



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS



Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 106 (as enacted)
Sponsor: Senator Mike Green
Senate Committee: Finance
House Committee: Tax Policy

PUBLIC ACT 503 of 2016

Date Completed: 1-11-17

RATIONALE

It is not uncommon for veterans' organizations, such as American Legion and VFW posts, to engage in fund-raising activities that benefit veterans and service members, particularly in situations involving a disability or financial hardship. These community-based efforts might help support an unemployed veteran, for example, or provide funds to adapt a disabled member's home. When an organization's fund-raising activities involve the sale of personal property, the organization is required to remit sales tax to the Michigan Department of Treasury. Although a tax exemption is available for nonprofit charitable organizations and other types of groups that sell personal property for fund-raising purposes, that exemption is limited to aggregate sales of less than \$5,000 per year, and it does not apply to veterans' organizations. In order to strengthen these organizations' fund-raising efforts, it was suggested that a similar exemption be created for them.

CONTENT

The bill amends the General Sales Tax Act to provide a tax exemption for the sale of personal property by a veterans' organization for the purpose of raising funds for the benefit of an active duty service member or a veteran. The veterans' organization must be exempt from Federal income tax under Section 501(c)(19) of the Internal Revenue Code.

The exemption will be limited to \$25,000 in aggregate sales of tangible personal property for each individual fund-raising event.

A club, association, auxiliary, or other organization affiliated with an exempt veterans' organization will not be considered a separate person for purposes of the exemption.

The bill defines "service member" as a member of the Armed Forces of the United States, a reserve branch of the U.S. Armed Forces, or the National Guard.

The bill defines "veteran" as any of the following:

- A person who served on active duty in the U.S. Armed Forces for a period of more than 180 days and separated from the Armed Forces in a manner other than a dishonorable discharge.
- A person discharged or released from active duty because of a service-related disability.
- A member of a reserve branch of the U.S. Armed Forces at the time he or she was ordered to active duty, who served on active duty during a period of war, or in a campaign or expedition for which a campaign badge is authorized, and was released from active duty in a manner other than a dishonorable discharge.

(Section 501(c)(19) of the Internal Revenue Code exempts from Federal income tax a post or organization of past or present members of the U.S. Armed Forces that meets the following criteria:

- It is organized in the United States or any of its possessions.
- 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 are spouses, widows, widowers, ancestors, or descendants of past or present members of the Armed Forces or of cadets.
- None of the net earnings of the post or organization benefits any private shareholder or individual.)

The bill was enacted on January 9, 2017, and will take effect 90 days after that date.

MCL 205.54o

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

It is common knowledge that many veterans are unemployed, underemployed, or unemployable, often due to service-related disabilities. Many active duty service members also have unmet financial needs. Although government programs might provide some benefits and help veterans find employment, these programs often fall short. According to many, there are tremendous holes in the assistance provided by the Veterans Administration, and lengthy delays in that system. Also, Michigan reportedly has ranked near the bottom of all states when it comes to per capita spending to support veterans.

Veterans' organizations try to fill these gaps but their resources are limited. To help meet the needs of individual veterans and service members, and their families, veterans' organizations sometimes hold fund-raisers, including auctions of donated items, bake sales, and yard sales. While many of these efforts might yield modest collections, one event in May 2012 raised nearly \$35,000 for a surviving soldier who had lost all four of his limbs while on patrol in Afghanistan. Regardless of the amount raised, the organization holding a fund-raiser is required to pay sales tax when personal property is sold. Unless the tax is collected from the purchasers, it must come out of the organization's funds or the money raised. Even when the tax is paid by the purchasers, the organization still must go through the process of collecting and remitting the tax.

By creating a tax exemption for up to \$25,000 in sales of personal property for an individual fund-raiser by a veterans' organization, the bill will help ensure that the money raised goes to benefit the service member or veteran, and that the organization's resources are not diverted to paying the tax. The exemption also might contribute to the success of a fund-raiser, since people may be more inclined to make purchases that are tax-free.

Response: Although these types of exemptions are well-intentioned, and each one reduces the School Aid Fund by a relatively small amount, they add up to a large amount in aggregate.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill will reduce State General Fund and School Aid Fund revenue by an unknown and likely negligible amount that will depend on the specific characteristics of affected taxpayers. The bill will reduce local unit revenue by an unknown and likely negligible amount by reducing constitutional revenue sharing.

Nationally, there are at least 220 different organizations and associations organized for the purpose of assisting veterans, of which at least 37 are Congressionally chartered and have at one time or another operated in Michigan. How many of these organizations still operate in Michigan is unknown, as is the number exempt from Federal income tax under Section 501(c)(19) of the Internal Revenue Code. The number of fund-raising events conducted by these groups also is unknown, as is the volume of sales at events. However, an event that reached the limit imposed by the bill would reduce total sales tax revenue by \$1,500, which would lower School Aid Fund

revenue by approximately \$1,100 and constitutional revenue sharing by \$150. If the maximum limit per event imposed by the bill were met at each event, more than 666 events would need to be held for total revenue to be reduced by \$1.0 million.

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.