



ANALYSIS

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House Bill 4115 (Substitute H-3 as passed by the House)

Sponsor: Representative Eric Leutheuser

House Committee: Tax Policy Senate Committee: Finance

Date Completed: 5-1-18

CONTENT

The bill would amend the General Sales Tax Act to increase the dollar amount of retail sales that qualify for a sales tax exemption that applies to the sale of tangible personal property for fund-raising purposes by a school, church, hospital, or nonprofit organization that meets certain criteria.

The Act imposes a tax of 6% on the purchase prices of nonexempt personal property.

The sale of tangible personal property for fund-raising purposes by a school, church, hospital, parent cooperative preschool, or nonprofit organization that has a tax-exempt status under Section 4q of the Act and that has aggregate sales at retail in the calendar year of less than \$5,000 is exempt from the tax levied under the Act.

The bill would refer to retail sales in a calendar year of less than \$25,000, instead of \$5,000. However, the exemption would be limited to the first \$10,000 in aggregate sales of tangible personal property in a calendar year for each organization that had tax-exempt status under Section 4g and that had aggregate retail sales in the year of less than \$25,000.

(Section 4q specifies that a sale of tangible personal property not for resale to the following is exempt from the tax under the Act:

- -- A health, welfare, educational, cultural arts, charitable, or benevolent organization not operated for profit that has been issued an exemption ruling letter to purchase items exempt from tax before July 17, 1998, signed by the administrator of the Sales, Use, and Withholding Taxes Division of the Department of Treasury.
- -- An organization not operated for profit and exempt from Federal income tax under Section 501(c)(3) and 501(c)(4) of the Internal Revenue Code (which exempt corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, or other purposes, and civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, respectively).

MCL 205.540 Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would reduce sales tax revenue to the School Aid Fund, General Fund, and constitutional revenue sharing to local units of government by an unknown amount that would depend on the number of taxpayers affected and the total amount of sales. For taxpayers

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that are exempt under the \$5,000 exemption in current law, the bill would double the value of exempt sales, but the bill would have no impact on those firms unless their sales were to increase above \$5,000.

The bill also would increase the number of taxpayers that may claim the exemption, by raising the limit from \$5,000 to \$25,000. These entities, with sales of between \$5,000 and \$25,000, would be able to claim an exemption on up to \$10,000 of sales. More than 250,000 nonprofit organizations file a Form 990 with the Federal government. Assuming that 3.5% of those taxpayers have activity in Michigan suggests the bill would affect as many as 9,000 organizations—a figure fairly similar to the more than 8,500 registered charities in Michigan. If 20% of those entities would be affected by the bill, and realized the full \$10,000 exemption, the bill would reduce sales tax revenue by approximately \$1.0 million per year.

Approximately 73% of sales tax revenue is distributed to the School Aid Fund, while another 10% is directed to constitutional revenue sharing received by local units of government. Almost all of the remaining revenue is received by the General Fund.

Fiscal Analyst: David Zin

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