

SALES TAX EXEMPTION FOR VETERANS' ORGANIZATIONS

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House Bill 5913 as enacted
Public Act 530 of 2018
Sponsor: Rep. John Bizon, M.D.
House Committee: Tax Policy
Senate Committee: Finance
Complete to 2-7-19

SUMMARY:

House Bill 5913 amends the General Sales Tax Act to exempt from the sales tax purchases made by nonprofit veterans' organizations.

Section 4q of the act exempts from the tax the sale of tangible personal property to a nonprofit organization that is exempt from federal income tax under section 501(c)(3) or 501(c)(4) of the Internal Revenue Code. (Nonprofit organizations with an exemption ruling letter issued by the Department of Treasury before the effective date of section 4q are also exempt.) However, these exemptions do not apply to: property that is sold for resale; property that will not be used to carry out the purposes of, or raise funds for, the organization; or vehicles or property purchased for fund-raising purposes with a sales price that exceeds \$5,000.

The bill exempts sales to nonprofit organizations that are federally exempt under section 501(c)(19) of the Internal Revenue Code—namely, veterans' organizations and their auxiliaries¹—and caps the allowable exemption for property purchased for fund-raising for a 501(c)(19) organization at \$25,000.

The bill takes effect March 28, 2019.

MCL 205.54q

BRIEF DISCUSSION:

According to committee testimony, veterans' organizations are already exempt from the sales tax in Michigan, but since that exemption status derives from a letter of determination from the Department of Treasury, rather than being spelled out in statute, as a practical matter the exemption comes down to an organization's success or failure in convincingly explaining its exempt status in a given retail transaction. The bill was offered in the hope of bringing clarity and uniformity to that situation.

¹ See <https://www.irs.gov/charities-non-profits/other-non-profits/veterans-organizations>

FISCAL IMPACT:

As written, House Bill 5913 would reduce sales tax revenue by an unknown, but likely small, amount. Approximately 73% of sales tax revenue is constitutionally earmarked to the School Aid Fund, and an additional 10% is earmarked to constitutional revenue sharing. The majority of any remaining sales tax revenue accrues to the general fund.

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