

Senate Fiscal Agency
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SFA**BILL ANALYSIS**

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Senate Bill 1237 (as passed by the Senate)
Sponsor: Senator Bev Hammerstrom
Committee: Finance

Date Completed: 6-20-00

RATIONALE

The General Sales Tax Act taxes the sale of items from vending machines, except for certain foods that are not heated or cooled. For instance, snack foods such as chips, cookies, candy, and peanuts are exempt from the tax, while the tax applies to carbonated beverages and foods that are heated or cooled, except for milk, juice, and fruit. Tax on the sale of food or drink from a vending machine that sells both taxable and tax-exempt items is calculated based on actual gross proceeds, or according to a formula prescribed in the Act. Nonfood items sold from a vending machine are taxable. It has been pointed out that some vending machines dispense taxable and nontaxable items for children in loose form, at a nominal price at the same time. These items might include small toys (taxable) and candy (nontaxable). Some people feel that these sales should be exempted entirely from the tax.

CONTENT

The bill would amend the General Sales Tax Act to exempt from the tax sales of food or candy, chewing gum, and toys or other items designed primarily to be used or played with by children, if sold through a coin-operated "bulk vending machine" and if the consideration paid were 50 cents or less. A "bulk vending machine" would be a vending machine containing unsorted items that, upon insertion of a coin, dispensed items in approximately equal portions at random and without selection by the customer.

Proposed MCL 205.54aa

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

Sales from machines that sell both taxable and nontaxable items are subject to the tax based on provisions in the Act. Some vending machines dispense both small toys and candy, in loose form and at random, at the same time. Since the toys are

taxable, and the candy is tax exempt, this makes it difficult for the vendor to determine the taxable portion of sales from a machine. Further, it has been pointed out that in the vast majority of cases purchases from such machines are made by children, and are made at a very low charge. Some people feel that the State could afford to let children buy a mixture of candy and small toys, or just small toys, from a vending machine, without applying the sales tax. The bill would limit the scope of the exemption to minor purchases, because the exemption would apply only to sales of 50 cents or less.

Opposing Argument

If enacted, the bill would further narrow the once-broad base of the sales tax, and further erode sales tax collections. The bill would expand exemptions for vending machine sales by extending to small toys the current exemption for food. This could prompt those who sell other types of products from vending machines to request an exemption for their goods. Further, if toys from vending machines were exempted, it is not clear why similar toys sold in a store should remain taxable. Carving out narrow exemptions for certain products sold in a certain way is questionable tax policy. As the list of products exempt from the tax grows, the applicability of the tax to other sales becomes more arbitrary and inconsistent.

Legislative Analyst: G. Towne

FISCAL IMPACT

This bill would reduce sales tax collections by an estimated \$0.5 million. This loss in revenue would primarily affect School Aid Fund revenue.

Fiscal Analyst: J. Wortley

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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.