



Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4658 (as reported without amendment)
Sponsor: Representative Anthony G. Forlini
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 3-21-12

RATIONALE

Since 1971, the General Sales Tax Act has contained an exemption for sales to prisoners. The exemption applies to the purchase of personal property by an inmate of a penal or correctional institution with scrip or its equivalent issued and redeemed by the institution. In practice, prisoners place an order at a kiosk, or submit a form, for the items they wish to buy from prison stores, and the Department of Corrections takes money from the prisoners' accounts to pay for the purchases. Some people believe that this sales tax exemption should be eliminated.

CONTENT

The bill would amend the General Sales Tax Act to set an October 1, 2012, expiration date on the exemption for sales to inmates.

MCL 205.54a

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

By eliminating the sales tax exemption for inmate purchases, the bill would bring fairness to the tax system and provide additional revenue for the State, schools, and communities. Although a bill to repeal the exemption was enacted in 2005 as part of a package of tax cuts, that amendment did not take effect because it was tie-barred to legislation vetoed by the Governor. Under House Bill 4658, the favorable tax treatment for criminals finally would end on October 1, 2012.

Opposing Argument

Prisoners buy personal care items and food, not luxury items, from prison stores. Typically, about 25% of the money in their accounts comes what the inmates earn at approximately 75 cents per day and the balance is from their families. Prisoners' families tend to be low-income folks, who also are spending money to visit their incarcerated relatives. It does not make sense to target this group in order to generate a relatively small amount of revenue.

Response: Imposing the sales tax on inmates' purchases is a matter of fairness. It is not fair for prisoners to avoid the sales tax while the unincarcerated population, including low-income residents, pays it. Furthermore, most of what prisoners buy is food, which is exempt from the sales tax; this would not change under the bill.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would increase sales tax revenue by approximately \$0.5 million per year. Slightly more than 73% of sales tax revenue is earmarked to the School Aid Fund, while local units of government receive 10% of sales tax revenue through constitutional revenue sharing. As a result, School Aid Fund revenue would increase by approximately \$366,500 per year and local unit revenue would rise by approximately \$50,000 per year. The balance would go to the State's General Fund.

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.