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BILL ANALYSIS

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House Bill 5824 (Substitute H-1 as reported without amendment)
House Bill 5825 (Substitute H-1 as reported without amendment)
Sponsor: Representative Ben Glardon
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

House Bills 5824 (H-1) and 5825 (H-1) would amend the General Sales Tax Act and the Use Tax Act, respectively, to include in the term "nonprofit hospital" a freestanding building that is operated under the license held by a county long-term medical care facility, and that offers the same services as the facility, for purposes of sales and use tax exemptions for the sale of personal property that will be made a structural part of a nonprofit hospital.

The General Sales Tax Act exempts from the tax a sale of tangible personal property to a person directly engaged in the business of constructing, altering, repairing, or improving real estate for others to the extent that the property is affixed to and made a structural part of a nonprofit hospital. Under the Use Tax Act, the tax does not apply to property purchased by such a person, to the same extent. Under each Act, for purposes of a county long-term medical care facility, "affixed to and made a structural part of" means any physical connection to an existing county long-term medical care facility.

Each Act's definition of "nonprofit hospital" includes a county long-term medical care facility, including any addition to an existing county long-term medical care facility, if the addition is owned and operated by either the county or the county long-term medical care facility and offers health services provided by facility. The bills specify that "addition", as used in this definition, would include a freestanding building as long as that freestanding building is operated under the same license held by the county long-term medical care facility and continues to offer the same health services as the county long-term medical care facility in that freestanding building. Also, in the definition of "nonprofit hospital", the bills would refer to an addition owned and operated by the county long-term medical care facility, rather than by the county or the facility.

Each Act specifies that the term "nonprofit hospital" does not include a freestanding building or other real property of a nursing home or skilled nursing facility licensed under the Public Health Code. The bills would make an exception to this provision, as described above.

Each bill would be retroactive and effective for tax years beginning after December 31, 2012.

MCL 205.54w (H.B. 5824)
205.94s (H.B. 5825)

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bills would reduce both General Fund and School Aid Fund revenue, and local unit revenue, by an unknown amount that would depend on both the value of any future construction and whether the bills altered a decision to attach personal property to a structure

during construction. Because the bills also would be retroactive, they would reduce revenue for construction covered by those retroactive provisions. Based on estimates from the Michigan Department of Treasury, the retroactive cost would total approximately \$0.9 million. While the portions of the revenue reduction that would occur under the sales tax and the use tax are unknown, of the revenue loss under the sales tax, 10% would lower local unit revenue by reducing constitutional revenue sharing, 73.3% would lower School Aid Fund revenue, and the remaining 16.7% would lower General Fund revenue. Of the revenue loss as a result of the use tax exemption, one-third would reduce School Aid Fund revenue while the remaining two-thirds would lower General Fund revenue.

Date Completed: 12-8-16

Fiscal Analyst: David Zin

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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.