Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 142 (as reported without amendment)
Senate Bill 143 (Substitute S-1 as reported)
Sponsor: Senator John Proos (S.B. 142)
Senator John Pappageorge (S.B. 143)
Committee: Finance

CONTENT

Senate Bills 142 and 143 would amend the Use Tax Act and the General Sales Tax Act, respectively, to exclude from the definition of "prewritten computer software" (and from taxation under the Acts) granting the right to use prewritten computer software installed on another person's server.

The Acts impose a 6% tax on the sale or consumption of tangible personal property, and each Act's definition of "tangible personal property" includes prewritten computer software. The Acts define "prewritten computer software" as computer software, including prewritten upgrades, that is delivered by any means and that is not designed and developed by the author or other creator to the specifications of a specific purchaser. Under the bills, the term would not include granting the right to use prewritten computer software installed on another person's server.

Each bill states that the amendment "is curative and is intended to express the original intent of the legislature concerning the taxation of prewritten computer software" under the Act.

MCL 205.92b (S.B. 142)
205.51a (S.B. 143)

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bills would reduce State revenue by an unknown amount that would likely increase over time. According to the Michigan Department of Treasury, the annual revenue loss in FY 2013-14 would total approximately $12.0 million. To the extent that the industry activity that would be affected by the bills increases in future years, the revenue loss would be larger. The enacting provisions in the bills are estimated to reduce revenue by an additional $8.0 million to $12.0 million, but would affect FY 2013-14 only. The loss would affect General Fund revenue, School Aid Fund revenue, and revenue sharing to local units of government, with the relative impact across the funds depending on the relative magnitude of reduction in sales tax revenue compared to the reduction in use tax revenue.

Date Completed: 6-13-13

Fiscal Analyst: David Zin