

MICHIGAN'S SALES AND USE TAXES 2000



MICHIGAN
DEPARTMENT OF
TREASURY

**Office of Revenue and Tax Analysis
Michigan Department of Treasury
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I. EXECUTIVE SUMMARY

- Michigan sales and use tax revenue totaled \$7.633 billion in Fiscal Year (FY) 2000, an increase of 6.2 percent from FY 1999. FY 2000 sales tax revenue was \$6.278 billion and FY 2000 use tax revenue was \$1.355 billion.
- Michigan sales tax revenue is dedicated mostly to the state School Aid Fund (73.3 percent) and local government revenue sharing (24.2 percent). Michigan use tax revenue is dedicated to the General Fund (66.7 percent) and School Aid Fund (33.3 percent).
- Exemptions and other tax expenditures reduced sales and use tax collections an estimated \$7.105 billion in FY 2000. Untaxed services remain the largest single source of tax expenditures.
- The automotive retail sector remits the largest share of sales tax revenue at \$1,579.6 million. For the use tax, the telecommunications sector provides the largest share of revenue at \$257.4 million.
- Sales and use tax revenues are being eroded by remote sales (mail order and E-commerce). Michigan's tax revenue losses from consumer remote sales are estimated at \$187 million in FY 2000. This revenue loss is forecasted to grow to \$349 million in FY 2005.
- Louisiana ranks first for the highest average effective combined state and local sales tax rate at 8.17 percent. Michigan ranks 22nd among states with a rate of 6.0 percent.
- New Mexico ranks first for the highest amount of general sales tax revenue as a percent of personal income at 5.09 percent. Michigan ranks 24th at 2.65 percent.

II. INTRODUCTION

This report provides a brief history of the Michigan sales and use taxes and examines data on sales and use tax revenue. The impact of remote sales on sales and use tax revenue will also be discussed.

The first sales tax in the United States was enacted by the state of Mississippi in 1932. Michigan followed the next year by enacting Public Act 167 of 1933, which levied a three percent tax on all retail sales of personal property. Initially, the only exemptions from the Michigan sales tax were sales to federal and state governments and sales of goods for later resale. Eight other states also enacted a sales tax in 1933. Currently, 45 states and the District of Columbia levy a sales tax. Alaska, Delaware, Montana, New Hampshire, and Oregon do not levy a sales tax. Additionally, many states allow local governmental units (municipalities, school districts, and counties) to levy a sales tax. Michigan does not allow any local sales taxes. Although local sales taxes are not expressly prohibited by the Michigan Constitution, the Michigan Attorney General has interpreted the Constitution as effectively prohibiting them. The maximum sales tax rate under the Constitution is 6 percent, the current tax rate.

In 1933, the Michigan sales tax rate was 3 percent and limited by the Michigan Constitution. A constitutional amendment increased the sales tax rate to 4 percent in 1960. As a result of a change in 1994 for school financing, a constitutional amendment was passed raising the sales tax rate to 6 percent as a partial revenue replacement for property tax relief.

In 1937, Michigan enacted Public Act 94 and adopted the use tax to correspond with the Michigan sales tax. The use tax applies to the use, storage, or consumption of tangible personal property. Use taxes apply to items that are rented, leased, or purchased from out-of-state and used in Michigan. The Michigan use tax rate has always been the same as the sales tax rate.

There is a wide variance in sales and use tax rates among states. Mississippi and Rhode Island have the highest state sales tax rate at 7 percent. Of states with a sales tax, Colorado has the lowest sales tax rate at 2.9 percent. Thirty-four states have local units that levy a sales tax.

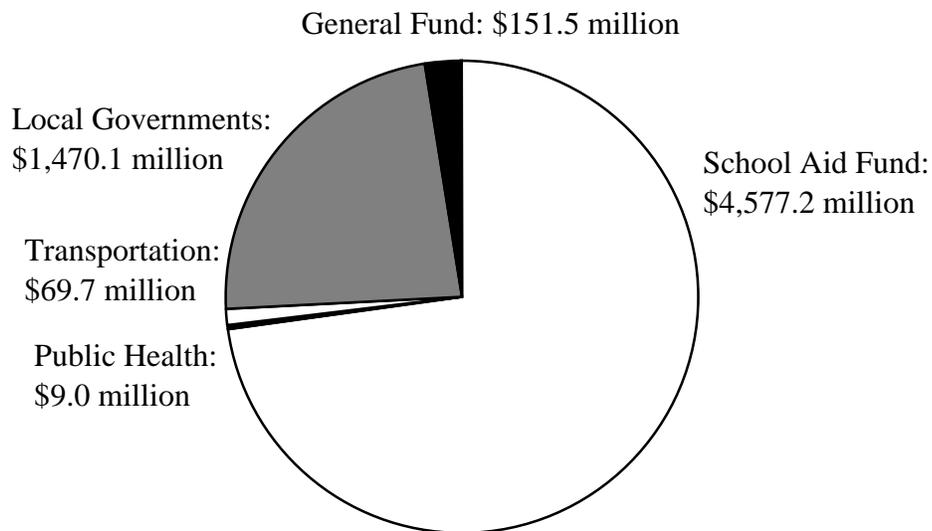
Sales and use taxes are the largest source of revenue for Michigan state government. In FY 2000, Michigan sales and use taxes totaled over \$7.6 billion, or 33 percent of total Michigan state tax revenue. The Michigan personal income tax comprised 29 percent of total state tax revenue. Before Proposal A, Michigan sales and use taxes comprised approximately 28 percent of total state tax revenue.

Michigan sales and use taxes are levied similarly, but the revenue from the two taxes is distributed differently. Two-thirds of use tax revenue is deposited in the General Fund, while one-third is deposited in the School Aid Fund. Sales tax revenue is constitutionally and statutorily earmarked to several funds. The Michigan Legislature passed the Sales Tax Diversion Amendment in 1946, which provided a formula for the distribution of sales tax revenue to schools, local governments, and the General Fund. Proposal A (1994) earmarked sales and use tax revenue from the 2 percent increase in the tax rate to the School Aid Fund. Also, a recent

major change in the funding of state revenue sharing for local governments affected sales tax earmarking. Local government revenue sharing previously received funds from four different taxes. The law change made the sales tax the only source of state revenue sharing.

As stated previously, the 2 percent rate increase due to Proposal A is dedicated to the School Aid Fund. Of the remaining sales tax revenues generated by the 4 percent rate, 36.3 percent is earmarked to revenue sharing for local governments, and 60 percent is earmarked to the School Aid Fund. The remaining 3.7 percent of sales tax revenue raised by the 4 percent rate is deposited into the General Fund, except for 27.9 percent of one percent generated from automotive-related sales that is deposited into the Comprehensive Transportation Fund. Additionally, the amount equal to the sales tax raised from the taxation of computer software sales must be deposited into a fund for the Michigan Public Health Initiative. The breakdown of sales tax revenue for FY 2000 is shown in Exhibit 1.

Exhibit 1
Sales Tax Revenue Distribution



The Michigan sales and use tax bases have become markedly narrower since the inception of these taxes due to exemptions. A chronology of major legislative changes to the sales and use taxes are shown in Exhibit 2. The narrowing of the tax bases results in a large loss of potential revenue to the state. In FY 2000 the potential tax revenue loss due to exemptions was estimated to be \$7.1 billion. The majority of that revenue loss resulted from the exclusion for services, which reduced state revenues by approximately \$4.3 billion. The exemptions for food and prescription drugs reduced revenue by \$880 million and \$199 million, respectively. Further discussion of the sales tax base follows in Section IV.

Exhibit 2
Chronology of the Michigan Sales and Use Tax
Changes in Statute

- 1933 The Michigan sales tax is enacted under Public Act 167 of 1933. Exempts only sales to federal and state governments and sales of goods that would be resold.
- 1935 Exempts sales of tangible personal property for use in industrial processing or agricultural production along with sales to nonprofit organizations.
- 1937 The Michigan use tax is enacted under Public Act 94 of 1937. The use tax base exempts property already subject to the Michigan sales tax, property exempt from taxation under state or federal law, and property that is temporarily brought into the state by a nonresident.
- 1939 Exempts transactions involving commercial vessels.
- 1946 The Michigan Legislature passes the Sales Tax Diversion Amendment. This amendment to the Michigan Constitution established a formula for allocating sales tax revenue between the General Fund, school districts, and local governments.
- 1950 Exempts newspapers and periodicals from the sales tax base.
- 1952 Exempts sales to operators of commercial radio and television stations.
- 1955 Exempts sales of artificial limbs and eyes, sales of new motor vehicles to be used outside of the state, and purchases of water in bulk.
- 1958 Exempts sales of used motor vehicles to be used outside of the state.
- 1959 Imposes use tax on intrastate telephone, telegraph and leased wire communications, as well as rental charges for hotel and motel rooms. Also imposes use tax on purchases by contractors working for the state of Michigan.
- 1961 Increases sales and use tax rates from 3 percent to 4 percent.
- 1974 Exempts sales of food and prescription drugs.
- 1978 Exempts components of air and water pollution control facilities. Also exempts sales of hearing aids, contact lenses, eyeglasses, and equipment to substitute for part of the human body or to assist the disabled.
- 1983 Amends the use tax to increase the tax on personal property modified and affixed to real estate by construction contractors.

- 1985 Exempts sales of computers used for industrial processing.
- 1986 Exempts sales of property used in a “qualified business activity” as defined in the Enterprise Zone Act and sales of property to a business engaged in a high technology activity located in a central city and subject to tax increment financing.
- 1987 Taxes computer software that is offered for sale to the public, or modified or adapted to the user’s needs by the seller, but only if the software is available for sale as is or as an end product without modification.
- 1989 Exempts sales of property purchased by a licensed radio or television station and used to originate or integrate programs for radio or television transmission.
- 1992 Exempts from use tax the sale of parts and materials affixed in Michigan to commercial passenger or cargo aircraft.
- 1994 Increases the Michigan sales and use tax rate from 4 percent to 6 percent. This change was approved by the voters and became effective May 1, 1994. Sales tax on utilities for residential use remained at 4 percent.
- 1996 Michigan Legislature changes the earmarking of revenue to local governments by making the sales tax only major tax source dedicated to revenue sharing.
- 1999 Codifies the practice of basing exemptions on the proportion of exempt versus total use. The industrial processing exemption was expanded. A bad debt deduction for the use tax was created. Eliminated the sunset on the use tax exemption for rolling stock (trucks) and expanded the exemption to the sales tax.
- 2000 Enacts an exemption for nonalcoholic vended beverages. Provides an exemption for meals given by restaurants for free or at a reduced rate to employees during working hours.

The sales tax generated \$6,277.5 million in FY 2000, an increase of \$375.8 million (6.4 percent) from FY 1999. Use tax revenue was \$1,355.4 million in FY 2000, an increase of \$72.4 million (5.6 percent) from FY 1999. Sales tax revenue accounted for 27.5 percent of total state taxes in FY 2000. Strong consumer spending has meant healthy increases in sales tax revenue over the past few years. Because of the increase in the tax rate, the sales tax has increased in overall share of state taxes. For example, during the last economic slowdown when the sales tax rate was 4 percent, the sales tax accounted for slightly more than 22 percent of total state taxes. Use tax revenue has increased steadily over the past 10 years and now accounts for 5.9 percent of total state tax revenue, up from 4 percent at the beginning of the 1990s. This also is in line with a strong economy and the increase in the tax rate in 1994. Exhibits 3, 4, and 5 provide a 20-year history of sales and use tax revenue and its percentage of total state taxes.

Exhibit 3
Sales and Use Tax Revenue
as a Percent of Total State Tax Revenue
FY 1980 to FY 2000

<u>Fiscal Year</u>	<u>Sales Tax Revenue (millions)</u>	<u>Use Tax Revenue (millions)</u>	<u>Total State Tax Revenue (millions)</u>	<u>Sales Tax as a Percent of Total State Taxes</u>	<u>Use Tax as a Percent of Total State Taxes</u>
1980	\$1,504.0	\$232.9	\$6,126.4	24.5%	3.8%
1981	1,595.0	232.3	6,195.0	25.7%	3.8%
1982	1,570.6	247.4	6,371.2	24.7%	3.9%
1983	1,699.0	279.5	7,337.4	23.2%	3.8%
1984	1,925.0	317.3	8,405.7	22.9%	3.8%
1985	2,142.6	341.4	8,958.0	23.9%	3.8%
1986	2,283.1	390.8	9,270.8	24.6%	4.2%
1987	2,348.4	397.8	9,591.7	24.5%	4.1%
1988	2,475.0	419.0	10,285.5	24.1%	4.1%
1989	2,615.2	475.9	10,850.9	24.1%	4.4%
1990	2,671.3	473.9	11,062.4	24.1%	4.3%
1991	2,671.9	474.3	11,722.3	22.8%	4.0%
1992	2,738.1	480.0	12,232.2	22.4%	3.9%
1993	2,905.7	529.5	12,866.3	22.6%	4.1%
1994	3,775.3	725.1	15,082.5	25.0%	4.8%
1995	4,884.2	942.9	17,468.7	28.0%	5.4%
1996	5,171.6	1,034.9	18,520.1	27.9%	5.6%
1997	5,389.8	1,092.2	19,440.3	27.7%	5.6%
1998	5,617.3	1,159.3	20,626.0	27.2%	5.6%
1999	5,901.7	1,283.0	21,958.9	26.9%	5.8%
2000	6,277.5	1,355.4	22,865.5	27.5%	5.9%

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 4
Michigan Sales Tax as a Percent of Total State Taxes

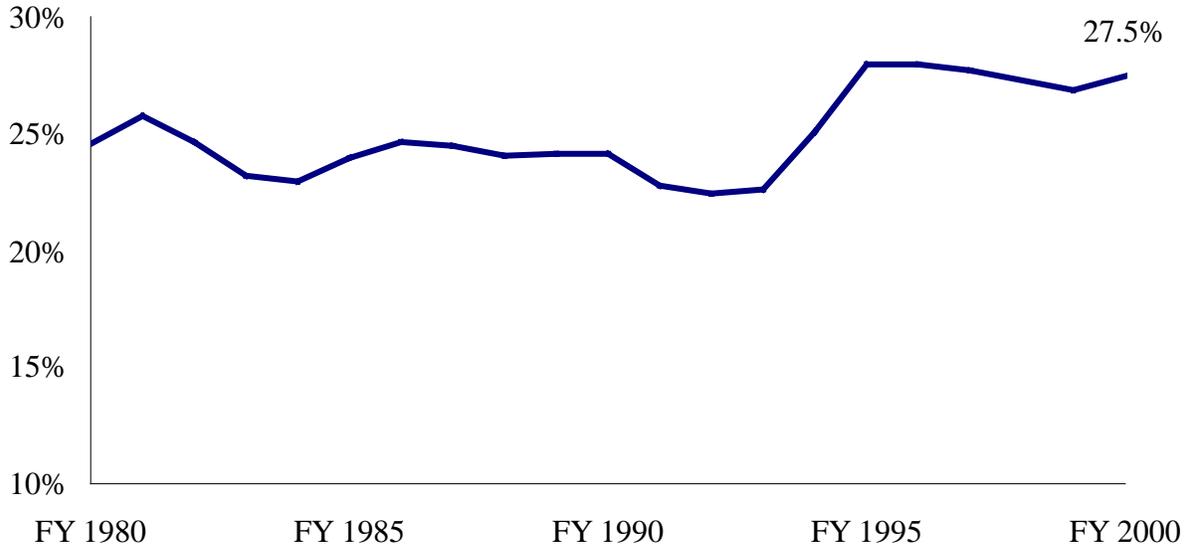
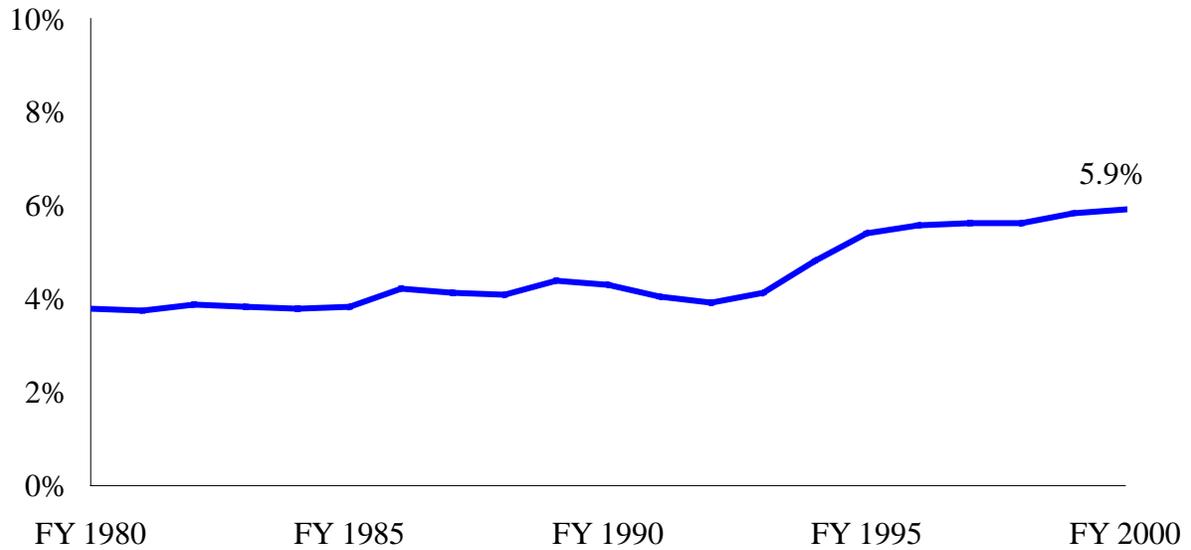


Exhibit 5
Michigan Use Tax as a Percent of Total State Taxes



III. ECONOMICS OF SALES TAXATION

The sales tax was enacted in 1933 to provide an additional revenue source for Michigan. As shown in Exhibit 3, the sales tax has been an important source of state revenue for funding schools and local governments. This section of the report briefly examines some of the issues in levying a sales tax.

Consumer Behavior

The imposition of a sales tax may change or distort the behavior of consumers and firms in three ways. First, if a sales tax does not apply to all goods equally, it may affect the types of goods a consumer may purchase. Second, it may influence a consumer's decision on whether or not to purchase a good at all, because the imposition of a sales tax results in a higher final price. Finally, the sales tax will also cause a divergence between the price paid by consumers and the price received by the sellers of the product.

Not all goods sold in the state of Michigan are subject to sales tax. This may influence a consumer's decision on which type of goods to purchase. For example, suppose a consumer is faced with a choice of purchasing a \$5.00 magazine, which is not subject to sales tax, or a \$5.00 pair of socks, which is subject to the sales tax. The consumer's final cost of the magazine is \$5.00. The consumer's final cost of the pair of socks is \$5.30: \$5.00 for the pair of socks plus the \$0.30 sales tax. The price differential may influence the consumer to buy the magazine instead of the socks.

Another type of distortion caused by the sales tax is that it may influence a consumer's decision on whether or not to purchase a good at all. A consumer looking to purchase a new vehicle may see a car with a price of \$20,000. She may be willing to buy the car for \$20,000, but may not be willing to pay \$21,200, the final cost after the sales tax. In this case, the imposition of the sales tax may prevent a consumer from making a purchase she would have made if there were no sales tax.

The third type of distortion relates closely to the second, whereby the price a consumer pays for an item may not be the price a firm receives for a good under a sales tax. The cost of producing a car for a firm may be \$20,000. If there were no sales tax, a firm could make a 6 percent profit if a consumer was willing to pay \$21,200 for a vehicle. With a 6 percent sales tax a consumer must be willing to pay \$22,472 for the firm to make a 6 percent profit. Because a consumer may be willing to pay \$21,200 but not \$22,472, a firm has to consider how much to mark up products, which will ultimately affect profit margins. The difference between the price paid by the buyer and the price received by the seller in this example shows that mutually beneficial trades do not occur due to the sales tax.

Equity

Another important issue in taxation is the equity or fairness of the tax. One problem with analyzing this issue is that it involves moral judgments and, therefore, is not subject to simple

analysis. For example, are two individuals equal if they both have incomes of \$25,000 even though one is single and one has a family of four to support? The answer to such a question is beyond the scope of our analysis. Instead our discussion will focus on two basic types of equity: vertical and horizontal equity.

Horizontal equity requires individuals in the same situation to pay the same amount of tax. The measurement of an individual's situation may be based on income, consumption level, or wealth. Imposing a sales tax that does not encompass all sales at the retail level may result in horizontal inequity. For example, the Michigan sales tax exempts the purchase of food to be consumed at home, while the purchase of meals at a restaurant is taxable. If both Joe and Ethan are single and both have similar incomes, we would ideally like them to pay approximately the same amount of tax in order to achieve horizontal equity. If Joe purchases all of his meals in restaurants, while Ethan prefers to cook at home, Joe will have to pay tax on all of his meals while Ethan will not. This will lead to horizontal inequity because Joe will pay more tax than Ethan, even though both are in similar situations with regard to income and marital status.

The principle of vertical equity means that tax burdens should be distributed fairly across individuals with different abilities to pay. While "fairness" and "ability to pay" are concepts that require value judgements, vertical equity is usually interpreted to mean low-income individuals should pay a lower percentage of their income in taxes than higher income individuals. Because members of low-income groups tend to spend a larger percentage of their incomes on items subject to the sales tax than higher income groups, the sales tax is believed to have less vertical equity than other taxes. To make the sales tax more equitable, most states, including Michigan, exempt food and prescription drugs from the sales tax. These exemptions increase vertical equity because these items make up a relatively large portion of spending by members of low-income groups. The incidence of the sales tax is discussed in more detail in the next section.

Sales Tax Incidence

Incidence refers to who pays the sales tax. It is important to distinguish between statutory incidence and final incidence. Statutory incidence refers to the individual or groups of individuals who are supposed to remit the tax under the tax law, while final incidence refers to those who actually end up bearing the burden of the tax.

Under the Michigan Sales Tax, the statutory incidence of the sales tax is on retailers for the privilege of doing business in Michigan. Every Michigan retailer must file a sales tax return and remit the sales tax. However, retailers may shift the sales tax burden onto consumers. In most cases, retailers simply add the tax to any consumer purchase of taxable items.

While the question of statutory incidence is fairly straightforward, the question of final incidence is more difficult. The ability of retailers to shift all or part of the tax burden to consumers depends on the consumer sensitivity to changes in the final price of purchases. If consumers' demands for goods are unaffected by a slight increase in the final cost of a good, a firm may be able to shift the entire cost of the sales tax to the consumer without sacrificing profit margin. However, if consumers are sensitive to changes in price, firms will not be able to shift the full cost increase of the good to the consumer and will have to bear some of the burden of the sales

tax themselves. A standard simplifying assumption in public finance is that consumers pay the full burden of the sales tax. In one study, James Poterba (1996) found over a 30-year period that the full amount of sales taxes on clothing was shifted to consumers.

It is possible to measure the amount of sales tax paid by different income groups. If the proportion of income paid in sales tax rises with income, the tax is progressive. If the proportion of income paid in sales tax falls as income rises, the tax is regressive. Historically, sales taxes have been considered regressive because lower-income individuals tend to spend a larger portion of their annual income on taxable items. Also higher-income individuals save more as a percentage of income.

A general measure of the progressivity of the tax system was created by Daniel B. Suits and is commonly referred to as the Suits Index. Under the Suits Index, the progressivity of a tax system is measured by a value ranging from +1 to -1. The higher the value, the more progressive the tax system. A value of zero indicates that the tax is roughly proportional (i.e., the percentage of income paid in taxes remains constant as income rises or falls). The Suits Index provides a measure by which different taxes can be compared. The main drawback to the Suits Index is that it is an average measure of progressivity and cannot account for changes in progressivity across income brackets. A tax may be slightly regressive at low incomes and very progressive at higher incomes. The Suits Index is not able to make this distinction.

Donald Phares (1980) used the Suits Index to calculate the progressivity of state taxes in 1980. For the sales tax, Phares calculated a Suits Index of -0.08 for the state of Michigan. The average for that sample was -0.11, indicating that Michigan's sales tax is slightly less regressive than the national average. It is interesting to note that every state with a sales tax had a negative Suits Index number. For comparison, the Suits Index for the Michigan personal income tax was +0.10, indicating that the Michigan personal income tax is slightly progressive.

Many studies analyzing the regressivity of the sales tax look only at annual data. Since annual data treats temporary fluctuations in income as permanent, a better measure of regressivity would look at permanent or lifetime income. Using annual expenditure data as a proxy for income, Poterba (1989) proposed that sales taxes are approximately proportional over a lifetime.

The final issue under the heading of incidence is the exporting of the tax burden. Tax exporting occurs when the burden of a tax is shifted to another party outside the jurisdiction receiving the tax revenue. Michigan is able to export the sales tax when out-of-state visitors purchase taxable items in Michigan. States with a large degree of tourism, such as Florida and Nevada, are estimated to export as much as 25 percent of the sales tax burden to out-of-state residents. Estimates indicate that approximately 3 percent to 7 percent of the sales tax burden for Michigan is exported.

IV. SALES TAX BASE

Michigan's sales and use taxes are designed to tax retail sales within the state as well as the out-of-state purchase of taxable products that are used within the state. The Michigan sales tax is referred to as a consumption or general sales tax, but in reality it is neither.

A true consumption tax would tax all uses of income with exclusions for savings and investments. The sales tax base would consist of all purchases of goods and services; it would also tax imputed consumption, such as consumption of owner-occupied housing. The Michigan sales tax base, along with most other states', is much narrower in scope due to the numerous exemptions such as for food and prescription drugs. However, the Michigan sales tax also taxes some items that would be excluded from a pure consumption tax base such as business inputs that are not used directly in industrial processing. The Michigan sales tax is also slightly different from a truly general retail sales tax because not all retail sales are subject to the sales tax. For example, prescription drugs are exempt from the Michigan sales tax.

Tax Expenditures

Tax exemptions, exclusions, deductions, credits, or preferential tax rates are called tax expenditures. A tax expenditure reduces revenue by providing preferential treatment for certain commodities or to specific industries. Tax expenditures have two main purposes: (1) to reduce the tax burden for certain individuals or firms to change the incidence of a tax; and (2) to give an incentive for individuals or firms to change their behavior. An example of the first type of tax expenditure is the prescription drug exemption, which is meant to reduce the incidence of the sales tax on low-income senior citizens. An example of the second type is the Enterprise Zone exemption, which targets economic development into poor areas by encouraging investments with lower tax rates. Exhibit 6 provides the revenue impact for sales and use tax expenditures for FY 2000.

Services are the largest single exclusion from the Michigan sales tax base. When the Michigan sales tax was enacted, the service sector of the economy was small relative to the goods sector of the economy. As the service sector has grown in economic importance, the cost of the service exclusion increases relative to the tax system. The estimated loss of Michigan sales tax revenue due to the exemption of services was \$4,256 million in FY 2000. Health services comprised the largest sector of service tax expenditures at \$1,881 million, or 44 percent. Business services followed next at \$692 million, or 16 percent of total service tax expenditures.

Exhibit 7 shows the general tax treatment of services by state. Even in Michigan, a select number of services are taxed. Many states have attempted to further extend sales taxes to all types of services but have been generally unsuccessful. In the 1980s, a new Florida sales tax on services was repealed 6 months after enacted. Recently, the Governor of Minnesota has proposed a new sales tax on services and a reduction in the state sales tax rate.

Exhibit 6
Michigan Sales and Use Tax Expenditures
(Millions)

<u>Tax Expenditure</u>	FY 2000 Revenue Impact
Air and Water Pollution	\$24.0
Aircraft Parts	\$5.3
Bad Debts	\$60.0
Cargo Aircraft	\$30.0
Churches	\$9.8
Collection Fees	\$20.0
Communication and Telephone Exemptions	\$35.0
Commercial Domestic Aircraft	\$5.0
Commercial Vessels	NA
Damaged Beer	NA
Delayed Payments	\$2.7
Donated Property	NA
Driver Training	\$0.6
Enterprise Zone	\$0.1
Food	\$880.0
Food for Students	\$41.0
Government or Red Cross	\$191.0
Gratuities and Tips	\$54.0
Horticultural and Agricultural Products	\$143.0
Industrial Processing	\$660.0
Inmate Purchases	\$0.4
Interstate Telecommunications	\$37.0
Interstate Trucks and Trailers	\$48.0
Isolated Sales	NA
Military Post-Exchange Sales	\$1.0
Military Vehicle Sales (Nonresident)	NA
Military Vehicle Sales (Resident Out-of-State)	NA
Newspapers, Periodicals and Films	\$74.0
Nonprofit Ambulance and Fire Services	NA
Nonprofit Hospital or Housing Construction	\$6.2
Nonprofit Organizations	\$105.0
Nonresident Property	NA
Ophthalmic and Orthopedic Products	\$40.0
Prescription Drugs	\$199.0
Radio and Television	\$4.2
Rail Rolling Stock	\$30.0
Residential Utilities	\$82.0
Sale of Business	NA
Sale of Water	\$6.0
Services	\$4,256.0
Small Out-of-State Purchases	NA
Telephone Services	\$10.0
Textbooks Sold by Schools	NA
Vehicle and Aircraft Transfer	\$34.0
Vehicles Purchased for Use in Another State	NA
Vending Machines and Mobile Facilities	\$10.3
Total	<u>\$7,104.6</u>

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 7
State Sales Taxation of Services

	<u>General Treatment</u>	<u>Cleaning Services</u>	<u>Transportation Services</u>	<u>Repair Services</u>	<u>Professional & Personal Services</u>
Alabama	NT	E	E	E	E
Alaska			No Sales Tax		
Arizona	MT	E	T	E	E
Arkansas	MT	T	E	T	E
California	NT	E	E	E	E
Colorado	NT	E	E	E	E
Connecticut	MT	T	E	T	T
Delaware			No Sales Tax		
District of Columbia	MT	T	E	T	E
Florida	MT	E	E	E	E
Georgia	NT	E	T	E	E
Hawaii	GT	T	E	T	T
Idaho	NT	E	T	E	E
Illinois	NT	E	E	E	E
Indiana	NT	E	E	E	E
Iowa	MT	T	E	T	T
Kansas	MT	T	T	T	E
Kentucky	NT	E	E	E	E
Louisiana	NT	T	E	T	E
Maine	MT	E	E	E	E
Maryland	NT	T	E	E	E
Massachusetts	NT	E	E	E	E
Michigan	NT	E	E	E	E
Minnesota	NT	T	E	E	E
Mississippi	MT	T	E	T	E
Missouri	NT	E	T	E	E
Montana			No Sales Tax		
Nebraska	NT	E	E	E	E
Nevada	NT	E	E	E	E
New Hampshire			No Sales Tax		
New Jersey	NT	E	E	T	E
New Mexico	GT	T	T	T	T
New York	MT	T	E	T	E
North Carolina	NT	T	E	E	E
North Dakota	NT	E	E	E	E
Ohio	MT	T	E	T	E
Oklahoma	MT	E	T	E	E
Oregon			No Sales Tax		
Pennsylvania	MT	T	E	T	E
Rhode Island	NT	E	E	E	E
South Carolina	NT	T	E	E	E
South Dakota	GT	T	T	T	T
Tennessee	NT	T	E	T	E
Texas	MT	T	T	T	E
Utah	MT	T	T	T	E
Vermont	NT	E	E	E	E
Virginia	NT	E	E	E	E
Washington	MT	T	T	T	E
West Virginia	GT	T	E	T	E
Wisconsin	MT	T	E	T	E
Wyoming	NT	T	T	T	E

Key: NT = "not taxable" - the state taxes only a few specified services.
 MT = "many taxable"- law provides only specified services are taxable and the state has chosen to tax many of them.
 GT = "generally taxable" - tax imposed generally on the provision of services although certain services may be exempt.
 T = "taxable" - designation is for a general nature.
 E = "exempt" - designation is for a general nature.

Source: Commerce Clearing House, Inc.

Food for home consumption is another major item excluded from most states' sales tax bases. The primary reason for excluding food from taxation is to reduce regressivity of the sales tax. According to the 1999 Consumer Expenditure Survey by the Bureau of Labor Statistics, purchases of food for home consumption account for 11 percent of expenditures for consumers in the lowest 20 percent of income. In contrast, for consumers in the highest 20 percent of income, purchases of food for home consumption account for only 6 percent of expenditures. If food consumed at home were taxed, lower income consumers would pay an even larger percentage of their incomes in sales tax relative to higher income people. By exempting food consumed at home from the sales tax, the Michigan sales tax becomes slightly less regressive. The tax expenditure loss in FY 2000 for exempting food consumed at home from the Michigan sales tax was \$880 million. Exhibit 8 provides information on the sales tax treatment of food and meals by state.

Prescription drugs are exempt from the sales tax base. As in the case of the food exemption, exempting prescription drugs is intended to reduce the regressivity of the Michigan sales tax. The cost of the prescription drug exemption is estimated to be about \$199 million in FY 2000.

Inputs used in agricultural and industrial production are exempt from the Michigan sales tax. Commonly known as the industrial processing exemption, the main purpose of this exemption is to avoid the double taxation of goods. By exempting inputs, only the final product is taxed and not the sales of every intermediate good used in each stage of production. In order for a good to qualify for this exemption a product must be directly used in the production process. Michigan Revenue Administrative Bulletin 2000-4 provides detail of what qualifies as exempt for the industrial processing exemption.

The Michigan sales tax base is further reduced by exempting purchases and sales by nonprofit organizations and federal, state, and local government purchases.

In total, exemptions in Michigan's sales tax base reduced state revenues by over \$7.1 billion in FY 2000. Eliminating these exemptions would increase Michigan's sales and use tax revenue by more than 93 percent and could allow for the rate to be cut nearly in half to collect the same amount of revenue.

Exhibit 8
State Sales Taxation of Food and Meals

	<u>Grocery</u> <u>Food</u>	<u>Meals</u>	<u>Sales by</u> <u>Caterers</u>
Alabama	T	T	T
Alaska		No Sales Tax	
Arizona	E	T	T
Arkansas	T	T	T
California	E	T	T
Colorado	E	T	T
Connecticut	E	T	T
Delaware		No Sales Tax	
District of Columbia	E	T	T
Florida	E	T	T
Georgia	E	T	T
Hawaii	T	T	T
Idaho	T	T	T
Illinois*	T	T	T
Indiana	E	T	T
Iowa	E	T	T
Kansas	T	T	T
Kentucky	E	T	T
Louisiana	T	T	T
Maine	E	T	T
Maryland	T	T	T
Massachusetts	E	T	T
Michigan	E	T	T
Minnesota	E	T	T
Mississippi	T	T	T
Missouri*	T	T	T
Montana		No Sales Tax	
Nebraska	E	T	T
Nevada	E	T	T
New Hampshire		No Sales Tax	
New Jersey	E	T	T
New Mexico	T	T	T
New York	E	T	T
North Carolina*	T	T	T
North Dakota	E	T	T
Ohio	E	T	T
Oklahoma	T	T	T
Oregon		No Sales Tax	
Pennsylvania	E	T	T
Rhode Island	E	T	T
South Carolina*	T	T	T
South Dakota	T	T	T
Tennessee	T	T	T
Texas	E	T	T
Utah	T	T	T
Vermont	E	E	E
Virginia*	T	T	T
Washington	E	T	T
West Virginia	T	T	T
Wisconsin	E	T	T
Wyoming	T	T	T

Key: T = "taxable" - designation is for a general nature.

E = "exempt" - designation is for a general nature.

*Groceries taxed at a reduced rate.

Source: Commerce Clearing House, Inc.

V. SALES AND USE TAX REVENUE

Sales Tax Revenue

Michigan's sales tax revenue in FY 2000 was \$6,277.5 million, up \$375.8 million (6.4 percent) from FY 1999. Since the passage of Proposal A (which increased the sales tax rate from 4 percent to 6 percent on May 1, 1994), the sales tax has been a higher percentage of total state revenue compared to the early 1990s (see Exhibit 3). Other taxes were also increased or newly enacted due to Proposal A, which mitigated the effect of the sales tax increase as a part of total state tax revenues. The shrinking sales tax base and other emerging issues like the taxation of Internet purchases will have an effect on sales tax revenues and their importance in total state tax collections.

During the early 1990s, sales tax revenues totaled slightly over 22 percent of total state tax revenue. In FY 1995, sales tax revenues were 28.0 percent of total state tax revenue, the highest amount since the 1970s, before the food and prescription drug exemptions were enacted. The percentage has declined slightly to 27.5 percent in FY 2000 (see Exhibit 4).

Nominal sales tax revenue has increased 29 percent since FY 1995, the first full fiscal year with a sales tax rate of 6 percent. However, adjusted for inflation, real sales tax revenue rose 13 percent, or 2 percent per fiscal year. As Exhibits 9 and 10 show, the robust Michigan economy along with an increased sales tax rate have meant healthy increases in overall sales tax revenue.

Sales tax revenue as a percent of personal income provides a measure of the effective burden of the sales tax. Through the 1980s, sales tax revenue as a percent of personal income consistently ranged from 1.51 percent to 1.64 percent. During the 1990s recession, the sales tax burden fell to 1.45 percent of personal income. In FY 2000, sales tax revenue as a percentage of income was 2.17 percent. As noted previously, the increase is due to the change in tax rate and strong growth in the economy at the end of the decade (see Exhibit 11).

The automotive sector provided the largest share of sales tax revenue in Michigan at 25.4 percent of total sales tax revenue (see Exhibit 12). In FY 2000, the automotive sector had total sales tax revenue of \$1,579.6 million, mostly due to the sales of new and used cars. The food sector was responsible for \$856.2 million of sales tax revenue or 13.8 percent in FY 2000, mostly through the restaurant industry and taxable items sold at grocery stores. General merchandise stores accounted for \$620.1 million, or 10.0 percent of total sales tax revenue.

Over the past 10 years, the distribution of sales tax revenue by retail sector has remained fairly constant (see Exhibit 13). Since 1990, the general merchandise sector and building sector have seen increases in their share of sales tax revenue. The good economic times have allowed consumers to spend more on housing and durable goods over the past few years. The automotive sector has the same share of sales tax revenue in FY 2000 as in FY 1990 at 25.4 percent. The food, furniture, and apparel sectors have seen a decrease in their respective shares of sales tax

Exhibit 9
Michigan Sales Tax Revenue
FY 1980 to FY 2000

Fiscal Year	Fiscal Year Personal Income (millions)	Sales Tax Revenue (millions)	Sales Tax Revenue as a Percent of Income	Fiscal Year Detroit Consumer Price Index (1982-84=100)	Real Sales Tax Revenue (millions)
1980	\$93,913	\$1,504.0	1.60%	82.3	\$1,828.4
1981	101,539	1,595.0	1.57%	92.1	1,731.5
1982	104,014	1,570.6	1.51%	95.8	1,640.3
1983	108,342	1,699.0	1.57%	99.4	1,710.1
1984	119,996	1,925.0	1.60%	102.4	1,880.5
1985	130,828	2,142.6	1.64%	105.8	2,024.7
1986	140,776	2,283.1	1.62%	108.1	2,111.9
1987	146,403	2,348.4	1.60%	110.7	2,120.9
1988	155,701	2,475.0	1.59%	114.8	2,155.5
1989	166,843	2,615.2	1.57%	120.8	2,165.8
1990	175,250	2,671.3	1.52%	126.8	2,106.4
1991	179,891	2,671.9	1.49%	132.4	2,018.3
1992	188,609	2,738.1	1.45%	135.1	2,026.2
1993	201,015	2,905.7	1.45%	138.6	2,096.2
1994	215,255	3,775.3	1.75%	142.9	2,641.7
1995	229,382	4,884.2	2.13%	147.5	3,312.3
1996	236,150	5,171.6	2.19%	151.6	3,412.5
1997	247,235	5,389.8	2.18%	155.4	3,468.2
1998	259,722	5,617.3	2.16%	158.9	3,535.6
1999	273,391	5,901.7	2.16%	162.8	3,625.4
2000	289,522	6,277.5	2.17%	168.3	3,730.7

Sources: Office of Revenue and Tax Analysis, Michigan Department of Treasury.
Bureau of Labor Statistics, U.S. Department of Labor.
Bureau of Economic Analysis, U.S. Department of Commerce.

Exhibit 10
Michigan Sales Tax Nominal and Real Revenue

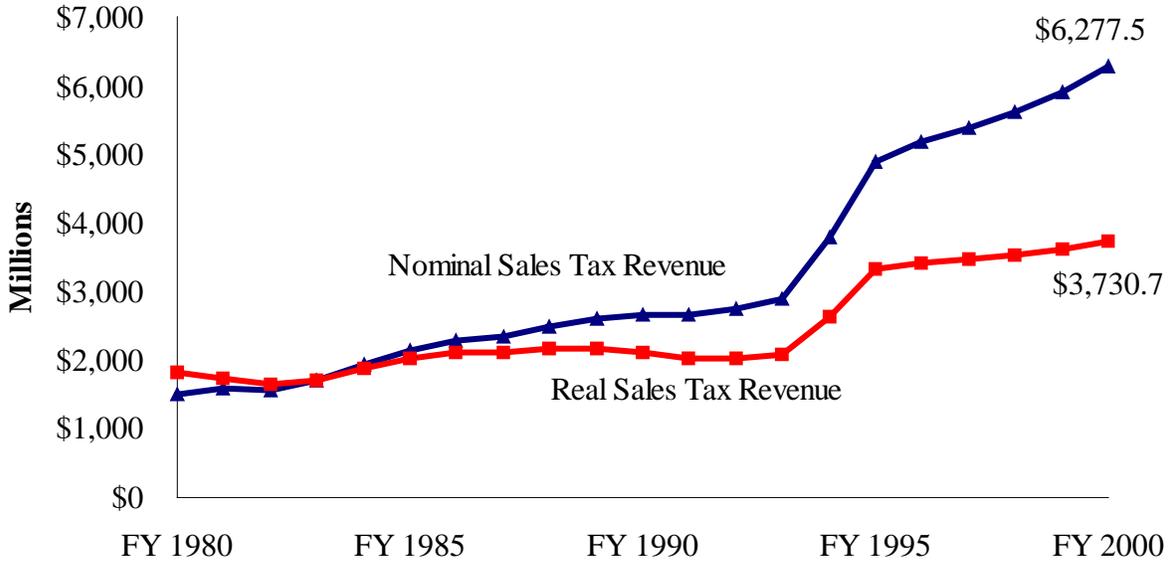


Exhibit 11
Sales Tax Revenue as a Percent of Personal Income

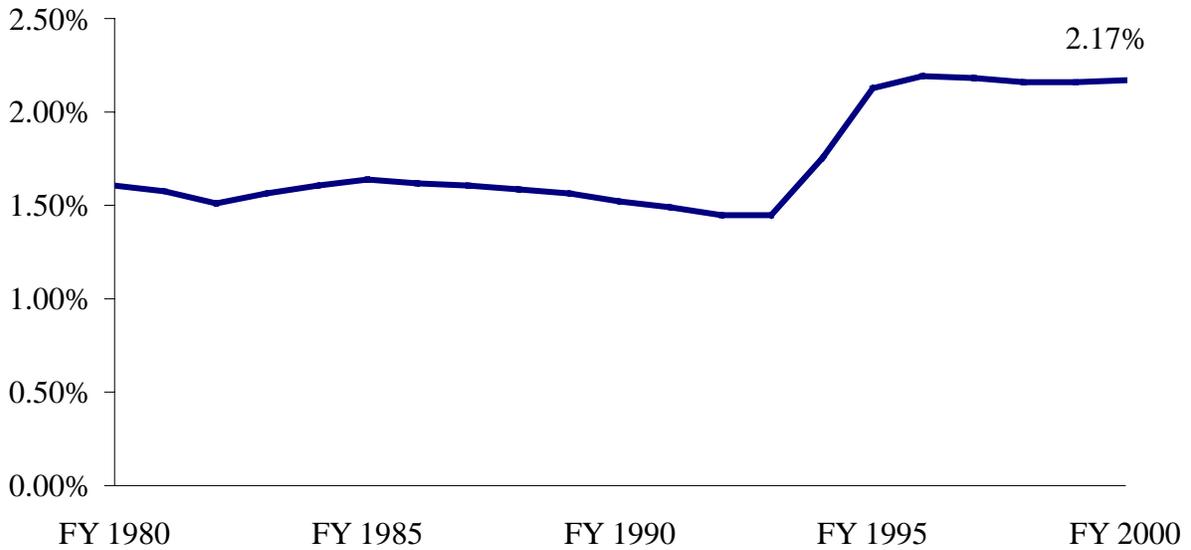


Exhibit 12
Michigan Sales Tax Revenue by Retail Sector
FY 1990 - FY 2000
(Millions)

<u>Fiscal Year</u>	<u>Auto</u>	<u>Percent Change</u>	<u>Food</u>	<u>Percent Change</u>	<u>General Merchandise</u>	<u>Percent Change</u>
1990	\$678.9	--	\$413.0	--	\$230.1	--
1991	648.8	-4.4%	428.7	3.8%	257.4	11.9%
1992	660.7	1.8%	451.6	5.3%	280.1	8.8%
1993	728.4	10.2%	470.5	4.2%	324.3	15.8%
1994	948.3	30.2%	552.9	17.5%	400.3	23.5%
1995	1,255.1	32.3%	722.4	30.7%	540.1	34.9%
1996	1,319.4	5.1%	748.3	3.6%	557.3	3.2%
1997	1,330.4	0.8%	760.2	1.6%	566.1	1.6%
1998	1,366.2	2.7%	791.5	4.1%	587.2	3.7%
1999	1,434.0	5.0%	821.5	3.8%	548.3	-6.6%
2000	1,579.6	10.2%	856.2	4.2%	620.1	13.1%

<u>Fiscal Year</u>	<u>Building Lumber & Hardware</u>	<u>Percent Change</u>	<u>Furniture</u>	<u>Percent Change</u>	<u>Apparel</u>	<u>Percent Change</u>
1990	\$180.3	--	\$122.9	--	\$119.8	--
1991	170.3	-5.5%	123.1	0.2%	120.3	0.4%
1992	175.0	2.8%	124.4	1.0%	117.9	-2.0%
1993	194.1	10.9%	134.5	8.1%	131.0	11.1%
1994	264.6	36.3%	182.2	35.5%	151.7	15.8%
1995	361.6	36.7%	246.3	35.1%	191.5	26.2%
1996	376.4	4.1%	215.8	-12.4%	193.9	1.3%
1997	407.8	8.3%	207.6	-3.8%	195.8	1.0%
1998	449.2	10.1%	219.9	5.9%	203.2	3.8%
1999	486.3	8.3%	227.9	3.6%	208.7	2.7%
2000	506.4	4.1%	250.4	9.9%	220.9	5.8%

<u>Fiscal Year</u>	<u>Miscellaneous Retail</u>	<u>Percent Change</u>	<u>Non-Retail</u>	<u>Percent Change</u>	<u>Total</u>	<u>Percent Change</u>
1990	\$237.9	--	\$690.8	--	\$2,673.6	--
1991	241.8	1.6%	673.1	-2.6%	2,663.6	-0.4%
1992	239.5	-0.9%	659.7	-2.0%	2,708.9	1.7%
1993	253.7	5.9%	707.8	7.3%	2,944.3	8.7%
1994	314.8	24.1%	837.4	18.3%	3,652.4	24.0%
1995	431.8	37.1%	1,102.9	31.7%	4,851.7	32.8%
1996	505.2	17.0%	1,214.8	10.1%	5,131.1	5.8%
1997	544.5	7.8%	1,294.8	6.6%	5,307.4	3.4%
1998	590.8	8.5%	1,318.4	1.8%	5,526.4	4.1%
1999	613.9	3.9%	1,388.3	5.3%	5,728.8	3.7%
2000	664.5	8.3%	1,514.9	9.1%	6,213.0	8.5%

Note: Figures do not include use tax.

Sales tax rate increases from 4 percent to 6 percent on May 1, 1994.

Total sales tax differs slightly due to differences between accrual and cash account methods.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 13
Share of Sales Tax Revenue by Retail Sector
FY 1990 to FY 2000
(Percent)

<u>Fiscal Year</u>	<u>Auto</u>	<u>Food</u>	<u>General Merchandise</u>	<u>Building Lumber & Hardware</u>
1990	25.4%	15.4%	8.6%	6.7%
1991	24.4%	16.1%	9.7%	6.4%
1992	24.4%	16.7%	10.3%	6.5%
1993	24.7%	16.0%	11.0%	6.6%
1994	26.0%	15.1%	11.0%	7.2%
1995	25.9%	14.9%	11.1%	7.5%
1996	25.7%	14.6%	10.9%	7.3%
1997	25.1%	14.3%	10.7%	7.7%
1998	24.7%	14.3%	10.6%	8.1%
1999	25.0%	14.3%	9.6%	8.5%
2000	25.4%	13.8%	10.0%	8.2%

<u>Fiscal Year</u>	<u>Furniture</u>	<u>Apparel</u>	<u>Miscellaneous Retail</u>	<u>Non-Retail</u>
1990	4.6%	4.5%	8.9%	25.8%
1991	4.6%	4.5%	9.1%	25.3%
1992	4.6%	4.4%	8.8%	24.4%
1993	4.6%	4.4%	8.6%	24.0%
1994	5.0%	4.2%	8.6%	22.9%
1995	5.1%	3.9%	8.9%	22.7%
1996	4.2%	3.8%	9.8%	23.7%
1997	3.9%	3.7%	10.3%	24.4%
1998	4.0%	3.7%	10.7%	23.9%
1999	4.0%	3.6%	10.7%	24.2%
2000	4.0%	3.6%	10.7%	24.4%

Note: Figures do not include use tax.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

revenue. The non-retail sector share of sales tax revenue has declined slightly from 25.8 percent in FY 1990 to 24.4 percent in FY 2000.

Use Tax Revenue

Michigan use tax revenue totaled \$1,355.4 million in FY 2000, up \$72.4 million (5.6 percent) from FY 1999. As with the sales tax, the share of use tax revenue has increased due to the change in tax rate from 4 percent to 6 percent from Proposal A.

Use tax revenue as a percent of total state revenue has increased at a higher rate than the sales tax. As Exhibit 3 shows, during the 1980s the Michigan use tax accounted for anywhere between 3.8 percent and 4.4 percent of total state tax revenue. In FY 2000, use tax revenue accounted for a record high of 5.9 percent of total state tax revenue.

Nominal use tax revenue increased 44 percent from FY 1995 to FY 2000. When adjusted for inflation, real use tax revenue increased 26 percent, or at an annual average rate of 5 percent. As with the sales tax, favorable economic conditions have facilitated the growth of overall use tax revenue (see Exhibits 14 and 15).

The effective burden of the use tax can be measured as Michigan use tax revenue as a percent of Michigan personal income. From FY 1980 until the tax rate increase to 6 percent, use tax revenue as a percent of personal income ranged from 0.23 percent to 0.29 percent. In FY 2000, use tax revenue as a percent of personal income reached a record high of 0.47 percent (see Exhibit 16).

Because the use tax is generally paid by businesses, different sectors of the economy remit use tax versus the sales tax. The telecommunications sector provided the largest share of use tax revenue in Michigan at 19.4 percent of total use tax revenue (see Exhibit 17). In FY 2000, the telecommunications sector reported use tax revenue of \$257.4 million, mostly due to the interstate and intrastate telephone calls. The auto sector was responsible for \$208.3 million of use tax revenue or 15.7 percent in FY 2000, generally from private sales of vehicles.

Between 1990 and 2000, the distribution of use tax revenue by various sectors has remained fairly constant except for business services (see Exhibit 18). The business service sector has seen a large increase in its share of use tax revenue paid from 4.9 percent in 1990 to 15.6 percent in FY 2000. In the transportation-manufacturing sector, the share of use tax paid is approximately the same in FY 1990 as in FY 2000 at slightly over 4 percent. However, the share increased to 8.0 percent in FY 1996.

Exhibit 14
Michigan Use Tax Revenue
FY 1980 to FY 2000

Fiscal Year	Fiscal Year Personal Income (millions)	Use Tax Revenue (millions)	Use Tax Revenue as a Percent of Income	Fiscal Year Detroit Consumer Price Index (1982-84=100)	Real Use Tax Revenue (millions)
1980	\$93,913	\$232.9	0.25%	82.3	\$283.1
1981	101,539	232.3	0.23%	92.1	252.2
1982	104,014	247.4	0.24%	95.8	258.3
1983	108,342	279.5	0.26%	99.4	281.3
1984	119,996	317.3	0.26%	102.4	310.0
1985	130,828	341.4	0.26%	105.8	322.6
1986	140,776	390.8	0.28%	108.1	361.5
1987	146,403	397.8	0.27%	110.7	359.3
1988	155,701	419.0	0.27%	114.8	364.9
1989	166,843	475.9	0.29%	120.8	394.1
1990	175,250	473.9	0.27%	126.8	373.7
1991	179,891	474.3	0.26%	132.4	358.3
1992	188,609	480.0	0.25%	135.1	355.2
1993	201,015	529.5	0.26%	138.6	382.0
1994	215,255	725.1	0.34%	142.9	507.4
1995	229,382	942.9	0.41%	147.5	639.4
1996	236,150	1,034.9	0.44%	151.6	682.9
1997	247,235	1,092.2	0.44%	155.4	702.8
1998	259,722	1,159.3	0.45%	158.9	729.6
1999	273,391	1,283.0	0.47%	162.8	788.2
2000	289,522	1,355.4	0.47%	168.3	805.5

Sources: Office of Revenue and Tax Analysis, Michigan Department of Treasury
Bureau of Labor Statistics, U.S. Department of Labor.
Bureau of Economic Analysis, U.S. Department of Commerce.

Exhibit 15
Michigan Use Tax Nominal and Real Revenue

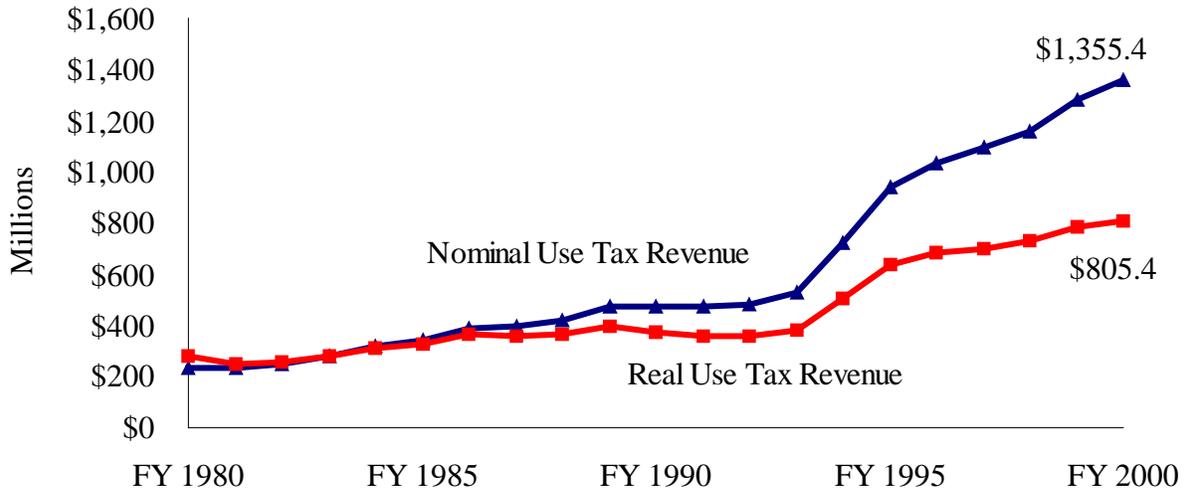


Exhibit 16
Use Tax Revenue as a Percent of Personal Income

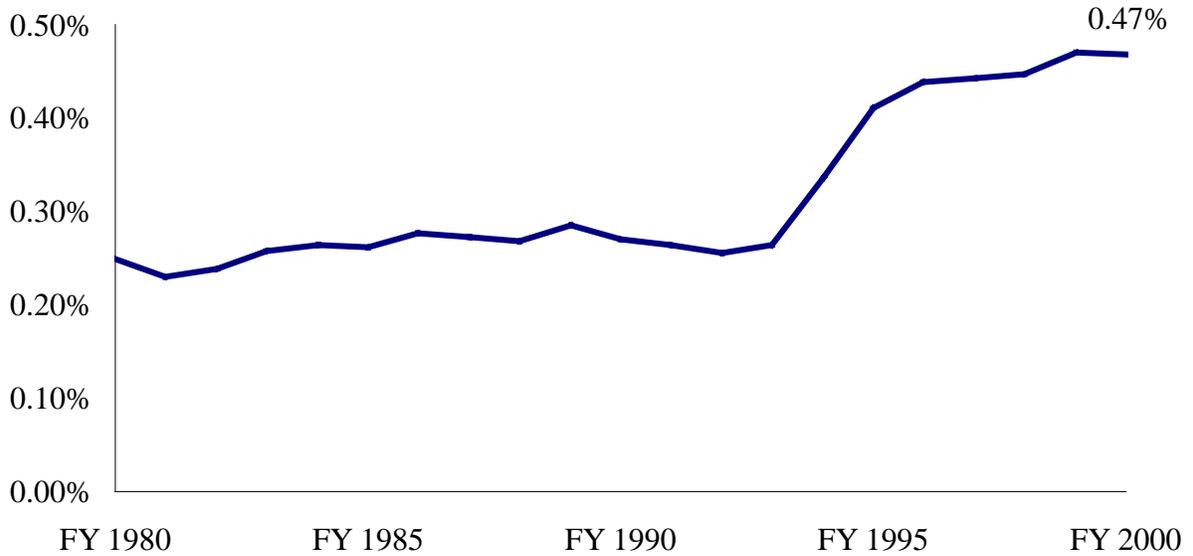


Exhibit 17
Michigan Use Tax Revenue by Various Sectors
FY 1990 - FY 2000
(Millions)

<u>Fiscal Year</u>	<u>Telephone & Communication</u>	<u>Percent Change</u>	<u>Auto</u>	<u>Percent Change</u>	<u>Business Services</u>	<u>Percent Change</u>
1990	\$111.6	--	\$89.6	--	\$24.2	--
1991	93.7	-16.0%	81.9	-8.6%	32.1	32.6%
1992	110.0	17.3%	82.0	0.2%	42.1	31.3%
1993	121.8	10.8%	92.0	12.2%	47.3	12.2%
1994	137.9	13.2%	133.3	44.8%	61.0	29.0%
1995	199.2	44.5%	171.0	28.3%	99.3	62.9%
1996	220.6	10.7%	181.5	6.2%	98.3	-1.1%
1997	233.1	5.7%	181.2	-0.2%	114.5	16.5%
1998	252.1	8.1%	192.0	6.0%	133.4	16.5%
1999	280.8	11.4%	207.3	7.9%	175.7	31.8%
2000	257.4	-8.3%	208.3	0.5%	206.7	17.6%

<u>Fiscal Year</u>	<u>Hotels & Motels</u>	<u>Percent Change</u>	<u>Transportation Manufacturing</u>	<u>Percent Change</u>	<u>General Merchandise</u>	<u>Percent Change</u>
1990	\$21.2	--	\$20.4	--	\$11.7	--
1991	20.1	-5.6%	24.8	21.9%	13.2	13.1%
1992	20.5	2.2%	27.8	11.9%	15.3	16.0%
1993	24.3	18.8%	31.6	13.8%	16.7	9.3%
1994	32.0	31.4%	34.1	7.9%	23.5	40.2%
1995	42.2	31.8%	41.7	22.3%	29.4	25.1%
1996	45.2	7.1%	84.4	102.4%	28.6	-2.6%
1997	49.4	9.4%	86.0	1.9%	27.1	-5.2%
1998	48.0	-2.9%	68.7	-20.1%	28.7	5.9%
1999	60.4	25.8%	66.6	-3.0%	31.7	10.4%
2000	62.0	2.6%	56.3	-15.6%	30.5	-3.8%

<u>Fiscal Year</u>	<u>Machinery</u>	<u>Percent Change</u>	<u>Other</u>	<u>Percent Change</u>	<u>Total</u>	<u>Percent Change</u>
1990	\$12.0	--	\$200.9	--	\$491.5	--
1991	10.7	-10.7%	195.6	-2.6%	472.1	-4.0%
1992	11.1	3.4%	171.3	-12.5%	480.0	1.7%
1993	11.4	3.2%	199.3	16.4%	544.5	13.4%
1994	16.7	46.4%	260.2	30.5%	698.6	28.3%
1995	23.8	42.3%	334.2	28.4%	940.7	34.7%
1996	20.0	-15.8%	375.4	12.3%	1,054.0	12.0%
1997	19.1	-4.4%	380.7	1.4%	1,091.2	3.5%
1998	24.1	25.7%	415.7	9.2%	1,162.6	6.5%
1999	27.5	14.4%	442.0	6.3%	1,292.0	11.1%
2000	27.3	-0.8%	478.2	8.2%	1,326.7	2.7%

Note: Use tax rate increased from 4 percent to 6 percent on May 1, 1994.

Total use tax differs slightly due to differences between accrual and cash account methods.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 18
Share of Use Tax Revenue by Various Sectors
FY 1990 to FY 2000
(Percent)

<u>Fiscal Year</u>	<u>Telephone & Communication</u>	<u>Auto</u>	<u>Business Services</u>	<u>Hotels & Motels</u>
1990	22.7%	18.2%	4.9%	4.3%
1991	19.9%	17.3%	6.8%	4.2%
1992	22.9%	17.1%	8.8%	4.3%
1993	22.4%	16.9%	8.7%	4.5%
1994	19.7%	19.1%	8.7%	4.6%
1995	21.2%	18.2%	10.6%	4.5%
1996	20.9%	17.2%	9.3%	4.3%
1997	21.4%	16.6%	10.5%	4.5%
1998	21.7%	16.5%	11.5%	4.1%
1999	21.7%	16.0%	13.6%	4.7%
2000	19.4%	15.7%	15.6%	4.7%

<u>Fiscal Year</u>	<u>Transportation Manufacturing</u>	<u>General Merchandise</u>	<u>Machinery</u>	<u>Other</u>
1990	4.1%	2.4%	2.4%	40.9%
1991	5.3%	2.8%	2.3%	41.4%
1992	5.8%	3.2%	2.3%	35.7%
1993	5.8%	3.1%	2.1%	36.6%
1994	4.9%	3.4%	2.4%	37.2%
1995	4.4%	3.1%	2.5%	35.5%
1996	8.0%	2.7%	1.9%	35.6%
1997	7.9%	2.5%	1.8%	34.9%
1998	5.9%	2.5%	2.1%	35.8%
1999	5.2%	2.5%	2.1%	34.2%
2000	4.2%	2.3%	2.1%	36.0%

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

VI. REMOTE SALES TAXATION

Currently, mail order and Internet (e-commerce) firms that do not have nexus within a state are not required to collect sales taxes on purchases from consumers within that state. Nexus is defined as a minimum physical presence or link to a state that would require a business to collect and be subject to a state's tax system. To force remote sales firms to collect sales taxes would require an act of Congress or a ruling by the U.S. Supreme Court. Increasingly, sales and use tax revenues are being eroded by remote sales (mail order and Internet or e-commerce). In part, many multi-state businesses seek to avoid collecting sales and use taxes because of the burden of complying with the thousands of different administrative requirements in the more than 7,500 state and local sales tax jurisdictions. Businesses with nexus in a state and collecting sales tax are forced to compete with firms without nexus who do not collect sales tax. With the expected increase in e-commerce, the issue of remote sales is becoming a more serious fiscal matter for businesses and state and local governments. In response, state governments have formed the Streamlined Sales Tax Project to simplify state sales taxes and encourage Congress to enact laws allowing the collection of sales taxes by remote sales firms.

Current Law

The issue of mail order taxation goes back decades. Mail order firms that did not have nexus within a state would not collect sales taxes on mail order purchases. States, on the other hand, felt that the contact mail order firms made through sending catalogs and merchandise delivered through the mail established nexus. An important court case decision that helped define nexus for mail order firms was a ruling by the U.S. Supreme Court in 1967 (*Bellas Hess v Illinois*). This ruling established that taxing mail order firms whose only connection was through a common carrier or the U.S. Postal Service shipping flyers and catalogs and delivering merchandise would violate the Due Process Clause and the Commerce Clause. Physical presence, not just an economic presence, was necessary for nexus. The Due Process Clause was violated because the tax was not related to benefits received from the state. Taxation of mail order sales violated the Commerce Clause because of the undue burden on commerce that would result from collecting sales taxes on mail order purchases.

In a more recent court case (*North Dakota v Quill, 1992*), the Due Process Clause barrier for the taxation of mail order sales was removed. Quill Corporation also sent catalogs and shipped goods by common carrier to customers. North Dakota felt that this economic presence was enough to establish nexus because sales were over \$1 million. North Dakota also argued that since Quill offered a "money-back" guarantee, that gave Quill a physical presence in the state. The U.S. Supreme Court ruled that economic presence did satisfy the Due Process Clause because sales were of a sufficient magnitude and the tax was related to benefits received by Quill. Businesses that do not exceed contact by common carrier with the taxing state lack the substantial nexus required to compel the collection of use tax. However, once a business establishes a physical presence through a small sales force, plant or office in the taxing state, the substantial nexus requirement has been met. The Court noted that multiple state rates, unique exemptions and administrative requirements by thousands of sales tax jurisdictions in the U.S. unduly burdened interstate commerce. With the Quill ruling, Congress could pass legislation

removing the Commerce Clause barrier and allow the collection of use taxes from mail order sales.

The same nexus standards that apply to mail order firms also apply to e-commerce firms. To further restrict the taxation of Internet firms, Congress passed the Internet Tax Freedom Act (ITFA) in 1998. The ITFA barred any state and local taxes on Internet access and any discriminatory taxes on the Internet for a three-year period ending October 1, 2001. Taxes levied on Internet access before ITFA were still allowed. Sales and use taxes were still allowed on products sold through the Internet. Federal legislation has been introduced to extend the moratorium.

Rapid growth of e-commerce is a threat to the viability of the sales tax. As technology becomes more prevalent in everyday life, shopping through the Internet is growing at an astronomical rate. The erosion of the sales tax base threatens the ability of states to raise revenue with a sales/use tax. In an effort to reduce the compliance burden of the sales tax and remove the Commerce Clause barrier, the Streamlined Sales Tax Project was formed.

Streamlined Sales Tax Project

Created by state governments with input from local governments and the business sector, the Streamlined Sales Tax Project (SSTP) is designed to simplify and modernize sales and use tax administration and collection procedures. The main focus is to provide improved sales and use tax administration systems for traditional retailers and remote sellers while retaining a state's existing tax base and exemptions.

There are many key components to the simplification efforts of the SSTP. Among the most vital are enacting common definitions, rate simplification, uniform sourcing and audit procedures and helping to reduce the financial burden on sellers participating in the SSTP. To facilitate the collection of sales taxes, new technological models have been developed to aid businesses, especially remote sellers. These models include software systems that will make remittance and audit procedures simpler. All these issues are part of an ongoing discussion to help make the SSTP reach its goal of simplifying and modernizing the sales tax.

On December 22, 2000, participating states approved a Uniform Sales and Use Tax Administration Act and Streamlined Sales and Use Tax Agreement. The Act authorizes states to participate in the Streamlined Sales Tax System (SSTS) and grants taxing agencies the power to administer state tax law in the SSTS. To participate in the SSTS, states must not only authorize their participation in the SSTS with the passage of the Act, but also pass any amending legislation to conform to the requirements of the Agreement. Currently, state legislatures are implementing or debating conforming language to their own state laws with regard to the Act and Agreement. By July 1, 2003, a state must pass all SSTP conforming legislation to participate in the SSTS.

As of July 31, 2001, 16 states have enacted some form of the SSTP Act or Agreement. In Michigan, Senate Bill 433, which is a form of the Act, was introduced and has passed the Senate.

Also, Michigan is one of four states involved in a pilot project to test how remote sellers would remit sales and use taxes under the SSTS.

By enacting the SSTP Act and Agreement, states can increase voluntary use tax collections simply by reducing sellers' compliance burdens and also provide an impetus to Congress to allow the collection of sales and use taxes from remote sellers. As noted, the revenue impact is growing substantially with the popularity of e-commerce.

Remote Sales Revenue Impact

Estimates of the loss of tax revenue from remote sales vary widely. This is in fact due to the fast growth of e-commerce. There are two types of e-commerce when estimating the revenue loss: business-to-business e-commerce and business-to-consumer e-commerce. The tax revenue loss estimates presented in this report are only for business-to-consumer remote sales. Because of business tax audits, direct tax payment agreements between Michigan businesses and the state of Michigan, voluntary compliance with tax laws and tax exemptions for business production inputs (industrial processing), the current revenue loss from business-to-business remote sales is small. However, due to the high-predicted volume of business-to-business transactions compared to business-to-consumer purchases over the Internet in the future, small losses now could lead to greater losses if use tax law is not strongly enforced.

Michigan's use tax revenue losses from consumer remote sales are estimated to be \$187 million in FY 2000. This loss will grow to \$349 million in FY 2005, primarily due to the growth of e-commerce (see Exhibit 19). Over this period, the revenue loss from traditional mail order sales is expected to increase from \$149 million to \$188 million (see Exhibit 20 and Exhibit 21). This estimate assumes that mail order retailers collect Michigan sales tax on one-third of sales to Michigan residents. Due to the explosion in the growth of e-commerce, the expected revenue loss will also increase for Michigan. The revenue loss due to consumer e-commerce is forecasted to increase from \$37 million in FY 2000 to \$160 million in FY 2005 (see Exhibit 20 and Exhibit 21).

Various studies have attempted to estimate the tax loss for remote sales. One study by the Center for Business and Economic Research at the University of Tennessee forecasted the sales and use tax loss due to e-commerce sales at over \$20 billion in 2003. This study included the revenue loss from business-to-business e-commerce.

Beginning with tax year 1999, Michigan added a line on the personal income tax form for taxpayers to include use tax due on remote sales to make it easier for Michigan income tax filers to pay use tax that they owe. Taxpayers have the option of reporting actual use tax due or using a table provided in the income tax form that estimates use tax liability based on income. For any single purchase over \$1,000, the actual use tax due must be reported. For tax year 1999, 64,650 taxpayers submitted \$2.9 million of use tax on their Michigan income tax returns. This amount is a great improvement over the previous year's voluntary use tax collections without the line on the income tax form. State officials hope that as more taxpayers become educated on their use tax responsibility, compliance will increase.

Exhibit 19
Michigan Consumer Remote Sales Impact
(Millions)

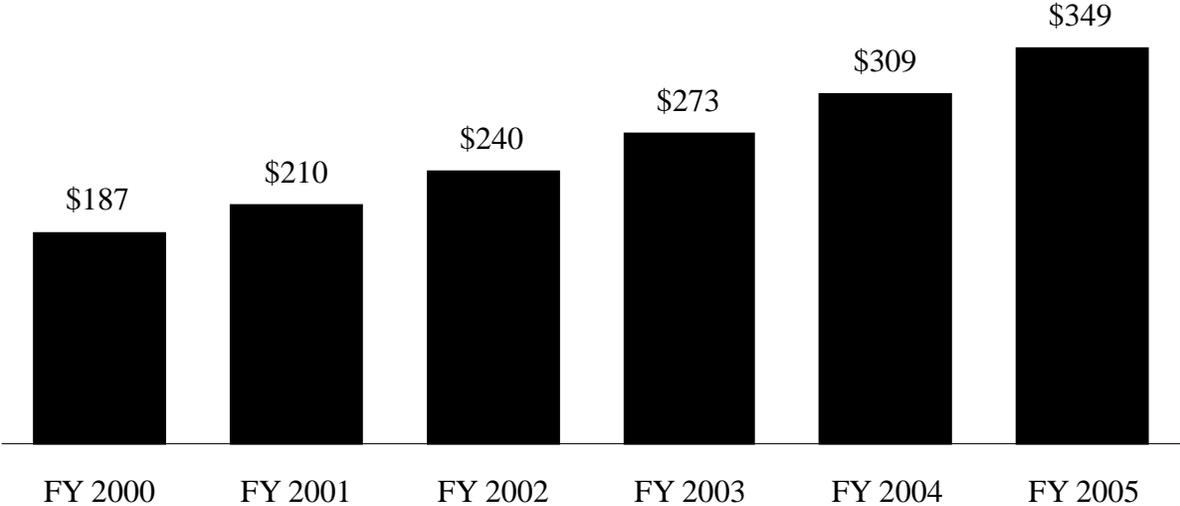


Exhibit 20
Michigan Revenue Impact
Consumer Mail Order and E-Commerce

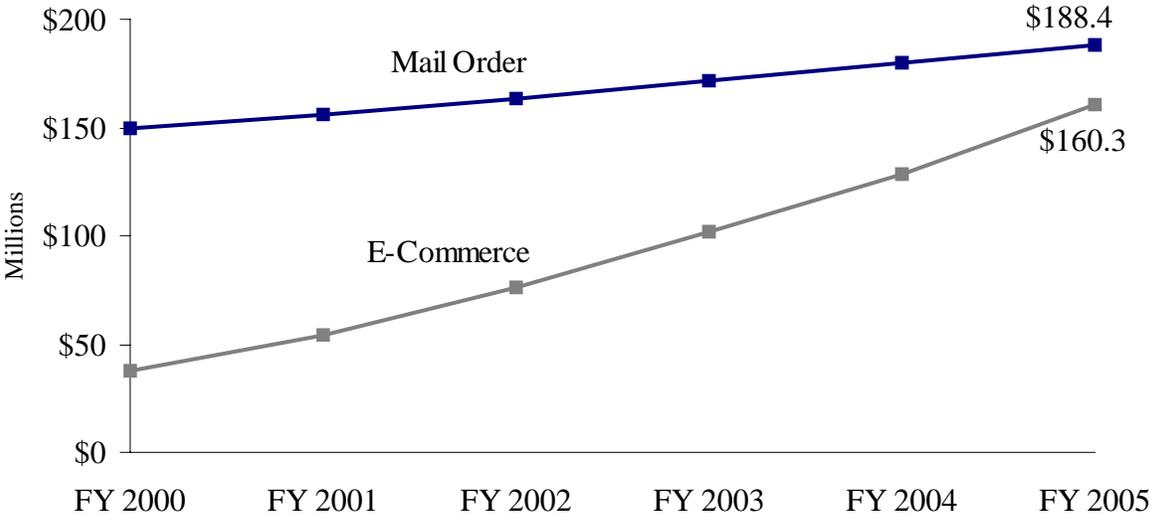


Exhibit 21
Michigan Use Tax Revenue Loss
From Consumer Remote Sales
(Millions)

Revenue Impact

<u>Fiscal Year</u>	<u>Traditional Mail Order</u>	<u>Percent Change</u>	<u>E-Commerce</u>	<u>Percent Change</u>	<u>Total Remote Sales</u>	<u>Percent Change</u>
1998	\$131.7	7.0%	\$14.0	94.1%	\$145.7	11.9%
1999	138.8	5.4%	25.1	79.6%	163.9	12.5%
2000	149.3	7.6%	37.3	48.4%	186.7	13.9%
2001	156.2	4.6%	53.9	44.4%	210.1	12.5%
2002	163.6	4.8%	76.0	41.0%	239.6	14.1%
2003	172.0	5.1%	101.5	33.5%	273.4	14.1%
2004	180.2	4.8%	128.9	27.0%	309.1	13.0%
2005	188.4	4.5%	160.3	24.4%	348.7	12.8%

Sources: Michigan Mail Order Association, Forrester Research, Bureau of the Census, and Michigan Department of Treasury

VII. MICHIGAN COUNTIES AND INTERSTATE COMPARISONS

This section estimates Michigan sales tax revenue by county and compares Michigan's sales tax structure to the sales tax in other states. Estimates of sales tax revenue by county should be regarded with caution. Many of the retail sales that occur in Michigan occur in more developed and concentrated commercial areas. Because of this, the estimates by county may not accurately reflect the total sales tax revenue paid by each county's own residents. These estimates are based on retail sales. Some items, such as electricity and natural gas, are not counted as retail sales, but are subject to the Michigan sales tax. The estimates of retail sales by county were obtained from Sales & Marketing Management's Survey of Buying Power 2000 (see Exhibit 22).

The estimates of county sales tax revenue range from a high of \$1,147 million in Oakland County to a low of \$0.2 million in Keweenaw County. Grand Traverse County ranked first in sales tax collections per person at \$1,280 while Cass County ranked last with \$101 per-person sales tax collections. Grand Traverse and other counties with high per-person sales tax collections have a large volume of tourism; therefore, permanent residents do not pay much of the sales tax. This statistic attributes all revenue to permanent residents.

There are 45 states and the District of Columbia that levy a sales tax. Exhibit 23 compares current state and local sales tax rates. Mississippi and Rhode Island levy the highest state sales tax at 7 percent. Of states with a sales tax, Colorado levied the lowest state sales tax at 2.9 percent. In 2001, Alaska, Delaware, Montana, New Hampshire, and Oregon did not levy a sales tax, although Alaska allows local sales taxes.

In the 34 states that allow local sales taxes, the tax rate a consumer faces depends on the combined state and local tax rates. The local rates listed are the maximum tax rates effective in that state; therefore, some localities within a state will have a lower combined state and local sales tax rate. Currently, the highest state and local tax rate is 10.75 percent in Oklahoma, followed by Alabama at 10 percent.

One measure of the effective state and local sales tax rate in each state is the average combined state and local sales tax rate for each state. For states with local sales taxes, an effective state and local tax rate is calculated by dividing total sales tax revenue by state sales tax revenue and multiplying by the state sales tax rate. Exhibit 24 reveals Louisiana has the highest effective average state and local tax rate at 8.17 percent. Michigan ranks twenty-second at 6.0 percent.

A second measure of the effective sales tax rate in each state is sales tax revenue as a percentage of personal income. New Mexico has the highest percentage of sales tax revenue as a percent of personal income at 5.09 percent in FY 1998. Michigan ranked 24th for sales tax revenue as a percent of personal income at 2.65 percent (see Exhibit 24). The U.S. average for states with a sales tax was 2.70 percent. Alaska, which only levies a local sales tax, was the lowest at 0.68 percent for states with a sales tax. One problem with this measure is that it assumes only residents in that state paid the sales tax. Because states with a large tourism industry, such as Florida, are able to export a high amount of sales tax revenue to residents of other states, the true effective rate will be overstated.

Exhibit 22
Estimated Michigan Sales Tax Revenue by County
2000

<u>County</u>	<u>Population</u> <u>(thousands)</u>	<u>Buying</u> <u>Income</u> <u>Per Person</u>	<u>Estimated</u> <u>Tax Base</u> <u>(thousands)</u>	<u>Sales Tax</u> <u>Revenue</u> <u>(thousands)</u>	<u>Rank</u>	<u>Tax</u> <u>Collected</u> <u>Per</u> <u>Person</u>	<u>Rank</u>
Alcona	11.2	\$11,336	\$39,799	\$2,388	78	\$213	80
Alger	9.9	10,538	37,454	2,247	79	227	79
Allegan	104.8	16,248	585,575	35,135	25	335	63
Alpena	30.7	13,627	320,206	19,212	38	626	21
Antrim	22.2	12,980	88,159	5,290	69	238	77
Arenac	17.1	10,844	118,185	7,091	61	415	52
Baraga	8.8	11,610	34,267	2,056	81	234	78
Barry	54.5	15,031	296,755	17,805	42	327	66
Bay	109.5	15,933	1,179,502	70,770	19	646	19
Benzie	15.5	12,896	63,464	3,808	74	246	75
Berrien	160.1	15,467	1,283,478	77,009	17	481	42
Branch	44.2	13,539	303,653	18,219	40	412	53
Calhoun	142.2	15,298	1,580,871	94,852	12	667	16
Cass	50.2	16,814	84,570	5,074	71	101	83
Charlevoix	25.3	16,365	233,376	14,003	53	553	30
Cheboygan	24.3	12,400	283,999	17,040	43	701	12
Chippewa	38.2	13,369	259,907	15,594	46	408	54
Clare	30.2	11,201	213,529	12,812	56	424	51
Clinton	64.4	17,333	397,241	23,834	35	370	60
Crawford	14.4	12,828	110,293	6,618	64	460	46
Delta	38.8	14,078	457,039	27,422	30	707	11
Dickinson	26.9	14,753	302,837	18,170	41	675	13
Eaton	102.2	17,758	847,772	50,866	22	498	38
Emmet	29.2	15,462	435,990	26,159	33	896	5
Genesee	438.7	15,121	4,930,840	295,850	6	674	14
Gladwin	25.9	11,604	165,130	9,908	58	383	57
Gogebic	16.9	13,031	114,261	6,856	62	406	55
Grand Traverse	76.2	18,661	1,626,018	97,561	11	1,280	1
Gratiot	40.5	13,193	252,049	15,123	49	373	59
Hillsdale	47.4	14,018	248,569	14,914	51	315	68
Houghton	35.8	11,434	218,731	13,124	55	367	62
Huron	35.3	13,448	272,038	16,322	44	462	45
Ingham	285.0	16,097	3,102,750	186,165	7	653	18
Ionia	64.4	12,746	328,109	19,687	37	306	69
Iosco	25.4	12,806	228,280	13,697	54	539	33
Iron	12.6	11,151	62,986	3,779	75	300	71
Isabella	59.5	12,355	594,771	35,686	24	600	22
Jackson	162.3	14,129	1,413,010	84,781	15	522	36
Kalamazoo	232.0	17,409	2,441,948	146,517	9	632	20
Kalkaska	15.9	13,531	150,632	9,038	60	568	29
Kent	553.2	19,318	7,750,337	465,020	4	841	6
Keweenaw	2.2	12,472	3,989	239	83	109	82
Lake	10.7	10,125	28,881	1,733	82	162	81
Lapeer	89.8	15,313	873,299	52,398	21	583	24

Exhibit 22 (continued)

<u>County</u>	<u>Population (thousands)</u>	<u>Buying Income Per Person</u>	<u>Estimated Tax Base (thousands)</u>	<u>Sales Tax Revenue (thousands)</u>	<u>Rank</u>	<u>Tax Collected Per Person</u>	<u>Rank</u>
Leelanau	19.5	\$18,396	\$86,472	\$5,188	70	\$266	73
Lenawee	100.1	14,629	1,095,428	65,726	20	657	17
Livingston	154.2	21,670	1,531,380	91,883	14	596	23
Luce	6.9	10,102	66,519	3,991	73	578	25
Mackinac	11.1	14,287	105,256	6,315	66	569	28
Macomb	795.2	19,171	9,867,474	592,048	3	745	9
Manistee	23.8	11,008	211,223	12,673	57	532	35
Marquette	62.0	13,766	500,404	30,024	27	484	41
Mason	27.9	13,794	251,107	15,066	50	540	32
Mecosta	42.2	12,883	315,264	18,916	39	448	49
Menominee	24.5	13,450	156,968	9,418	59	384	56
Midland	82.3	21,375	747,949	44,877	23	545	31
Missaukee	14.3	10,798	107,289	6,437	65	450	48
Monroe	145.8	17,545	1,201,341	72,080	18	494	39
Montcalm	61.8	11,203	479,379	28,763	28	465	44
Montmorency	10.0	12,057	50,212	3,013	77	301	70
Muskegon	169.1	13,936	1,365,336	81,920	16	484	40
Newaygo	46.7	12,263	257,881	15,473	47	331	65
Oakland	1,184.3	25,133	19,118,184	1,147,091	1	969	4
Oceana	25.0	11,431	110,948	6,657	63	266	72
Ogemaw	21.3	11,349	257,203	15,432	48	725	10
Ontonagon	7.6	12,259	56,659	3,400	76	447	50
Osceola	22.3	12,414	91,138	5,468	68	245	76
Oscoda	8.9	12,924	36,558	2,193	80	246	74
Otsego	23.0	14,701	453,561	27,214	31	1,183	2
Ottawa	233.4	18,629	2,220,738	133,244	10	571	27
Presque Isle	14.6	11,457	92,762	5,566	67	381	58
Roscommon	23.7	11,670	264,135	15,848	45	669	15
Saginaw	208.3	15,349	2,706,802	162,408	8	780	8
Sanilac	43.7	12,489	243,307	14,598	52	334	64
Schoolcraft	8.6	11,503	74,524	4,471	72	520	37
Shiawassee	72.4	13,786	564,573	33,874	26	468	43
St. Clair	163.0	16,103	1,569,880	94,193	13	578	26
St. Joseph	61.7	15,415	332,080	19,925	36	323	67
Tuscola	58.4	13,739	443,191	26,591	32	455	47
Van Buren	76.1	14,615	465,564	27,934	29	367	61
Washtenaw	310.1	21,753	5,142,184	308,531	5	995	3
Wayne	2,103.2	15,201	18,684,420	1,121,065	2	533	34
Wexford	29.8	13,367	398,546	23,913	34	802	7
Totals	9,901.3	\$17,215	\$106,088,385	\$6,365,303		\$643	

Sources: *Sales and Marketing Management* and Michigan Department of Treasury

Exhibit 23
State and Local Sales Tax Rates
2001

<u>State</u>	<u>State Sales Tax Rate (percent)</u>	<u>Maximum Local Tax Rate (percent)</u>	<u>Maximum State & Local Tax Rate (percent)</u>
Alabama	4.0%	6.0%	10.0%
Alaska	No Tax	7.0%	7.0%
Arizona	5.0%	3.8%	8.8%
Arkansas	5.125%	4.0%	9.125%
California	5.75%	1.75%	7.50%
Colorado	2.9%	6.3%	9.2%
Connecticut	6.0%	None	6.0%
Delaware	No Tax	None	No Tax
Florida	6.0%	1.5%	7.5%
Georgia	4.0%	3.0%	7.0%
Hawaii	4.0%	None	4.0%
Idaho	5.0%	3.0%	8.0%
Illinois	6.25%	2.5%	8.75%
Indiana	5.0%	None	5.0%
Iowa	5.0%	2.0%	7.0%
Kansas	4.9%	3.0%	7.9%
Kentucky	6.0%	None	6.0%
Louisiana	4.0%	5.5%	9.5%
Maine	5.0%	None	5.0%
Maryland	5.0%	None	5.0%
Massachusetts	5.0%	None	5.0%
Michigan	6.0%	None	6.0%
Minnesota	6.5%	1.0%	7.5%
Mississippi	7.0%	None	7.0%
Missouri	4.225%	4.0%	8.225%
Montana	No Tax	None	No Tax
Nebraska	5.0%	1.5%	6.5%
Nevada	6.5%	1.0%	7.5%
New Hampshire	No Tax	None	No Tax
New Jersey	6.0%	None	6.0%
New Mexico	5.0%	2.1875%	7.1875%
New York	4.0%	4.5%	8.5%
North Carolina	4.0%	2.5%	6.5%
North Dakota	5.0%	2.0%	7.0%
Ohio	5.0%	3.0%	8.0%
Oklahoma	4.5%	6.25%	10.75%
Oregon	No Tax	None	No Tax
Pennsylvania	6.0%	1.0%	7.0%
Rhode Island	7.0%	None	7.0%
South Carolina	5.0%	2.0%	7.0%
South Dakota	4.0%	2.0%	6.0%
Tennessee	6.0%	2.75%	8.75%
Texas	6.25%	2.0%	8.25%
Utah	4.75%	4.0%	8.75%
Vermont	5.0%	1.0%	6.0%
Virginia	3.5%	1.0%	4.5%
Washington	6.5%	2.1%	8.6%
West Virginia	6.0%	None	6.0%
Wisconsin	5.0%	0.6%	5.6%
Wyoming	4.0%	2.0%	6.0%

Source: Commerce Clearing House
The Public Policy Institute of AARP.

Exhibit 24
Effective State and Local Sales Tax Rates and Revenue
FY 1998

	FY 1998 State & Local General Sales & Gross Receipts (thousands)	FY 1998 Personal Income (thousands)	FY 1998 Sales Tax Revenue as a % of Income	Rank	State Tax Rate	Maximum Local Tax Rate	Effective State & Local Sales Tax Rate	Rank
Alabama	\$2,619,996	\$94,987,500	2.76%	21	4.0%	6.0%	6.67%	12
Alaska	114,300	16,860,000	0.68%	46	0.0%	7.0%	NA	46
Arizona	3,935,437	108,007,250	3.64%	7	5.0%	4.3%	6.45%	14
Arkansas	1,901,342	52,487,500	3.62%	8	4.625%	2.0%	5.81%	31
California	25,834,557	891,934,000	2.90%	19	6.0%	2.5%	7.28%	7
Colorado	3,074,742	113,881,500	2.70%	22	3.0%	4.0%	6.03%	20
Connecticut	3,031,699	120,070,750	2.52%	27	6.0%	0.0%	6.00%	22
Delaware	NA	20,998,750	NA	47	No Tax	No Tax	NA	46
Florida	13,434,136	389,887,250	3.45%	13	6.0%	1.5%	6.24%	16
Georgia	6,102,944	191,110,000	3.19%	14	4.0%	3.0%	6.23%	17
Hawaii	1,425,352	31,519,000	4.52%	3	4.0%	0.0%	4.00%	45
Idaho	652,843	26,089,750	2.50%	29	5.0%	0.0%	5.00%	38
Illinois	6,431,254	351,569,250	1.83%	40	6.25%	2.5%	7.18%	8
Indiana	3,156,272	143,748,250	2.20%	37	5.0%	0.0%	5.00%	38
Iowa	1,638,830	69,269,000	2.37%	33	5.0%	1.0%	5.36%	33
Kansas	2,054,564	65,572,000	3.13%	15	4.9%	2.0%	6.22%	18
Kentucky	1,983,034	85,335,000	2.32%	34	6.0%	0.0%	6.00%	22
Louisiana	4,046,242	95,013,250	4.26%	4	4.0%	5.5%	8.17%	1
Maine	830,758	28,460,000	2.92%	18	6.0%	0.0%	6.00%	22
Maryland	2,161,233	153,202,250	1.41%	44	5.0%	0.0%	5.00%	38
Massachusetts	2,962,535	198,032,750	1.50%	43	5.0%	0.0%	5.00%	38
Michigan	6,873,995	259,722,250	2.65%	24	6.0%	0.0%	6.00%	22
Minnesota	3,273,928	134,270,750	2.44%	30	6.5%	1.0%	6.56%	13
Mississippi	2,034,804	53,216,500	3.82%	6	7.0%	3.0%	7.00%	9
Missouri	3,740,526	134,588,000	2.78%	20	4.225%	3.5%	6.01%	21
Montana	NA	18,256,250	NA	47	No Tax	No Tax	NA	46
Nebraska	1,084,316	41,687,000	2.60%	26	5.0%	1.5%	5.89%	29
Nevada	1,755,615	49,442,000	3.55%	11	6.5%	0.5%	6.89%	11
New Hampshire	NA	33,656,500	NA	47	No Tax	No Tax	NA	46
New Jersey	4,766,195	268,524,000	1.77%	41	6.0%	0.0%	6.00%	22
New Mexico	1,823,757	35,805,250	5.09%	1	5.0%	1.875%	6.27%	15
New York	14,659,020	560,895,500	2.61%	25	4.0%	4.5%	7.70%	3
North Carolina	4,253,120	185,665,250	2.29%	35	4.0%	2.0%	5.20%	36
North Dakota	350,916	13,899,750	2.52%	28	5.0%	2.0%	5.68%	32
Ohio	6,563,264	286,768,500	2.29%	36	5.0%	2.0%	5.93%	28
Oklahoma	2,252,943	72,103,250	3.12%	16	4.5%	5.0%	7.63%	4
Oregon	NA	83,095,500	NA	47	No Tax	No Tax	NA	46
Pennsylvania	6,461,190	321,079,500	2.01%	38	6.0%	1.0%	6.14%	19
Rhode Island	525,672	26,940,000	1.95%	39	7.0%	0.0%	7.00%	9
South Carolina	2,230,654	83,493,000	2.67%	23	5.0%	1.0%	5.16%	37
South Dakota	588,966	16,818,000	3.50%	12	4.0%	2.0%	5.32%	34
Tennessee	5,284,874	129,439,250	4.08%	5	6.0%	2.75%	7.87%	2
Texas	15,196,994	495,967,250	3.06%	17	6.25%	2.0%	7.61%	5
Utah	1,608,061	45,251,000	3.55%	9	4.75%	1.25%	5.82%	30
Vermont	194,501	14,200,750	1.37%	45	5.0%	0.0%	5.00%	38
Virginia	2,875,391	185,851,750	1.55%	42	3.5%	1.0%	4.52%	44
Washington	7,915,334	156,144,250	5.07%	2	6.5%	1.7%	7.45%	6
West Virginia	856,276	35,875,250	2.39%	32	6.0%	0.0%	6.00%	22
Wisconsin	3,217,885	132,833,750	2.42%	31	5.0%	0.75%	5.28%	35
Wyoming	415,547	11,700,000	3.55%	10	4.0%	2.0%	4.96%	43

Sources: Bureau of the Census & Bureau of Economic Analysis, U.S. Department of Commerce
Federation of Tax Administrators

VIII. PUBLIC ACTS IN 2000 – SALES AND USE TAXES

Public Acts 149 and 153 amended the Sales Tax Act of 1933 and the Use Tax Act of 1937 to allow a refund of sales and use tax on returned goods within 180 days of the sale. These acts provide for a partial refund of tax on returned goods where the customer only received part of the original purchase price.

Public Act 200 amended the Use Tax Act of 1937 to expand an exemption provided to domestic air carriers for planes that weigh between 6,000 and 12,500 pounds. Included in the law was that, for each year, the State Treasurer would calculate the revenue lost to the School Aid Fund and make a corresponding transfer from the General Fund back to the School Aid Fund.

Public Act 204 amended the Sales Tax Act of 1933 to correspond with Public Act 200, which provided an expansion of an exemption for domestic air carriers for planes that weigh between 6,000 and 12,500 pounds. Also included was an exemption for airplane parts for exempted aircraft.

Public Act 242 amended the Sales Tax Act of 1933 to revise the good faith definition for a blanket exemption certificate.

Public Acts 328 and 329 amended the Use Tax Act of 1937 and the Sales Tax Act of 1933, respectively, to provide an exemption for meals provided for free or at a reduced rate by restaurants to employees during working hours.

Public Acts 390 and 391 amended the Sales Tax Act of 1933 and the Use Tax Act of 1937, respectively, to include the cost of transmission and distribution in the definition of sales price.

Public Act 417 amended the Sales Tax Act of 1933 to provide an exemption for nonalcoholic (soft drinks) vended beverages.

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