

Senate Fiscal Agency
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SFA**BILL ANALYSIS**

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House Bill 5212 (Substitute S-1 as reported)
Sponsor: Representative Kirk A. Profit
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bill would amend the General Sales Tax Act to revise the way in which the sales tax is applied to the laundering or cleaning of textiles. The bill would exempt from the tax sales of tangible personal property to an industrial processor who laundered or cleaned textiles for reuse, sale, or rental under a service or rental agreement with a term of at least five days. Further, the bill would exempt from the tax such sales to a restaurant or other retail business, whether or not the restaurant or business was an industrial processor. The bill specifies, however, that the sales tax would apply to the laundering or cleaning of textiles under a sale, rental, or service agreement with a term of at least five days.

(Currently, the laundering or cleaning of clothing, uniforms, tablecloths, towels, etc. is considered a service and as such is not taxed; however, the goods and materials used to launder or clean are taxed.)

Under the bill, "textiles" would mean goods that were made of or incorporated woven or nonwoven fabric, including, but not limited to, clothing, shoes, hats, gloves, handkerchiefs, curtains, towels, sheets, pillows, pillow cases, tablecloths, napkins, aprons, linens, floor mops, floor mats, and thread. Textiles also would include materials used to repair or construct textiles, or other goods used in the rental, sale, or cleaning of textiles.

To claim a refund for sales tax paid, a person who laundered or cleaned textiles would have to file within 90 days after the effective date of the bill.

MCL 205.51 et al.

Legislative Analyst: G. Towne

FISCAL IMPACT

It is estimated that House Bills 5212 (S-1) and 5213 (S-1) would reduce sales and use tax revenue by a net \$1.0 million in FY 1998-99 and FY 1999-2000.

This net loss in revenue would affect the School Aid Fund (SAF), revenue sharing, and General Fund/General Purpose (GF/GP) revenue. While actual data are not available on the breakdown between the sales and use tax currently being paid by the launderers, it is assumed that 50% of it is sales tax and 50% is use tax. It is also assumed the new tax that would be paid by nonretail customers of the industrial launderers would be 100% sales tax. Based on these assumptions, the estimated net loss in sales and use tax revenue in FY 1998-99 and FY 1999-2000 would have the following fiscal impacts by budget areas: SAF revenue would increase \$0.4 million, revenue sharing would increase \$0.4 million, and General Fund/General Purpose revenue would decline by \$1.8 million.

Date Completed: 6-18-98

Fiscal Analyst: J. Wortley