



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bills 1026 and 1027 (as introduced 5-23-18)
Sponsor: Senator Dale W. Zorn (S.B. 1026)
Senator Jack Brandenburg (S.B. 1027)
Committee: Finance

Date Completed: 6-5-18

CONTENT

Senate Bills 1026 and 1027 would amend the General Sales Tax Act and the Use Tax Act, respectively, to exempt from taxation under those Acts the sale or purchase of contact lenses.

Currently, the Acts exempt from the taxes the sale of a prosthetic device, durable medical equipment, or mobility enhancing equipment. The term "prosthetic device" is defined as a replacement, corrective, or supportive device, other than contact lenses and dental prosthesis, dispensed under a prescription, including repair or replacement parts for that device, worn on or in the body to do one or more of the following:

- Artificially replace a missing portion of the body.
- Prevent or correct a physical deformity or malfunction of the body.
- Support a weak or deformed portion of the body.

The bills would remove the exception for contact lenses from the definition.

(The Acts impose a tax of 6% on the purchase price or sales price of nonexempt personal property and services.)

The bills would take effect 90 days after they were enacted.

MCL 205.51a (S.B. 1026)
205.92b (S.B. 1027)

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bills would reduce State and local revenue by approximately \$12.7 million per year. The distribution of the impact would depend on the relative shares of sales and use taxes affected by the bills, because approximately 73.3% of sales tax revenue is distributed to the School Aid Fund, local units of government receive 10.0% through constitutional revenue sharing, and the rest is directed to the General Fund; while out of the State's share of the use tax, the School Aid Fund receives approximately 48%, and the General Fund receives the remaining 52%. It is expected that most of the reduction would affect sales tax revenue. If 100% of the impact occurred under the sales tax, the bill would reduce School Aid Fund revenue by approximately \$9.3 million per year, local unit revenue by \$1.3 million per year, and General Fund revenue by approximately \$2.1 million per year.

The limited and poor quality of available data suggest that significantly different estimates are possible for the impact of the bills. Data for the national market are more reliable than the data for Michigan, but even the national data provide materially divergent estimates on the size of the U.S. contact lens market across different sources. Trade publications indicate that it is difficult to obtain accurate figures regarding the size of the U.S. market. As a result, several states considering similar tax exemption measures have estimated widely varying impacts, some of which are not consistent with each other given the size of their respective state populations. The estimate above averages the impacts using several different data sources and methodologies.

Fiscal Analyst: David Zin

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