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BILL ANALYSIS

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Senate Bill 168 (as introduced 2-3-05)
Sponsor: Senator Michelle A. McManus
Committee: Finance

Date Completed: 5-3-05

CONTENT

The bill would amend the General Sales Tax Act to provide that, for the purpose of a charitable auction held by certain nonprofit taxpayers, "gross proceeds" would mean the fair market value of the auction item. (The tax is levied on people making retail sales in Michigan at a rate of 6% of their gross proceeds.)

The change would apply to charitable auctions held by taxpayers with tax-exempt status under Section 4q(1)(a) or 4q(1)(b) of the Act. Those sections refer to organizations exempt from the Federal income tax under Sections 501(c)(3) and 501(c)(4) of the Internal Revenue Code; and health welfare, educational, cultural arts, charitable, or benevolent organizations not operated for profit that were issued an exemption ruling letter (before July 1998) from the Department of Treasury to purchase items exempt from tax. (Under Section 4q(1) of the Act, a person subject to the sales tax may exclude from gross proceeds the sale of personal property to those organizations.)

MCL 205.51

Legislative Analyst: J.P. Finet

FISCAL IMPACT

This bill would reduce sales tax collections by about \$1.0 million annually. This loss in sales tax collections would reduce School Aid Fund revenue by an estimated \$730,000, revenue sharing payments to cities, villages, and townships by about \$110,000, and General Fund revenue by about \$160,000. The bill does not define "fair market value" and does not address how it should be determined. It could be very difficult for the Department of Treasury to evaluate the fair market value of auctioned goods, and how "fair market value" would be determined could have negative repercussions on the fiscal impact of this bill. In addition, the bill is not clear on how the sales tax would be assessed when the purchase price of an auctioned item was less than its fair market value.

Fiscal Analyst: Jay Wortley

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