



**House
Legislative
Analysis
Section**

Washington Square Building Suite 1025
Lansing, Michigan 48909
Phone 517 373-6466

EXEMPTIONS: FOOD STAMPS, BOTTLED WATER

House Bills 4091 and 4092 with committee
amendments
First Analysis (2-19-87) Floor Copy

Sponsor: Rep. H. Lynn Jondahl
Committee: Taxation

RECEIVED

APR 08 1987

Mich. State Law Library-

H.B. 4091 & 4092 (2-19-87)

THE APPARENT PROBLEM:

Michigan has until October 1, 1987, to comply with a new federal law prohibiting states from collecting sales tax on purchases people make using federal food stamps. Failure to comply, say tax specialists, will result in Michigan residents being unable to participate in the federal food stamp program, which issued over \$500 million in food stamps in the state during the 1986 fiscal year. Michigan's sales and use taxes exempt most food and drink items "intended primarily for human consumption", so most products that food stamps can purchase are already exempt from taxation here. A few food stamp items, however, are taxable: bottled water, ice, seeds, fruit and vegetable plants, and "meals on wheels". The state can comply with the Food Security Act of 1985 (and the accompanying federal Department of Agriculture regulations) either by exempting those items from taxation in all cases or by exempting them from taxation only when purchased with food stamps.

THE CONTENT OF THE BILL:

The bills would:

- 1) exempt food and tangible personal property purchased with federal food stamps from taxes levied under the Use Tax Act and the General Sales Tax Act, including meals bought with food stamps; and
- 2) exempt bottled water from both taxes in all cases.

House Bill 4091 would amend the Use Tax Act (MCL 205.94); House Bill 4092 would amend the General Sales Tax Act (MCL 204.54g). The bills would take effect October 1, 1987.

FISCAL IMPLICATIONS:

A spokesperson for the Department of Treasury estimates the revenue implications of exempting bottled water from the sales tax at about \$1 million. No estimate is available on exempting other items for food stamp purchases (2-18-87).

ARGUMENTS:

For:

The bills will allow Michigan's sales tax policy to comply with new federal regulations that prohibit levying sales taxes on items purchased with food stamps. The state faces

the prospect of its residents being denied participation in the federal food stamp program if the few taxable items food stamps can purchase are not exempted, either when purchased with food stamps or in all cases. The bills would exempt bottled water in all cases since the argument can easily be made that it fits naturally under the current exemptions for food and drink "for human consumption." However, to minimize the loss of revenue to the state, the other items in question would be exempt only when purchased with food stamps.

Against:

It would make life easier for the food dealers, who otherwise will bear the burden of adjusting to a two-tier sales tax policy, if the state complied with the new federal regulations by totally exempting all of the troublesome products rather than only when bought with food stamps. To equip cash registers to levy sales taxes on a product in some circumstances but not in others will cost each store about \$300 to \$500. Stores are also likely to face complaints from customers who think it is unfair for them to pay sales tax when other people don't. (This will also lead to more public dissatisfaction with the food stamp program.)

Response: It does not make sense to exempt fruit and vegetable plants and seeds from the sales tax considering the amount of revenue such sales bring the state and the rarity of food stamp purchases. The Department of Treasury has estimated that the sale of fruit trees brings in from \$2 million to \$3 million each year. The state also collects an estimated \$1.5 million from the sale of ice each year (some 30 million to 40 million bags of ice!). Although the change in sales tax policy will result in a one-time expenditure and inconvenience for food dealers, it seems unwise to forgo so much revenue each year.

Against:

Some people doubt the state would actually be cut out of the federal food stamp program for failure to comply with the new regulations, and recommend that the state decide its sales tax policy for itself without federal interference.

POSITIONS:

The Department of Treasury supports the bill (2-18-87).

The Michigan Food Dealers Association is neutral on the bill (2-18-87).