



**House
Legislative
Analysis
Section**

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RR PROPERTY: SALES/USE TAXES

**Senate Bills 805 and 806 as passed by the
Senate
First Analysis (10-14-93)**

**Sponsor: Sen. John J.H. Schwarz, M.D.
Committee: Taxation**

THE APPARENT PROBLEM:

A recent court ruling (Grand Express v Michigan Department of Treasury) invalidated certain sales and use tax exemptions enjoyed since the early 1960's by the railroad industry for the purchase of railroad-related equipment, such as railroad cars, locomotives, parts, and fuel. That case reportedly said that exemptions must be in statute. The railroad exemptions apparently stem from letters issued by the Department of Revenue in 1962. (Although, according to information from the Senate Fiscal Agency, there is some question whether the exemption should apply to equipment used in both interstate and intrastate activities, the exemption has been applied in both cases.) The exemptions need to be placed in statute if the current practice is to continue and if the railroads in the state are to avoid a reported \$10 million in new taxes.

THE CONTENT OF THE BILL:

The bills would exempt from the sales and use taxes the following used in railroad operations: rail freight or passenger cars; locomotives or other rolling stock; roadway machines and work equipment primarily of a flanged wheel nature; accessories; attachments including parts and materials used for repair; lubricants; or fuel. The exemption would not include vehicles licensed and titled for use on the public highways. Senate Bill 805 would amend the Sales Tax Act (MCL 205.54m). Senate Bill 806 would amend the Use Tax Act (MCL 205.941)

FISCAL IMPLICATIONS:

The Senate Fiscal Agency reports that the bills would have no fiscal impact on state government because it appears they would put in statute what has been actual practice for many years. (Analysis dated 10-1-93)

ARGUMENTS:

For:

The bills would put into statute exemptions for certain railroad equipment that are said to have been treated as exempt for over 30 years. The failure to do so could harm the state's railroad facilities, including repair yards in Battle Creek and Detroit, and threaten railroad jobs in the state. Other nearby states grant such exemptions, and repair facilities and fueling stations could move there if the long-standing Michigan exemptions come to an end.

POSITIONS:

The Department of Treasury supports the bills. (10-13-93)

The Michigan Railroads Associations supports the bills. (10-13-93)

Senate Bills 805 and 806 (10-14-93)