
Senate Fiscal Agency
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SFA**BILL ANALYSIS**

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Senate Bill 716 (as reported by the Committee of the Whole)
Sponsor: Senator Bill Bullard, Jr.
Committee: Finance

CONTENT

The bill would amend the General Sales Tax Act to specify that "sale at retail" would include the sale of a prepaid telephone calling card or a prepaid authorization number for telephone use, rather than for resale. Sale at retail also would include the reauthorization of a prepaid telephone calling card or a prepaid authorization number.

The bill is tie-barred to Senate Bill 721, which would provide a use tax exemption for the use or consumption of services by means of a prepaid telephone calling card, a prepaid authorization number for telephone use, or a charge for Internet access.

MCL 205.51

Legislative Analyst: S. Lowe

FISCAL IMPACT

Senate Bills 716 and 721 would switch the State tax on prepaid calling cards from the use tax to the sales tax. It is estimated that this change would result in a slight revenue gain to State government of \$0.2 million a year. Some of this revenue gain would benefit local governments through higher revenue sharing payments.

This gain in revenue would be due to three factors: 1) It would be easier to assess the sales tax on the retail sale of prepaid calling cards than it currently is to identify and assess the use tax on the value of each individual call made with the card. 2) Assessing the sales tax at the time of purchase would capture tax on the entire value of the calling card, including any small balances that go unused. Currently under the use tax, any unused prepaid balances are not taxed. 3) The price of prepaid calling cards includes a retail mark-up, and therefore, the retail price is generally slightly more than the actual value of the phone calls that can be made with a card. Therefore, the sales tax assessed on the retail price would generate slightly more than the sum of the use tax assessed on the value of each call.

Due to differences in how the revenues from the sales tax and use tax are earmarked, a switch from the use tax to the sales tax would generate more revenue for the School Aid Fund, and local revenue sharing, and less revenue for the General Fund, compared with the situation under current law.

Date Completed: 10-15-97

Fiscal Analyst: J. Wortley

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