



**House  
Legislative  
Analysis  
Section**

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**EXEMPTIONS: FOOD STAMPS, BOTTLED WATER**

House Bills 4091 and 4092 as enrolled  
Second Analysis (7-6-87)

**RECEIVED**

Sponsor: Rep. H. Lynn Jondahl  
House Committee: Taxation  
Senate Committee: Finance

**JUL 16 1987**

Mich. State Law Library

**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 exempt the following from the state's sales and use taxes:

- 1) food and tangible personal property purchased with federal food stamps, including (for sales tax purposes) meals eligible to be purchased with federal food stamps;
- 2) fruit and vegetable seeds and fruit and vegetable plants if purchased at a place authorized to accept food stamps or at a place that has sought and been denied authorization to accept food stamps; and
- 3) bottled water 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 loss from a sales tax exemption for bottled water at about \$1 million. No estimate is available on exempting other items. (2-18-87)

**ARGUMENTS:**

**For:**

The bills will make Michigan's sales tax policy 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 is

easily made that it naturally belongs under the current exemption granted food and drink "for human consumption." However, to minimize the loss of revenue to the state, other items in question would be exempt only when purchased with food stamps or, for some seeds and plants, only when purchased from businesses that accept food stamps or that would accept them had they not been denied the opportunity by the federal government.

**Against:**

It would make life easier for the food dealers if the state complied with the new federal regulations by totally exempting all of the products in question. Ice now will be tax exempt for those using food stamps but not for other purchasers. Further, a good argument can be made that if the state does not tax the sale of food, it should not tax seeds and plants that become food regardless of where the products are sold. The bills exempt seeds and plants in some stores but not in others, which seems unfair (or at least unusual).

**Response:** It does not make sense to fully 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. It is estimated that exempting all seeds and plants could cost one or two million dollars. The bills would at least treat all purchasers equally in the same stores. 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 inconvenience food dealers somewhat, 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.

H.B. 4091 (7-6-87)