

Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA**BILL ANALYSIS**

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 5080 (Substitute H-1 as reported without amendment)

Sponsor: Representative Jason Allen

House Committee: Commerce

Senate Committee: Finance

CONTENT

The bill would create the "Equitable Sales and Use Tax Administration Act" to do the following:

- Allow the State to enter into a multistate streamlined sales and use tax agreement under restrictions specified in the bill.
- Create a board of governance that could represent Michigan in meeting with other states that were authorized by statute to enter into the agreement.
- Provide for the registration of sellers, who would have to select a method for the collection and remittance of sales and use taxes.
- Allow sellers to contract with certified service providers for the collection and remittance of taxes; and establish qualifications for certification as a service provider.
- Provide for the use of an automated system that would calculate each jurisdiction's tax on a transaction; and establish requirements for certification of an automated system.
- Limit the liability of a seller for taxes on transactions made before the seller's registration.
- Provide for consumer privacy.
- Require the committees responsible for reviewing tax issues in the Senate and the House of Representatives to review the revenue reports produced by the Senate and House Fiscal Agencies and consider methods to return to the taxpayers revenues from enhanced use tax compliance as a result of the bill.

The bill specifies that at no time would its provisions create or implement a new tax on interstate electronic commerce. Further, the bill contains the following statement:

This act is not intended to generate revenue that is not currently due under the sales and use tax acts but is intended to provide for simplification of the method of collecting the sales and use taxes that is currently authorized to be collected under those acts. Nothing in this act shall be construed to expand the tax base of the sales tax or use tax or to eliminate exemptions, but rather, this act simplifies and modernizes the sales tax and use tax administration in order to substantially reduce the burden of tax compliance for all sellers and for all types of commerce. It is the intent of the legislature that all revenues collected as a result of the implementation of this act will be distributed in the same manner as provided for revenues collected under the general sales tax act...

The bill would repeal the proposed Act effective December 31, 2002.

Legislative Analyst: G. Towne

FISCAL IMPACT

The fiscal impact of this bill cannot be identified at this time. While the State currently is not collecting anywhere from \$100 million to \$300 million in sales and use taxes from taxable

Internet and mail order transactions, this bill by itself would not solve this collection problem. This bill does, however, propose a major step toward possibly solving this problem. Under the bill, the State would be allowed to join a multistate agreement whose intended purpose would be to simplify and streamline the sales and use taxes among the states and to develop a uniform collection process that would not be burdensome to businesses or consumers. The scope of this potential agreement among the states, as outlined in the bill, could require Michigan eventually to make changes in its sales and use tax bases, particularly in regard to adopting uniform definitions of particular goods and services, which could have both positive and negative fiscal impacts. In addition, the State potentially would have to eliminate its current special reduction in the tax rate, from 6.0% to 4.0%, granted on residential use of electricity, natural gas, and home heating fuels. Any additional sales and use tax revenue that this bill eventually would help collect primarily would benefit the School Aid Fund, local revenue sharing, and the General Fund/General Purpose budget. About 73% of the sales tax is earmarked to the School Aid Fund and most of the remaining sales tax revenue is distributed to local governments. The use tax is distributed to the School Aid Fund (33%) and the General Fund/General Purpose budget (67%). However, language in the bill states that it is the intent of the Legislature that all revenue collected, from both the sales and use taxes, as a result of implementing a new streamlined agreement be distributed as the sales tax is distributed.

The Department of Treasury would need to acquire the capacity for electronic acceptance of tax registration information and the electronic collection of sales and use taxes. The Department estimates this cost at \$2 million. For this purpose, \$1 million was included in both the FY 2000-01 and FY 2001-02 appropriations to the Department of Treasury.

Date Completed: 10-2-01

Fiscal Analyst: J. Wortley
J. Runnels

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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.