



Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

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

**House Bill 4186 (Substitute H-4)
Sponsor: Rep. Nancy Cassis**

**House Bill 4586 (Substitute H-3)
Sponsor: Rep. Ted Wallace**

**Committee: Tax Policy
Revised First Analysis (4-22-97)**

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 was removed or 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 (and a corresponding use tax exemption).

THE CONTENT OF THE BILLS:

House Bill 4186 would amend the General Sales Tax Act (MCL 205.54p) and House Bill 4586 would amend the Use Tax Act (MCL 205.94m) to exempt investment coins and bullion. The two bills are tie-barred.

The term "bullion" would refer to gold, silver, platinum, or palladium in a bulk state, where its value depended on its content rather than its form, with a purity of not less than 900 parts per 1,000. The term "investment coins" would refer to coins or legal tender manufactured of gold, silver, platinum, palladium, or other metal, with a fair market value greater than the face value of the coins issued by the United States government or a foreign government.

FISCAL IMPLICATIONS:

The House Fiscal Agency estimates that the revenue loss associated with House Bill 4186 will be \$200,000 to \$300,000 per year. Of that, 73 percent would be lost to the school aid fund and 24 percent would be lost to revenue sharing for local governments. (Fiscal Note dated 4-3-97) The revenue loss from House Bill 4586 is estimated at less than \$100,000 per year. About one-third of that would be lost to the school aid fund. (Fiscal Note dated 4-11-97)

ARGUMENTS:

For:

House Bill 4186 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. House Bill 4586 would provide a corresponding use tax exemption. Advocates say the

House Bills 4186 and 4586 (4-22-97)

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 from a previous session, the purchase of 20 one-ounce gold American Eagles (at \$406 each at that time) 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 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, 181 percent more sales, and 63 percent higher industry employment than Michigan. There are said to be few dealers in states without a tax exemption. With the exemption, dealers in Michigan will sell more of their taxable products, as well as increasing their coin and bullion sales.

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. Investors purchase these items to save for retirement and for college expenses; they are not just of interest to collectors.

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. They say that replacement revenues -- from business expansion and increased employment, as well as tourist revenue -- should exceed \$588,000. One organization, the MEA, has withdrawn its opposition because it is convinced that there are sufficient replacement revenues to offset any losses to the state budget.

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. When they purchase from an in-state dealer, they have more consumer protections.

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 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. Further, once special tax treatment has been provided to coins, how will the legislature be able to resist providing exemptions to other products that enjoy tax advantages in other states? Moreover, a representative from the Department of Treasury has cited a number of technical issues that need to be resolved regarding how certain products are to be treated and has recommended that the specific language exempting coins from taxation in other states be examined closely to see how it compares with this proposal. Some states, for example, exempt coins with a value of over \$1,000. Some states exempt bullion but not coins.

Further, some people, including the Department of Treasury, believe that all of the various tax reduction proposals currently before the legislature should be discussed after the 1998 budget is in place.

Against:

It should be noted that the use tax exemption proposed in this package would exempt investment coins and bullion purchased outside the state and brought back into the state from Michigan taxes. How does this help in-state dealers?

Response:

Together, the bills provide a level playing field for the sale of coins and bullion; the aim is not to provide an advantage, but to do away with current disincentives to purchase these items in Michigan. It makes sense to make the two taxes consistent (and could provoke lawsuits if they were not consistent).

POSITIONS:

A representative from Liberty Coin Service testified in support of the bills. (4-9-97)

The Industry Council for Tangible Assets supports the bill. (4-21-97)

The Michigan Education Association supports the bills.
(4-21-97)

The Department of Treasury is opposed to the bills. (4-
16-97)

Analyst: C. Couch

■ 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.