



**House
Legislative
Analysis
Section**

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**INVESTMENT COINS & BULLION:
NO SALES TAX**

**House Bill 4857 as introduced
First Analysis (5-21-96)**

**Sponsor: Rep. John Jamian
Committee: Tax Policy**

THE APPARENT PROBLEM:

According to testimony before the House Tax Policy Committee, in the neighboring states of Ohio and Illinois, and in some 20 states comprising over one-half of the country's population, the sale of bullion and investment coins is not subject to sales tax. In Michigan, such sales are taxed. Moreover, since the passage of Proposal A in 1994, the sales tax has gone from four percent to six percent. Dealers in coins and bullion say the state would benefit by enacting a sales tax exemption, both in economic activity and in tax revenue generated. They point to the increase in sales and the expansion in business and employment, and the growth in trade shows, that have occurred in states where a tax exemption has been enacted. Indeed, in two states where the exemption recently expired, Florida and Colorado, the loss of revenue attributable to the decline in business activity (food, lodging, transportation, retail sales, etc.) generated by coin shows have stimulated legislators to reinstate the exemptions, according to industry spokespersons. Obviously, if Michigan residents can save six percent on the price of gold or silver bullion or investment coins by traveling to Illinois and Ohio (or by using mail-order services), they will do so. The impact on Michigan dealers is obvious. It means some dealers will go out of business or move out of state, jobs will be lost, tax collections will decline. Industry representatives say that Michigan retail business declined 30 percent with the passage of the sales tax increase (whereas in Ohio, business for coin dealers increased 10-40 percent within six months of passage of a tax exemption, and has continued to grow). Purchases of bullion and investment coins are investments like the purchase of stocks and bonds and commodity contracts, which are not subject to sales tax. Legislation has been introduced to grant to Michigan dealers a sales tax exemption.

THE CONTENT OF THE BILL:

The bill would amend the General Sales Tax Act to exempt investment coins and bullion. The term "bullion" would refer to gold, silver, or platinum in a bulk state, where its value depends on its

content rather than its form, with a purity of not less than 980 parts per 1,000. The term "investment coins" refers to numismatic coins or other forms of money and legal tender manufactured of gold, silver, platinum, palladium, or other metal and issued by the United States government or a foreign government with a fair market value greater than the face value of the coins.

MCL 205.54p

FISCAL IMPLICATIONS:

The House Fiscal Agency cites the estimate from the Department of Treasury that the initial revenue loss from this bill will be \$1.2 million annually. The HFA also notes that industry representatives suggest that the initial revenue loss will be \$200,000 to \$300,000 per year and that additional revenues from future job growth will largely offset any revenue loss. (Fiscal Note dated 4-24-96)

ARGUMENTS:

For:

The bill would grant to Michigan coin and bullion dealers the same tax status that their competitors in Ohio and Illinois enjoy, and that dealers in some 20 states are said to enjoy in one form or another. This will mean more sales here, expansion of dealers' businesses, more jobs for state residents, an increase in coin shows and conventions, and greater tax collections for the state. Advocates say the tax is leading to an exodus of dealers from the state to exempt states, only made worse by the recent increase in the sales tax from four percent to six percent. To cite an industry example, the purchase of 20 one-ounce gold American Eagles (at \$406 each) costs \$492 more in Michigan than in Toledo, Ohio, where such a purchase is exempt from sales tax. Why would Michigan residents stay home to make such a purchase? (Michigan buyers could easily store such purchases there as well, excusing them from any use tax obligation.) Industry representatives say coin and bullion sales are more sensitive to taxes than virtually any other industry, so important that flyers for

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major coin shows prominently advertise that they are being held in a tax-free state. Businesses, investors, and collectors are attracted to tax-exempt states. The tax-free state of Illinois has, per capita, 29 percent more dealerships, 180 percent more sales, and 62 percent higher industry employment than Michigan.

The purchase of rare coins and bullion is an investment, much like purchasing stocks and bonds or commodity contracts, which are not subject to the sales tax. The prices of many products sold by coin dealers are quoted daily in investment publications and the Wall Street Journal. Purchases of future and commodity contracts for bullion or of rare coin investment funds are not subject to tax, but the smaller investor who wants to purchase coins and bullion directly is discriminated against by being assessed a sales tax.

Industry representatives argue that replacement revenue resulting from business expansion and growth in trade shows and conventions will outstrip any revenue lost from the sales tax exemption. The latest figures cited suggest that lost revenues will be between \$128,000 and \$250,000. But replacement revenues -- from business expansion and increased employment, as well as tourist revenue -- could exceed \$460,000. There might not even be a loss of sales tax revenue overall, meaning that revenue for schools will not be significantly affected.

For:

When consumers seek to purchase coins and precious metals out-of-state over the phone or by mail order to avoid state sales taxes, they become susceptible to fraud.

Response:

The existence of unscrupulous dealers in other states is an argument for better law enforcement in this area and for better education of consumers, not for a sales tax exemption in Michigan.

Against:

What justification is there for treating coins differently from other collectibles (or even from other consumer items)? People collect art, antiques, jewelry, stamps, classic automobiles, and many other things that can be held as an investment or traded. These and other items can all carry price tags that justify shopping in other states for the best tax treatment. Why single out coins and bullion? This bill will set a bad precedent in this regard. It should be noted that products purchased outside the state and brought back into Michigan are subject to the use tax, which is set at the same rate as the sales tax. (The use tax, unlike the sales tax, is self-reported.)

POSITIONS:

A representative from Liberty Coin Service testified in support of the bill. (5-16-96)

A representative from the Industry Council for Tangible Assets has indicated support for the bill. (5-16-96)

The Department of Treasury is opposed to the bill. (5-17-96)

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.