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BILL ANALYSIS

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Senate Bills 880 and 881 (as introduced 11-6-07)  
Sponsor: Senator Michelle A. McManus  
Committee: Finance

Date Completed: 6-12-08

### **CONTENT**

**Senate Bills 880 and 881 would amend the Use Tax Act and the General Sales Tax Act, respectively, to exempt from the tax a sale of tangible personal property to and property sold to an extractive operator for transporting timber from the point of extraction to a place of temporary storage at the extraction site and transporting timber from a place of temporary storage at the extraction site to a vehicle or other equipment that would remove the timber from the extraction site.**

The bills are described in detail below.

#### **Senate Bill 880**

The Use Tax Act imposes a tax on the privilege of using, storing, or consuming tangible personal property in this State at a rate equal to 6% of the price of the property or services specified in the Act.

The tax does not apply to property sold to an extractive operator for use or consumption in extractive operations. The property is exempt only to the extent that it is used for the exempt purposes stated in the Act, and the exemption is limited to the percentage of exempt use to total use determined by a reasonable formula or method.

The term "extractive operations" means the activity of taking or extracting for resale ore, oil, gas, coal, timber, stone, gravel, clay, minerals, or other natural resource material. An extractive operation begins when contact is made with the actual type of natural raw product being recovered. Extractive operations include all necessary processing operations before shipment from the place of extraction and all necessary processing operations and movement of the natural resource material until the point at which the natural raw product being recovered first comes to rest in finished goods inventory storage at the extraction site.

Under the bill, extractive operations for timber also would include transporting timber from the point of extraction to a place of temporary storage at the extraction site and transporting timber from a place of temporary storage at the extraction site to a vehicle or other equipment that would remove the timber from the extraction site.

## **Senate Bill 881**

A sale of tangible personal property to an extractive operator for use or consumption in extractive operations is exempt from the sales tax. The property is exempt only to the extent that it is used for the exempt purposes stated in the General Sales Tax Act, and the exemption is limited to the percentage of exempt use to total use determined by a reasonable formula or method.

The Act's definition of "extractive operations" is the same as the definition in the Use Tax Act. The bill would amend the definition as described above.

MCL 205.94p (S.B. 880)  
205.94u (S.B. 881)

Legislative Analyst: Craig Laurie

### **FISCAL IMPACT**

Not much data or information is available on these bills, but it appears that they would reduce sales and use tax revenue by less than \$1.0 million annually. This loss in revenue would primarily reduce the General Fund and the School Aid Fund. Local governments also would be potentially negatively affected as a loss in sales tax revenue would reduce revenue sharing payments, but any decline would be very small.

Fiscal Analyst: Jay 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.