



RECEIVED

JUL 20 1987

Mich. State Law Library

House Bill 4091 (Substitute S-1 as reported)
House Bill 4092 (Substitute S-1 as reported)
Sponsor: Representative H. Lynn Jondahl
House Committee: Taxation
Senate Committee: Finance
Date Completed: 6-8-87

RATIONALE

Michigan has until October 1, 1987, to comply with the Federal Food Security Act of 1985 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.

CONTENT

House Bill 4091 (S-1) would amend the Use Tax Act and House Bill 4092 (S-1) would amend the Sales Tax Act to exempt from taxation food and tangible personal property purchased with Federal food stamps. The bills also would exempt from taxation, in all cases, sales of bottled water, plants, and fruit and vegetable seeds and plants, primarily intended for human consumption. House Bill 4092 (S-1) also would exempt from the sales tax meals bought with food stamps.

MCL 204.940 (H.B. 4091)
205.54g (H.B. 4092)

SENATE COMMITTEE ACTION

The bills as passed by the House would exempt from taxation food and tangible personal property, when purchased with food stamps, and bottled water in all cases. The Senate Finance Committee adopted substitutes to the bills that also would exempt all purchases of fruit and vegetable seeds and plants. It was argued that since Michigan does not tax sales of food, the exemption should also apply to items that produce food.

FISCAL IMPACT

The bill would result in an indeterminate loss of General Fund/General Purpose revenues. An estimate of the dollar sales of bottled water and fruit and vegetable seed and plants is not available.

ARGUMENTS

Supporting Argument

The bills would 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, and fruit and vegetable seeds and plants in all cases, since it can be argued that such items fit naturally under the current exemption for food and drink "for human consumption". To minimize the loss of revenue to the State, however, ice and meals would be exempt only when purchased with food stamps.

Opposing Argument

It would make life easier for the food dealers, who otherwise would 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 those bought with food stamps. To equip cash registers to levy sales taxes on a product in some circumstances but not in others would 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. In addition, exempting fruit and vegetable seeds and plants from all sales taxes could prove expensive to the State, especially during a time of tightening budgets.

Opposing Argument

Some people doubt that 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.

Legislative Analyst: G. Towne
Fiscal Analyst: N. Khouri

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.

H.B. 4091 (6-8-87)