



**House
Legislative
Analysis
Section**

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INDUSTRIAL COMPUTERS: SALES TAX

House Bill 4696 (Substitute H-1)
First Analysis (6-4-87)

Sponsor: Rep. Bill Browne
Committee: Taxation

THE APPARENT PROBLEM:

The sale of tangible personal property for use or consumption in industrial processing is exempt from the state's sales tax. (There is a corresponding use tax exemption.) This means, among other things, that firms do not have to pay sales tax on machinery and equipment they use in manufacturing. The exemption, tax specialists say, has been applied to computers used in industrial design and to operate machinery as computer-integrated manufacturing has developed. Conflict has arisen over the tax status of computers bought not by manufacturing firms but by computer specialists and engineering companies that provide services to manufacturing firms. These relatively new and rapidly growing enterprises do not in and of themselves produce products but their computers directly assist the production processes of manufacturing firms, notably the automobile industry. The tax status of these computers needs clarification.

THE CONTENT OF THE BILL:

The bill would amend the General Sales Tax Act to stipulate that sales to anyone of the following kinds of tangible personal property were exempt from the sales tax after December 31, 1984: computers used in operating industrial processing equipment; equipment used in an industrial processing related computer assisted design, manufacturing, or engineering system; or a subunit or electronic assembly that is a component in a computer integrated industrial processing system.

Under the bill, exemptions for other tangible personal property for use or consumption in industrial processing would apply only to "industrial processors". The bill would define that term to mean "a person who converts or conditions tangible personal property by changing the form, composition, combination, or character of the property for ultimate sale at retail or sale to another industrial processor to be further processed for ultimate sale at retail." The bill would stipulate that a person who provides a service to an industrial processor but does not transfer tangible personal property to the industrial processor for ultimate sale at retail is not considered an industrial processor.

MCL 205.54a

FISCAL IMPLICATIONS:

There is no fiscal information at present.

ARGUMENTS:

For:

The sales tax exemption for computers used in the manufacturing process ought to be based on the nature of the use of the computers, not on the nature of ownership. A rapidly growing industry in this state uses the latest computer technologies to provide direct services to manufacturers, such as the automobile companies. The bill makes it clear that these companies, which can help make Michigan a world leader in electronic manufacturing, should have the same sales tax exemption for their computers as manufacturing firms. The exemption should apply for computers used in the manufacturing process whether they belong to the manufacturing firm or to a firm providing services to the manufacturer under contract.

POSITIONS:

The Department of Treasury supports the bill. (6-3-87)

The National Association of Engineering Companies supports the bill. (6-3-87)

H.B. 4696 (6-4-87)