment.

A person who paid sales tax on such a core charge could calculate a credit and seek a refund from the Department of Treasury in an amount equal to the sales tax paid.

Proposed MCL 205.184a

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The people who use heavy earthmoving equipment, and pay core charges on rebuilt parts, are businesses responsible for building and maintaining roads and bridges, laying underground pipes, developing construction sites, and building homes and commercial facilities. Allowing a credit for the sales tax paid on core charges would be business-friendly and would bring Michigan into line with other states that provide a similar sales tax exemption or credit. Buying remanufactured cores can save customers half the cost of new parts, and the core charge encourages them to return worn-out components, which keeps a supply available to be remachined and resold. The exchange of parts also facilitates the productive use of labor and machinery, as the customer's employees and equipment do not sit idle while a component is being repaired, and it provides work for the service operation that rebuilds the parts. Returning worn-out cores is environmentally responsible, as well, because it reduces the amount of scrap material going into landfills.

If customers simply have their failed parts repaired, they do not pay the sales tax on the labor. Customers who buy remanufactured parts instead should not be penalized for doing so. While the amount of sales tax on an individual core charge might not be significant, the numbers can add up. According to testimony submitted by CAT

Michigan, in one year that company processed approximately 11,000 core returns, with a total value of about \$5.0 million on which the sales tax was collected.

Opposing Argument

There is no evidence that the sales tax on core charges has a detrimental impact on business. Companies are not shutting down or laying off workers due to this tax.

Response: The proposed sales tax credit would help Michigan appear competitive with other states.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce sales tax revenue by approximately \$250,000 per year. Sales tax revenue is primarily distributed to the School Aid Fund and the General Fund, and to local units through constitutional and statutory revenue sharing.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.