

Legislative Analysis



SALES TAX COLLECTION PROCESS

Mary Ann Cleary, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 428 (Substitute H-1)

Sponsor: Sen. Dave Hildenbrand

House Committee: Tax Policy

Senate Committee: Finance

Complete to 4-17-12

A SUMMARY OF SENATE BILL 428 AS REPORTED FROM HOUSE COMMITTEE

Senate Bill 428 would amend provisions in the General Sales Tax Act that describe how and when retailers are to remit taxes they have collected to the Department of Treasury. A companion bill would apply the Use Tax Act. The bills apply, generally speaking, to businesses that had a total tax liability of \$720,000 or more in the prior calendar year (i.e., large retailers).

Two Senate bills, Senate Bill 428 and Senate Bill 264, and two House bills, House Bill 4804 and House Bill 4346, address this issue in the current Legislative session.

Senate Bill 428 (Sales Tax Act, MCL 205.56) has passed the Senate and is now on the House floor. House Bill 4346 (Use Tax Act, MCL 205.96) has passed the House and is on the Senate floor.

Current Law: A business must remit on or before the 20th day of the month an amount equal to (1) 50% of the taxpayer's liability for the same month in the immediately preceding calendar year or (2) 50% of the actual liability for the month being reported, whichever is less. Also on the 20th day, the business must make a reconciliation payment equal to the difference between the tax liability for the immediately preceding month minus the tax previously paid for that month. Then before the end of the month, the business must remit an amount equal to 50% of the taxpayer's liability for the same month in the immediately preceding calendar year, or 50% of the actual liability for the month being reported, whichever is less.

The Bills: Beginning January 1, 2014, on or before the 20th day of the month, a business would remit an amount equal to 75% of the taxpayer's liability in the immediately preceding month, plus a reconciliation payment equal to the difference between the tax liability determined for the immediately preceding month minus the amount previously paid for that month. Further, the bills would allow for a single payment by electronic funds transfer for both the sales tax and the use tax due.

FISCAL IMPACT:

As written, Senate Bill 428 would alter the timing of sales tax payments, but the required amounts would still be ultimately collected. Relative to current law, the state would be

receiving approximately 25% of the collections 10 days sooner, but the remaining 25% would be received 20 days later. Thus, only fiscal impact would be the loss of interest on about 25% of monthly collections for roughly 10 days.

Although collections differ from month to month, 25% of collections can range between \$50 million to \$75 million. At current interest rates, the forgone interest would be relatively insignificant.

BACKGROUND INFORMATION AND DISCUSSION:

Committee testimony in support of the bills argued that allowing taxpayers to use data for the prior month rather than the prior year would result in a reduced administrative burden for taxpayers and more accurate payments for the state. The single payment for both sales and use tax liability would also provide efficiencies.

POSITIONS:

The Michigan Chamber of Commerce indicated support for the bills. (3-28-12)

A representative from International Paper testified in support of the House bills that alter the sales and use tax payments. (10-5-11)

Legislative Analyst: Chris Couch
Fiscal Analyst: Jim Stansell

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