

Legislative Analysis



INCREASE AND REVISE SALES TAX EXEMPTION FOR CERTAIN FUND-RAISING SALES

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

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

House Bill 4115 (S-1) as passed by the Senate
Sponsor: Rep. Eric Leutheuser
House Committee: Tax Policy
Senate Committee: Finance
Complete to 6-12-18

(Enacted as Public Act 249 of 2018)

BRIEF SUMMARY: House Bill 4115 would amend the General Sales Tax Act to increase and revise a sales tax exemption for sales made by a school, church, hospital, parent cooperative preschool, or nonprofit organization that has a tax-exempt status.

FISCAL IMPACT: As written, the bill would reduce sales tax revenue by an unknown, but likely relatively small, amount. (See **FISCAL INFORMATION**, below.)

THE APPARENT PROBLEM:

Currently under the act, fund-raising sales made by a school, church, hospital, cooperative preschool, or nonprofit organization that has tax-exempt status are exempt from the sales tax, but the exemption only applies to organizations with aggregate sales of less than \$5,000 in a calendar year. This can be problematic for small organizations: an organization with \$6,000 in sales is required to remit sales tax on the full \$6,000. The \$5,000 sales limit was added to the act in 1994 and has never been adjusted. Some believe the sales limit should be raised and revised to account for inflation and to better support small organizations in their fund-raising efforts.

THE CONTENT OF THE BILL:

Currently under the act, the sale of tangible personal property for fund-raising purposes by a tax-exempt school, church, hospital, parent cooperative preschool, or nonprofit organization that has total aggregate retail sales in a calendar year of less than \$5,000 is exempt from the sales tax. The bill would raise this limit to less than \$25,000 in aggregate retail sales.

Under the bill, however, only the first \$10,000 per calendar year in aggregate sales of tangible personal property for fund-raising purposes by a tax-exempt school, church, hospital, parent cooperative preschool, or nonprofit organization that has total aggregate retail sales in a calendar year of less than \$25,000 would be exempt from the sales tax.

MCL 205.54o

The bill would take effect 90 days after being enacted into law.

FISCAL INFORMATION:

For any single organization that is able to utilize the full \$10,000 exemption, sales tax revenue will decline by \$600. Roughly 73% of total sales tax collections are earmarked to the School Aid Fund, and an additional 10% of collections are distributed as constitutional revenue sharing. The bulk of the remainder accrues to the general fund.

ARGUMENTS:

For:

The existing \$5,000 sales limit on receiving a sales tax exemption is outdated and does not reflect the modern-day operations of churches, schools, or related nonprofit organizations. Adjusted for inflation, the \$5,000 limit from 1994 would be about \$8,500 today; \$10,000 is a round, simple number for compliance and accounting purposes. Additionally, the bill restructures the exemption to better accommodate organizations: those with less than \$25,000 in total annual sales will be able to receive the exemption, but the exemption will be limited and apply only to the first \$10,000. This will promote tax compliance from these organizations, while still limiting the exemption to small-scale organizations.

Against:

The bill represents a continuation of policies that erode revenue streams to funds that support vital government functions, like schools and local government services. Since the majority of revenues from the sales tax are earmarked to the School Aid Fund, the bill erodes the revenue source that directly supports Michigan schools.

POSITIONS:

A representative of the Michigan Nonprofit Association indicated support for the bill.
(2-14-18)

Representatives of the following entities indicated opposition to the bill (2-14-18):

- American Federation of Teachers-Michigan
- Michigan Education Association
- Michigan Association of Secondary School Principals
- Michigan Association of School Administrators
- Michigan Association of School Boards
- Middle Cities Education Association
- Oakland Schools

A representative of the Michigan Department of Treasury indicated no position on the bill.
(2-14-18)

Legislative Analyst: Patrick Morris
Fiscal Analyst: Jim Stansell

■ 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.