

Legislative Analysis



TAX EXEMPTION FOR FUND-RAISING SALES BY VETERANS ORGANIZATIONS

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Senate Bill 106 as passed by the Senate

Sponsor: Sen. Mike Green

Senate Committee: Finance

House Committee: Tax Policy

Complete to 11-22-16

Analysis available at
<http://www.legislature.mi.gov>

(Enacted as Public Act 503 of 2016)

SUMMARY:

The bill would provide a sales tax exemption for sales made by a veterans organization to raise funds for the benefit of an active duty service member or veteran. The exemption is limited to \$25,000 in aggregate sales of tangible personal property for each individual fund-raising event.

The bill would amend the General Sales Tax Act and applies to a veterans organization exempt from federal income tax under Section 501(c)(19) of the federal Internal Revenue Code. A club, association, auxiliary, or other organization affiliated with such a veterans organization would not be considered a separate person for the purposes of the exemption.

[Section 501(c)(19) of the Internal Revenue Code exempts from federal income tax an entity made up of past or present members of the U.S. Armed Forces that meets the following criteria: (1) it is organized in the United States or any of its possessions; (2) at least 75% of the members are past or present members of the U.S. Armed Forces and substantially all of the other members are cadets or spouses, widows, widowers, ancestors, or descendants of past or present members of the Armed Forces or of cadets; and (3) none of the net earnings of the post or organization benefits any private shareholder or individual.]

Under the bill, the term "service member" would be defined as a member of the armed forces of the United States, a reserve branch of the U.S. armed forces, or the National Guard. "Armed forces" refers to the Army, Air Force, Navy, Marine Corps, Coast Guard, or other military force designated by the U.S. Congress as part of the armed forces.

Currently, the General Sales Tax Act provides an exemption for fund-raising sales for certain organizations that have aggregate retail sales in a calendar year of less than \$5,000. This applies to schools, churches, hospitals, parent cooperative pre-schools, and nonprofit organizations organized under sections 501(c)(3) or 501(c)(4) of the IRS Code.

MCL 204.54o

FISCAL IMPACT:

As written, the bill would reduce sales tax revenue by an indeterminate amount. A single \$25,000 exemption translates to a \$1,500 reduction in sales tax revenue, which would

reduce revenue to the School Aid Fund by approximately \$1,100 and would reduce Constitutional revenue sharing to cities, villages, and townships by about \$150. The remaining revenue reduction would fall primarily on the General Fund.

Because it is not known how many veterans organizations would avail themselves of the exemption, it is not possible to calculate a fiscal impact. However, if the maximum potential reduction of a single exemption is \$1,500, the combined impact from all organizations is likely to be small.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.