Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4054 (Substitute H-1 as passed by the House)
House Bill 4055 (Substitute H-1 as passed by the House)
Sponsor: Representative Greg VanWoerkom (H.B. 4054)
Representative Jamie Thompson (H.B. 4055)
House Committee: Tax Policy
Senate Committee: Committee of the Whole

Date Completed: 3-22-23

CONTENT

House Bill 4054 (H-1) and House Bill 4055 (H-1) would amend the General Sales Tax Act and the Use Tax Act, respectively, to exempt from taxation under those Acts the sale of tangible property or property, as applicable, used for production, manufacturing, or recycling of aggregate by the property if the aggregate would be used as an ingredient or component part for construction, maintenance, repair, or reconstruction of real property in Michigan.

The Acts generally exempt from taxation property sold or used for industrial processing purposes. The bills would exempt from taxation under those Acts the sale of tangible property or property, as applicable, used for production, manufacturing, or recycling of aggregate by the property, and for the purpose, described below, if that aggregate were subject to the use tax. "Aggregate" would mean common variety building material like sand, gravel, crushed stone, slag, recycled concrete, recycled asphalt, and geosynthetic aggregates.

The Acts list property that is eligible for an industrial processing exemption, including property that becomes an ingredient or component part of the finished product to be sold ultimately at retail. Instead, the bill would refer to property that became an ingredient or component part of the finished product to be sold ultimately at retail *or affixed to and made a structural part of real estate located in another state*.

Also, the bill specifies that property would be eligible for an industrial processing exemption under either Act if it performed an industrial processing activity upon an aggregate product or material that would be used as an ingredient or component part for the construction, maintenance, repair, or reconstruction of real property in Michigan if that aggregate product or material were subject to the use tax.

Notwithstanding anything to the contrary in either Act, the following would apply only to industrial processing activities and property described above:

-- Within 90 days after the bills' effective dates, the Department of Treasury would have to cancel all outstanding balances related to those industrial processing activities and property on notices of intent to assess for the sales or use tax and that were issued before the bills' effective dates.
-- Within 90 days after the bills' effective dates, the Department would have to cancel all outstanding balances related to those industrial processing activities and property on final assessments that were issued for the sales or use tax and that were issued before the bills' effective dates.

-- After the bills' effective dates, the Department could not issue any new assessments for the sales or use tax on those industrial processing activities and property for any tax period before the bills' effective dates that are open under the Acts' statutes of limitations.

MCL 205.54t (H.B. 4054) Legislative Analyst: Jeff Mann
205.94o (H.B. 4055)

FISCAL IMPACT

Based on estimates from the Michigan Department of Treasury, the bills would reduce State and local unit revenue by approximately $1.0 million per year. The revenue loss during the first year of the bills could be greater because of the bills' provisions requiring that outstanding assessments be canceled.

Approximately 73% of sales tax revenue is constitutionally earmarked to the School Aid Fund, 10% is constitutionally earmarked to local revenue sharing, and the remainder is deposited into the General Fund. Of the State's share of use tax revenue (after the local use tax enacted as personal property tax reform), revenue at a rate of 2% is constitutionally directed to the School Aid Fund, while the General Fund receives any remaining State use tax revenue. The bills' impact on each fund (and local unit revenue) would depend on the relative impact of the exemption between the sales tax and the use tax.

Fiscal Analyst: David Zin

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