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BILL ANALYSIS



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Senate Bill 107 (as introduced 2-8-11)
Sponsor: Senator Tupac A. Hunter
Committee: Finance

Date Completed: 10-18-11

CONTENT

The bill would amend the General Sales Tax Act to revise the exemption for the sale of personal property to a nonprofit, charitable organization, by extending the exemption to property used to raise funds or obtain resources for the organization's operation.

Under the Act, the sale of tangible personal property is exempt from the sales tax if it is not for resale and the sale is to a nonprofit organization exempt from Federal income tax under Section 501(c)(3) or 501(c)(4) of the Internal Revenue Code (described below), or a nonprofit health, welfare, educational, cultural arts, charitable, or benevolent organization that was issued an exemption ruling letter to purchase items exempt from tax before July 17, 1998.

The exemption does not apply to sales of personal property or vehicles that are not used primarily to carry out the purposes of the organization. The bill would add, "or to raise funds or obtain resources necessary to carry out the purposes of the organization".

When the exempt property is sold, the Act requires the organization either to present the exemption letter ruling or to present a signed statement that the property is to be used or consumed in connection with the operation of the organization and that the organization qualifies as an exempt organization. Under the bill, the statement would have to indicate that the property was to be used or consumed in connection with the organization's operation, to carry out its purpose or purposes, or to raise funds or obtain resources necessary for the organization's operation.

Currently, the organization also must give the seller a copy of the Federal exemption letter. Under the bill, this letter would not be required if the organization were exempt from filing an application for exempt status with the Internal Revenue Service.

The Act states that the tangible personal property is exempt only to the extent that it is used to carry out the purposes of the organization. Under the bill, the property would be exempt only to that extent or to the extent that it was used to raise funds or obtain resources necessary to carry out the organization's purposes.

(Section 501(c)(3) of the Internal Revenue Code provides a Federal income tax exemption for a corporation, community chest, fund, or foundation that is organized and operated exclusively for religious, charitable, scientific, public safety testing, literary, or educational purposes, or to foster national or international amateur sports competition, or for the

prevention of cruelty to animals, if none of its net earnings benefits any private shareholder or individual, no substantial part of its activities is attempting to influence legislation, and it does not participate in any political campaign for or against any candidate for public office.

Section 501(c)(4) applies to nonprofit civic leagues or organizations operated exclusively for the promotion of social welfare, or local associations of employees, whose membership is limited to the employees of a designated person in a particular municipality, and whose net earnings are devoted exclusively to charitable, educational, or recreational purposes.)

MCL 205.54q

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce General Fund and School Aid Fund revenue by an unknown amount. The current exemption for sales to nonprofit organizations is estimated to reduce sales tax revenue by approximately \$166.8 million in FY 2010-11. Many of the sales that would be affected by the language of the bill are likely already exempt because property such as computers, vehicles, and stationary can serve multiple functions. If the bill increased the impact of the exemption by 5%, it would reduce revenue by approximately \$8.3 million.

The bill would not affect local unit revenue or expenditure.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.