

**SUBSTITUTE FOR  
SENATE BILL NO. 881**

A bill to amend 1933 PA 167, entitled  
"General sales tax act,"  
by amending section 4u (MCL 205.54u), as amended by 2004 PA 173.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1           Sec. 4u. (1) A sale of tangible personal property to an  
2 extractive operator for use or consumption in extractive operations  
3 is exempt from the tax under this act.

4           (2) The property under subsection (1) is exempt only to the  
5 extent that the property is used for the exempt purposes stated in  
6 this section. The exemption is limited to the percentage of exempt  
7 use to total use determined by a reasonable formula or method  
8 approved by the department.

9           (3) Extractive operations include the actual production of

1 oil, gas, brine, or other natural resources. Property eligible for  
2 the exemption includes the following:

3 (a) Casing pipe or drive pipe.

4 (b) Tubing.

5 (c) Well-pumping equipment.

6 (d) Chemicals.

7 (e) Explosives or acids used in fracturing, acidizing, or  
8 shooting wells.

9 (f) Christmas trees, derricks, or other wellhead equipment.

10 (g) Treatment tanks.

11 (h) Piping, valves, or pumps used before movement or  
12 transportation of the natural resource from the production area.

13 (i) Chemicals or acids used in the treatment of crude oil,  
14 gas, brine, or other natural resources.

15 (j) Tangible personal property used or consumed in depositing  
16 tailings from hard rock mining processing.

17 (k) Tangible personal property used or consumed in extracting  
18 the lithologic units necessary to process iron ore.

19 (4) The extractive operation exemption does not include the  
20 following:

21 (a) Tangible personal property consumed or used in the  
22 construction, alteration, improvement, or repair of buildings,  
23 storage tanks, and storage and housing facilities.

24 (b) Tangible personal property consumed or used in  
25 transporting the product from the place of extraction, except for  
26 tangible personal property consumed or used in transporting  
27 extracted materials from the extraction site to the place where the

1 extracted materials first come to rest in finished goods inventory  
2 storage.

3 (c) Tangible personal property that is a product the  
4 extractive operator produces and that is consumed or used by the  
5 extractive operator for a purpose other than the manufacturing or  
6 producing of a product for ultimate sale. The extractor shall  
7 account for and remit the tax to this state based upon the  
8 product's fair market value.

9 (d) Equipment, materials, and supplies used in exploring,  
10 prospecting, or drilling for oil, gas, brine, or other natural  
11 resources.

12 (e) Equipment, materials, and supplies used in the storing,  
13 withdrawing, or distribution of oil, gas, or brine from a storage  
14 facility.

15 (f) Vehicles, including special bodies or attachments,  
16 required to display a vehicle permit or license plate to operate on  
17 public highways.

18 (5) As used in this section:

19 (a) "Extractive operations" means the activity of taking or  
20 extracting for resale ore, oil, gas, coal, timber, stone, gravel,  
21 clay, minerals, or other natural resource material. An extractive  
22 operation begins when contact is made with the actual type of  
23 natural raw product being recovered. Extractive operation includes  
24 all necessary processing operations before shipment from the place  
25 of extraction. Extractive operations ~~includes~~ **INCLUDE** all necessary  
26 processing operations and movement of the natural resource material  
27 until the point at which the natural raw product being recovered

1 first comes to rest in finished goods inventory storage at the  
2 extraction site. **EXTRACTIVE OPERATIONS FOR TIMBER INCLUDE**  
3 **TRANSPORTING TIMBER FROM THE POINT OF EXTRACTION TO A PLACE OF**  
4 **TEMPORARY STORAGE AT THE EXTRACTION SITE AND LOADING OR**  
5 **TRANSPORTING TIMBER FROM A PLACE OF TEMPORARY STORAGE AT THE**  
6 **EXTRACTION SITE TO A VEHICLE OR OTHER EQUIPMENT LOCATED AT THE**  
7 **EXTRACTION SITE THAT WILL REMOVE THE TIMBER FROM THE EXTRACTION**  
8 **SITE.**

9 (b) An extractive operator is a person who, either directly or  
10 by contract, performs extractive operations.