

## **SALES TAX EXEMPTION FOR VETERANS' ORGANIZATIONS**

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<http://www.house.mi.gov/hfa>

**House Bill 5913 (H-1) as reported from committee**  
**Sponsor: Rep. John Bizon, M.D.**  
**Committee: Tax Policy**  
**Complete to 10-3-18**

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

### **SUMMARY:**

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

Section 4q of the act currently 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 would exempt sales to nonprofit organizations that are federally exempt under section 501(c)(19) of the Internal Revenue Code—namely, veterans' organizations and their auxiliaries.<sup>1</sup> The bill would also change the allowable exemption for property purchased for fund-raising from \$5,000 to the applicable cap on the exemption for fund-raising sales by a nonprofit organization, established under section 4o of the act.<sup>2</sup> For a 501(c)(19) organization, this cap is currently \$25,000.

The bill would take effect 90 days after being enacted.

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.

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

<sup>2</sup> This cap was recently increased. See <http://www.legislature.mi.gov/documents/2017-2018/billanalysis/House/pdf/2017-HLA-4115-155ED176.pdf>

## **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.

## **POSITIONS:**

Representatives of the American Legion Third District of Michigan testified in support of the bill. (9-5-18)

The following organizations indicated support for the bill:

American Legion Department of Michigan (9-5-18)

National Guard Association of Michigan (9-26-18)

A representative of the Department of Treasury testified with a neutral position regarding the bill. (9-5-18)

A representative of the Michigan Association of School Boards testified in opposition to the bill. (9-5-18)

The following organizations indicated opposition to the bill (9-5-18):

Michigan Association of Superintendents

Wayne RESA

Middle Cities Education Association

Legislative Analyst: Rick Yuille

Fiscal Analyst: Jim Stansell

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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.