



**House
Legislative
Analysis
Section**

RECEIVED

JUL 16 1987

Mich. State Law Librarian

INDUSTRIAL COMPUTERS: SALES TAX

House Bill 4696 as enrolled
Second Analysis (6-29-87)

Sponsor: Rep. Bill Browne
House Committee: Taxation
Senate Committee: Finance

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

THE APPARENT PROBLEM:

Sales of tangible personal property for use or consumption in industrial processing are exempt from the state's sales and use taxes. This means, among other things, that firms do not have to pay sales or use tax on machinery and equipment they use in manufacturing. As computer-integrated manufacturing has developed, tax specialists say, the exemption has been applied to computers used in industrial design and to operate machinery. Conflict has arisen over the tax status of computers bought not by manufacturing firms but by computer specialists and engineering companies that manufacturers hire to provide them with technical assistance, including the remote control of machinery. 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 exempt the following kinds of tangible personal property after December 31, 1984: computers used in operating industrial processing equipment; equipment used in a computer assisted manufacturing system; equipment used in a computer assisted design or engineering system integral to an industrial process; 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 transforms, alters, or modifies tangible personal property by changing the form, composition, 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." Sales to a person performing a service who does not act as an industrial processor while performing the service would not be excluded from the use tax (except for the aforementioned computer exemption).

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. The bill will settle a dispute between the treasury department and engineering firms in a manner agreeable to both sides.

H.B. 4696 (6-29-87)