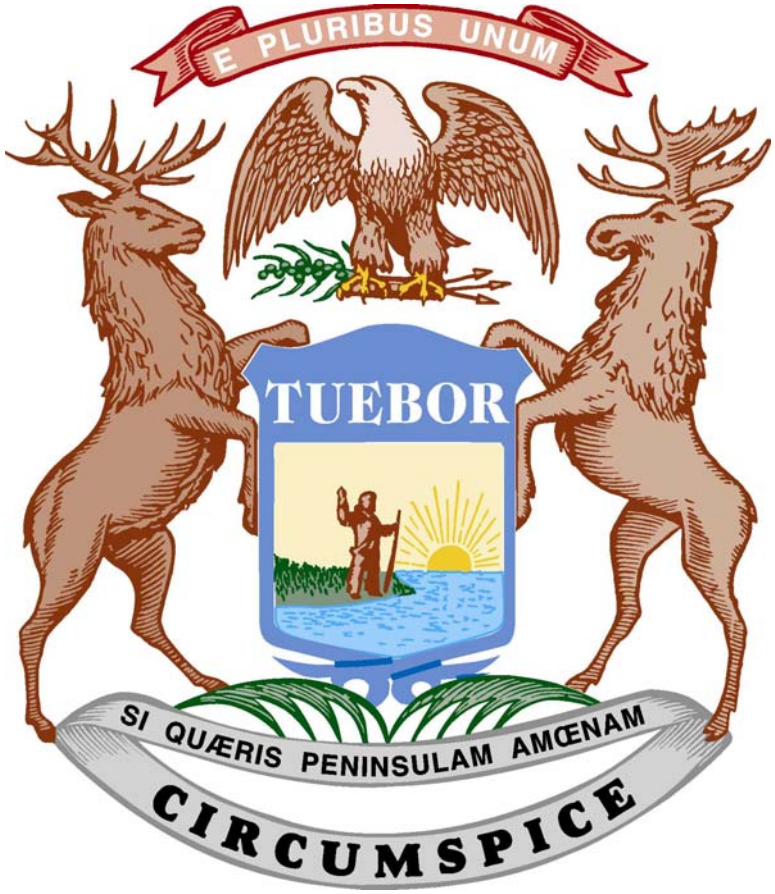
MICHIGAN'S SALES AND USE TAXES 2005



Tax Analysis Division
Bureau of Tax and Economic Policy
Michigan Department of Treasury
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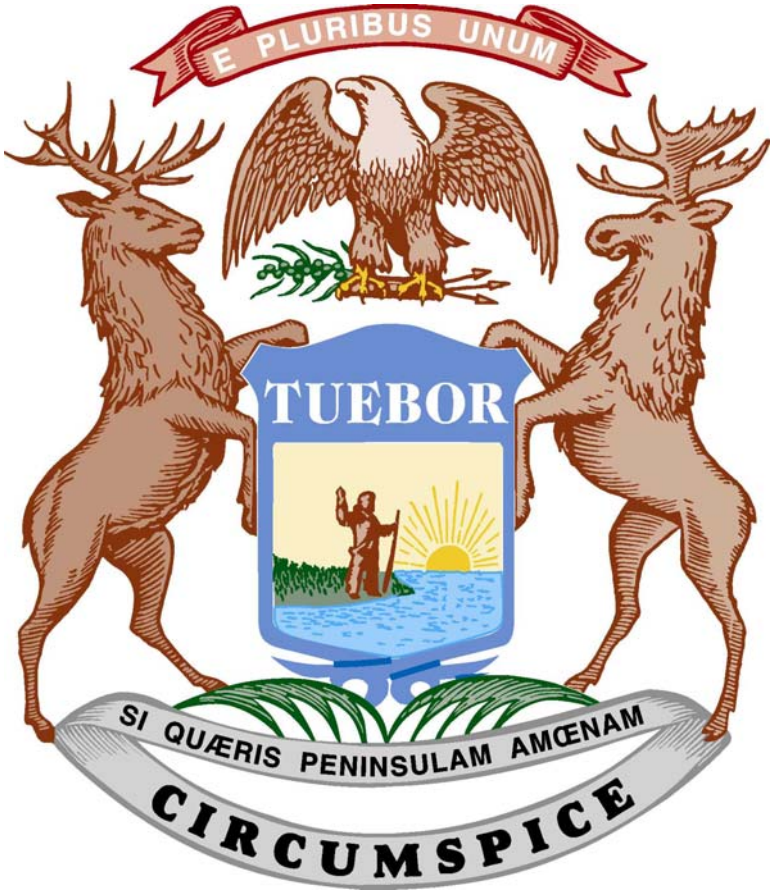
MICHIGAN'S SALES AND USE TAXES 2005



Acknowledgments

Scott Darragh prepared this report under the direction of Howard Heideman, Director of the Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury. Dale Vettel, Director of the Bureau of Tax and Economic Policy and Michael Eschelbach of the Tax Policy Division provided assistance on the Streamlined Sales and Use Tax Agreement. Diane Burton of the Tax Analysis Division provided editorial assistance.

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I. EXECUTIVE SUMMARY

- Michigan sales and use tax revenue totaled $8.001 billion in Fiscal Year (FY) 2005, an increase of 2.7 percent from FY 2004. FY 2005 sales tax revenue was $6.599 billion and FY 2005 use tax revenue was $1.402 billion.

- Most Michigan sales tax revenue is dedicated 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 by an estimated $12.2 billion in FY 2005. Untaxed services remain the largest single source of tax expenditures.

- The automotive retail sector remits the largest share of sales tax revenue at $1.74 billion. The telecommunications sector provides the largest share of use tax revenue at $298.1 million.

- The sales and use tax revenue base is being eroded by rapidly growing remote sales (mail order and Internet). Michigan's tax revenue losses from consumer remote sales are estimated at $263 million in FY 2005. The estimated revenue losses are projected to grow to $349 million in FY 2008.

- Tennessee has the highest average effective combined state and local sales tax rate at 8.75 percent. However, the highest combined state and local statutory sales tax rate is 11.0 percent, with at least one jurisdiction in Alabama, Arkansas, and Louisiana levying a tax at that rate. With an effective rate of 6.0 percent, Michigan ranks 28th highest among the 45 states with a sales tax.

- Washington has the highest amount of general sales tax revenue as a percent of personal income at 4.72 percent. Michigan ranks 23rd highest at 2.59 percent, close to the national average of 2.54 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 is also discussed.

History

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 levied by the state.

In 1933, the Michigan sales tax rate was 3 percent, and was limited by the Michigan Constitution. A 1960 constitutional amendment increased the maximum sales tax rate to 4 percent effective January 1, 1961. A constitutional amendment was passed in 1994 that raised the maximum sales tax rate to 6 percent, as a partial revenue replacement for property and income tax reductions.

In 1937, Michigan enacted Public Act 94 that created the use tax to correspond with the Michigan sales tax. The purpose of the use tax was to prevent Michigan residents from avoiding the sales tax by purchasing taxable items in another state or country. The use tax applies to the use, storage, or consumption of tangible personal property. The use tax applies to items that are rented, leased, or purchased from outside Michigan for use in Michigan. The Michigan use tax rate has always been the same as the sales tax rate.

Interstate Comparisons

Sales and use tax rates vary widely among the states. Tennessee, 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-five states have local units that levy a sales tax. The highest combined state and local sales tax rate that is levied within at least one jurisdiction in a state is 11 percent, levied in at least one place within Alabama, Arkansas, and Louisiana.

Revenue

Sales and use taxes are the largest source of tax revenue for the State of Michigan. In Fiscal Year (FY) 2005, sales and use taxes totaled $8.0 billion, or 34.6 percent of Michigan tax revenue. The personal income tax, by comparison, accounted for 26.4 percent of tax revenue. Before the passage of school-finance reform in 1994, Michigan sales and use taxes made up approximately 29 percent of total state tax revenue and the income tax provided approximately 35 percent of the total.

The sales tax generated $6,599.1 million in FY 2005, an increase of $125.6 million (1.9 percent) from FY 2004. Sluggish consumer spending has led to a small cumulative increase in sales tax revenue (1.0 percent per year) since 2000. Sales tax revenue accounted for 28.5 percent of total state taxes in FY 2005. The higher tax rate enacted in 1994 has increased the share of total state taxes provided by the sales tax. For example, during the last economic slowdown when the sales tax rate was 4 percent, the sales tax accounted for slightly more than 24 percent of total state taxes.

The use tax generated $1,402.4 million in FY 2005, an increase of $85.9 million (6.5 percent) from FY 2004. The use tax accounted for 6.1 percent of total state tax revenue in FY 2005, marking the 6th time in the past 7 years that the use tax represented either 6.0 or 6.1 percent of total state taxes. Exhibits 3, 4, and 5 provide a history of sales and use tax revenue and the percentage of total state taxes each tax comprises.

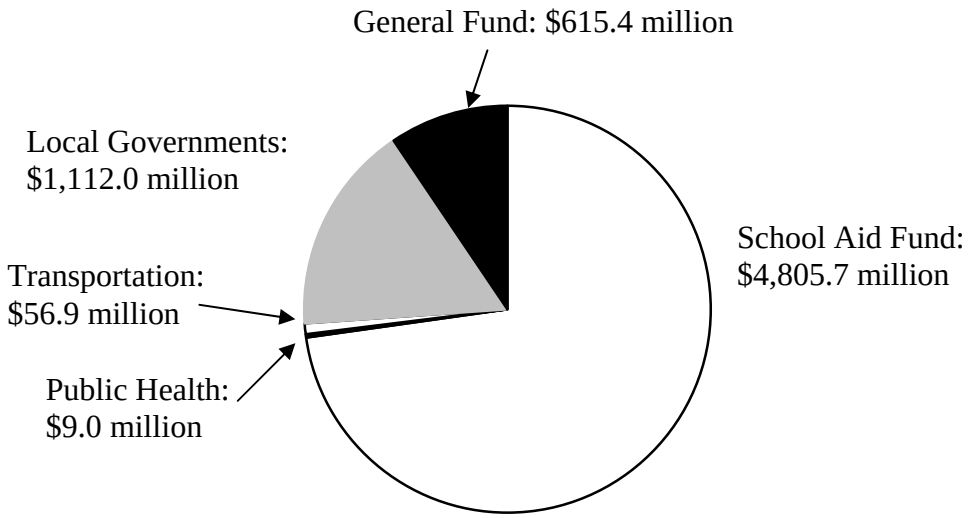
Distribution

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 (SAF). 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. School-finance reform enacted in 1994 earmarked all the revenue from the 2 percent increase in the sales and use tax rates to the SAF. Also, legislation enacted in 1996 made the sales tax the only source of funding for local revenue sharing. Revenue sharing for local governments previously received funds from four different taxes.

As stated previously, the 2 percent increase in the sales tax rate enacted in 1994 is dedicated to the SAF. Of the revenue generated by the sales tax at the 4 percent rate, 36.3 percent is earmarked to revenue sharing for local governments, and 60 percent is earmarked to the SAF. The remaining 3.7 percent of sales tax revenue raised by the 4 percent rate is deposited into the General Fund, except that 27.9 percent of one percent generated from automotive-related sales is deposited into the Comprehensive Transportation Fund (CTF). Legislation enacted in 2003 reduced this percentage to 24 percent for fiscal years 2004 and 2005. Subsequent legislation reduced the amount deposited in the CTF by an additional $10.0 million for FY 2005. Additionally, an amount equal to the sales tax on sales of computer software must be deposited

into a fund for the Michigan Public Health Initiative. The amount earmarked to the Public Health Initiative is required by law to be at least $9 million and no more than $12 million each year. The distribution of sales tax revenue for FY 2005 is shown in Exhibit 1.

Exhibit 1
Sales Tax Revenue Distribution
Fiscal Year 2005



Source: Tax Analysis Division, Michigan Department of Treasury.

Exemptions

The Michigan sales and use tax bases have become narrower since the inception of these taxes due to exemptions. A chronology of the major legislative changes to the sales and use tax is shown in Exhibit 2. The narrowing of the tax bases results in a large loss of potential revenue to the state. The potential revenue loss due to exemptions is estimated to be $12.2 billion for FY 2005. The majority of that revenue loss resulted from the exclusion of services, which have been excluded from the original enactment of the sales tax. The exemption of services reduced state revenues by approximately $8.573 billion for FY 2005. The exemptions for food and prescription drugs reduced revenue by $927 million and $537 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 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. Imposes tax on interstate phone calls, excluding WATS and international calls.

1996 Michigan Legislature changes the earmarking of revenue to local governments by making the sales tax the 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. Eliminates 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.

2001 Exempts from the sales and use taxes the sale of an aircraft to a person for the subsequent lease to a domestic air carrier for use in the regular transport of passengers.

2002 Codifies the long-standing method of taxing demonstration vehicles that exceed the number of vehicles a dealer may hold tax exempt. Eliminates the sales tax license fee. Allows taxpayers that lease the use of aircraft an extended deadline to make the required election whether to pay sales tax on the aircraft or use tax on lease payments. Exempts certain property sold to resident tribal members for use within a tribal agreement area. Subjects sales of diesel fuel to the use tax.

2003 Creates a presumed exemption for property purchased outside of Michigan and subsequently brought into the state. Enacts a two-year reduction in the earmarking of sales tax revenues from the sales of automotive-related products.

2004 Brings Michigan into conformity with the Streamlined Sales Tax Project (SSTP). Creates exemptions for the transfer of vehicles to low-income individuals or families. Adjusts for FY 2005 the portion of sales tax collected on auto-related sales that is transferred to the Comprehensive Transportation Fund.

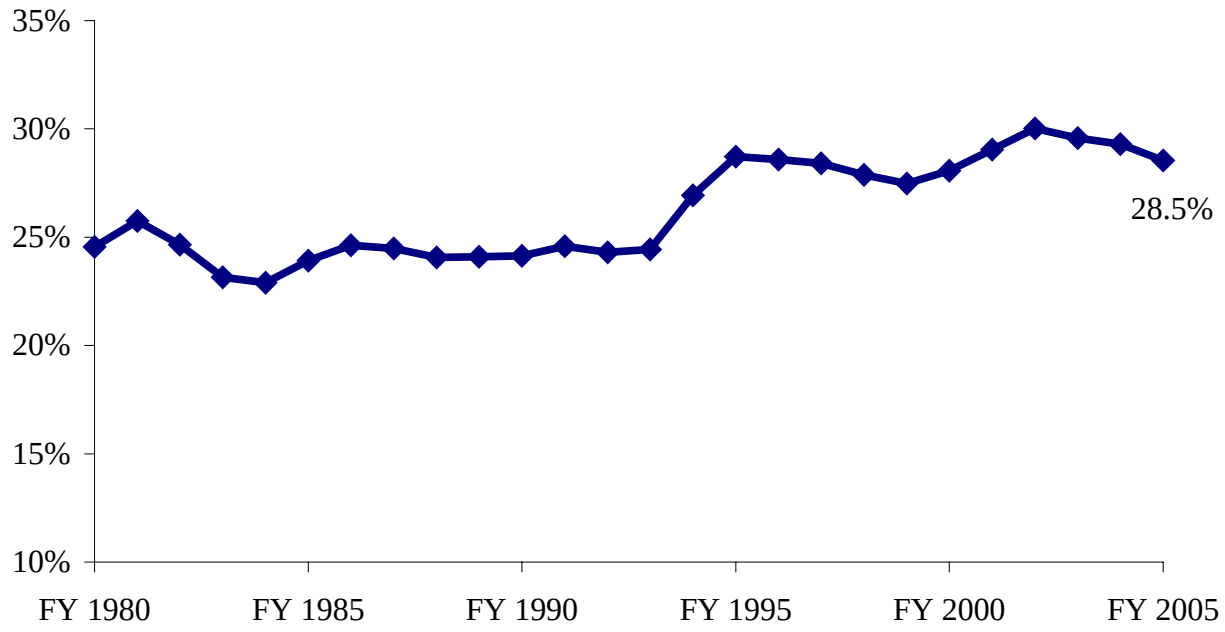
Source: Tax Analysis Division, Michigan Department of Treasury.

Exhibit 3
Sales and Use Tax Revenue
as a Percent of Total State Tax Revenue
FY 1980 to FY 2005

Fiscal Year	Sales Tax Revenue (millions)	Use Tax Revenue (millions)	Total State Tax Revenue (millions)	Sales Tax as a Percent of Total State Taxes	Use Tax as a Percent of Total State Taxes
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	10,865.5	24.6%	4.4%
1992	2,738.1	480.0	11,267.5	24.3%	4.3%
1993	2,905.7	529.5	11,891.1	24.4%	4.5%
1994	3,775.3	725.1	14,014.8	26.9%	5.2%
1995	4,884.2	942.9	17,009.1	28.7%	5.5%
1996	5,171.6	1,034.9	18,090.5	28.6%	5.7%
1997	5,389.8	1,092.2	18,970.3	28.4%	5.8%
1998	5,617.3	1,159.3	20,149.0	27.9%	5.8%
1999	5,901.7	1,283.0	21,472.8	27.5%	6.0%
2000	6,277.5	1,355.4	22,363.4	28.1%	6.1%
2001	6,352.3	1,333.6	21,872.2	29.0%	6.1%
2002	6,439.9	1,306.4	21,455.3	30.0%	6.1%
2003	6,422.6	1,229.8	21,718.2	29.6%	5.7%
2004	6,473.5	1,316.5	22,097.2	29.3%	6.0%
2005	6,599.1	1,402.4	23,121.7	28.5%	6.1%

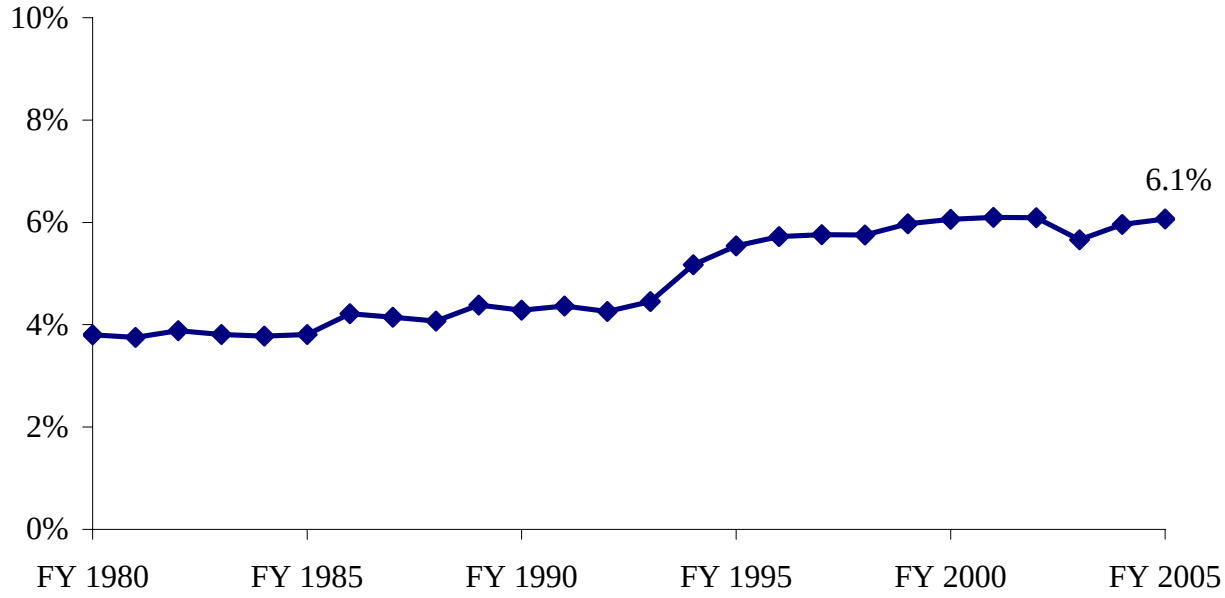
Source: Tax Analysis Division, Michigan Department of Treasury.

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



Source: Tax Analysis Division, Michigan Department of Treasury.

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



Source: Tax Analysis Division, Michigan Department of Treasury.

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 affect 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 consumers 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 often 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 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 paperback novel, 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 novel is $5.30: $5.00 for the novel plus the $0.30 sales tax. The price differential may influence the consumer to buy the magazine instead of the novel.

A retail sales tax also affects consumer decisions by reducing the amount each consumer may spend. Assuming that final retail prices increase to reflect the new sales tax, the imposition of a sales tax will make each consumer relatively poorer. The consumer can no longer buy as many goods after the tax is imposed as before. The consumer may be willing to buy a new car for $20,000 before the tax is imposed, but may not be willing to pay $21,200, the final cost of the car after the sales tax is imposed, given the consumer's other spending choices. In this case, the imposition of the sales tax may prevent a consumer from making a purchase he/she would have made if there were no sales tax.

A sales tax also creates a difference between the price offered to the buyer and the price received by the seller. In effect, a sales tax drives a wedge between the buyer's price and the seller's price. The difference between the price paid by the buyer and the price received by the seller will result in a reduction in economic activity, as some mutually beneficial trades no longer occur due to the sales tax. Consider the car example above. Without the sales tax, both the buyer and the seller were willing to participate in the transaction for $20,000. With the imposition of a 6-percent sales tax, the transaction may not take place. The seller, formerly willing to accept $20,000 for the car, now requires a larger payment ($21,200). The buyer may now be unwilling to pay the higher price since the sales tax has resulted in higher prices for many goods he/she wants to buy.

Equity

Another important issue in taxation is the equity or fairness of the tax. One problem with analyzing this issue is that fairness cannot be objectively defined, as it involves moral judgments and, therefore, is open to dispute. The discussion here will focus on two basic types of equity of concern to economists: 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 is generally based on family size and either 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 Allen and Ethan are both single and have similar incomes, we would ideally like them to pay approximately the same amount of tax in order to achieve horizontal equity. If Allen purchases all of his meals in restaurants, he will have to pay tax on all of his meals. Conversely, if Ethan prefers to cook at home, there will not be any sales tax on these meals. This will lead to horizontal inequity because Allen 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 the percentage of income paid in taxes rises with income. As might be expected, the saving rate increases with income. Consumers with lower incomes have lower rates of saving, and thus spend a higher share of their incomes on items subject to the sales tax. Since higher-income consumers save more, the amount of sales tax they pay is a smaller percentage of their incomes. This is the main reason the sales tax is believed to have less vertical equity than other taxes. Most states, including Michigan, exempt food and prescription drugs from the sales tax in an attempt to make the sales tax more equitable. These exemptions increase vertical equity because these items make up a relativity large portion of spending by low-income consumers.

Sales Tax Incidence

Incidence refers to who pays the sales tax. It is important to distinguish between statutory incidence and economic incidence. Statutory incidence refers to the individual or groups of individuals who are supposed to remit the tax under the law, while economic 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, it is believed that retailers simply add the tax to any consumer purchase of taxable items.

While the question of statutory incidence is fairly straightforward, the question of economic incidence is less clear. When a sales tax is imposed, firms can either increase their prices or

accept less in payment for the goods they sell net of the new tax.[1] If firms choose to raise their prices, consumers (whose incomes do not rise along with the sales tax) are no longer able to buy as many goods and total consumer purchases decline. If firms opt to not raise their prices, then the amount the firms receive for the goods they sell after they pay the tax declines. With lower sales revenue after paying the tax, there is now less money to pay workers and less profit for the owners. This translates into lower incomes for consumers, since labor income (wages) and capital income (dividends from profits, interest, rent, etc.) are the main sources of income for consumers. If consumers have lower incomes, they have less to spend. So the economic incidence of a higher sales tax generally falls on consumers who are able to purchase fewer goods.

To demonstrate that the assumption above (where the sales tax does not result in higher prices) is not critical to the eventual conclusion, consider what happens when firms raise their prices to recoup the sales tax. Workers and business owners have the same incomes, but now prices are higher. However, the higher prices are entirely due to higher taxes, so there is no additional amount to pay workers or increase profits. The income earned from labor and capital now buys fewer goods and services at the higher prices. As a result, spending falls and consumers, who finance their spending through labor and capital income, are able to purchase fewer goods after a sales tax is imposed.

A few notes are necessary regarding the above analysis. First, the analysis assumes that all goods are taxed at a uniform rate. The analysis becomes much more complex when exempt sectors are included, or when multiple tax rates are included. An extreme example of multiple tax rates is the variation between Washington (6.5 percent) and Oregon (zero). Second, the analysis does not attempt to separate the effects on different groups of consumers. The extent to which wage earners or capital owners face larger declines in their purchasing power will determine the segment of the population that bears the larger burden of the tax. The division of the tax burden between labor and capital income will determine exactly who (which particular groups of consumers) bears more of the burden of the sales tax.

Finally, the analysis above says nothing about how the government uses the additional tax revenue raised by the higher sales tax. To the extent the government uses the tax to make investments that improve future productivity, the higher tax may provide long-term economic benefits. Examples of these types of expenditures include education or transportation infrastructure, such as roads, bridges, and airports.

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. As discussed above, the principle of vertical equity would require that a tax not be regressive. Historically, sales taxes have been considered regressive for two reasons. First, on an annual basis, higher-income individuals save more as a percentage of income. Second, lower-income individuals tend to spend a larger portion of their annual income on taxable items.

[1] In a competitive market prices should rise by no more, and generally somewhat less, than the amount of the new tax. However, research by Besley and Rosen (1999) indicates that some prices actually increase by more than the amount of the tax, a sign that some retail markets do not completely fit the economic model of perfect competition.

There is considerable debate among economists regarding the degree of vertical inequity that exists with the sales tax.[2] Many studies analyzing the regressivity of the sales tax look only at annual data. Since annual data treat temporary fluctuations in income as permanent, a better measure of regressivity would look at permanent or lifetime income. Metcalf (1994) compared how the estimates of the incidence of sales taxes vary, based on whether an annual or lifetime measure of income is used. Metcalf computes the average sales tax burden for consumers ranked by income group, from lowest income to highest, for two years (1984 and 1989). Using annual income, the average sales tax burden was 2.7 times higher for the lowest income group in 1984, and 1.8 times higher in 1989. This would support the view that the sales tax is regressive. However, using annual consumption to proxy for lifetime income resulted in much lower ratios. For both 1984 and 1989, the average sales tax burden of the lowest income group was 0.6 times as high as for the highest income group using this measure of lifetime income. So when a longer-term view of income is considered, the sales tax is somewhat progressive.

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.[3]

[2]For a fuller discussion, see Slemrod and Bakija (2000), pp. 175-177, or Browning and Browning (1994), pp. 420-422.

[3]See Blume (1982).

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 pure 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 the base of most other states, is much narrower in scope due to the numerous exemptions for items such as 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.

Tax Expenditures

Tax exemptions, exclusions, deductions, credits, or preferential tax rates are called tax expenditures. Tax expenditures reduce revenue by providing preferential treatment for certain commodities, individuals, or industries. Tax expenditures have two main purposes: (1) to reduce the tax burden for certain individuals or firms by altering 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 was designed 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 encourages economic development in poor areas by lowering the tax burden on investments in these areas. Exhibit 6 provides the revenue impact for sales and use tax expenditures for FY 2005.

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 excluding services has increased relative to the existing base of the sales tax. The estimated loss of Michigan sales tax revenue due to the exemption of services was $8.6 billion in FY 2005. Health care and social assistance services comprised the largest sector of service tax expenditures at $2,577 million, or 30 percent. Construction services followed next at $2,053 million, or 24 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. Attempts by states to extend sales taxes to services have been unsuccessful generally. An attempt in 2002 to broaden Florida's sales tax base resulted in a ballot proposal to amend the Florida Constitution. In Oklahoma, a 2002 study of that state's tax structure recommended a number of changes in order to stimulate economic activity, including reductions in income tax rates and expanding the Oklahoma sales tax to services. Ohio enacted legislation in 2003 that expanded the sales tax base to include a number of services including storage facilities, satellite broadcasting, and certain personal care services.

Exhibit 6
Michigan Sales and Use Tax Expenditures
(Millions)

Tax Expenditure	FY 2005 Revenue Impact
Air and Water Pollution	$44.0
Aircraft Parts	8.3
Bad Debts	60.5
Cargo Aircraft	30.0
Churches	7.3
Collection Fees	15.8
Commercial Domestic Aircraft	5.0
Communication and Telephone Exemption	37.0
Delayed Payments	2.9
Donated Vehicles	0.4
Driver Training	0.7
Employee Meals	7.9
Food	926.8
Food for Students	31.9
Government or Red Cross	178.7
Gratuities and Tips	58.4
Horticultural and Agricultural Products	130.3
Imported Property	3.2
Industrial Processing	914.4
Inmate Purchases	0.6
Interstate Telecommunications	20.9
Interstate Trucks and Trailers	38.6
Investment Coins	0.4
Military Post-Exchange Sales	1.8
Newspapers, Periodicals, and Films	100.9
Nonprofit Hospital or Housing Construction	10.4
Nonprofit Organizations	176.3
Ophthalmic and Orthopedic Products	50.1
Prescription Drugs	537.3
Radio and Television	4.4
Rail Rolling Stock	1.6
Residential Utilities	117.0
Returned Vehicles	1.1
Sale of Water	67.4
Services	8,573.1
Telephone Services	17.6
Vehicle and Aircraft Transfer	38.9
Vending Machines and Mobile Facilities	24.3
Total	$12,246.1

Source: Tax Analysis Division, Michigan Department of Treasury.

Exhibit 7
State Sales Taxation of Services

	General Treatment	Cleaning Services	Transportation Services	Repair Services	Professional & Personal Services
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	T	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	E	E	T	E
Kentucky	NT	E	E	E	E
Louisiana	NT	E	E	T	E
Maine	NT	E	E	E	E
Maryland	NT	T	E	E	E
Massachusetts	NT	E	E	E	E
Michigan	NT	E	E	E	E
Minnesota	MT	T	E	E	E
Mississippi	GT	E	E	T	E
Missouri	NT	E	T	E	E
Montana			No Sales Tax		
Nebraska	NT	T	E	T	E
Nevada	NT	E	E	E	E
New Hampshire			No Sales Tax		
New Jersey	NT	T	E	T	E
New Mexico	GT	T	T	T	T
New York	MT	T	E	T	E
North Carolina	NT	E	E	E	E
North Dakota	NT	E	E	E	E
Ohio	MT	T	T	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	E	E	E	E
South Dakota	GT	T	T	T	T
Tennessee	NT	E	E	T	E
Texas	MT	T	E	T	E
Utah	MT	E	T	T	E
Vermont	NT	E	E	E	E
Virginia	NT	E	E	E	E
Washington	MT	E	E	T	E
West Virginia	GT	T	T	T	E
Wisconsin	MT	E	E	T	E
Wyoming	NT	E	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 the short-term regressivity of the sales tax. According to the 2004 Consumer Expenditure Survey by the Bureau of Labor Statistics, purchases of food for home consumption account for 11.5 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 6.0 percent of expenditures. If food consumed at home were included in the tax base, low-income consumers would pay an even larger percentage of their incomes in sales tax relative to consumers with higher incomes. The tax expenditure loss in FY 2005 for exempting food consumed at home from the Michigan sales tax was $927 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 short-term regressivity of the Michigan sales tax. The cost of this exemption is estimated to be about $537 million in FY 2005.

The exemptions for food and prescription drugs highlight several difficulties with exempting certain products from the sales tax. The exemptions may be expensive. The exemptions for food and prescription drugs together total more than 1/5 of all sales tax revenue. Also, the exemptions are not limited to the targeted group, since all consumers receive the exemption. In fact, consumers with higher incomes receive the largest tax exemptions. The amount consumers in the highest 20 percent of the income distribution spend on food ($4,984 on average) is more than double the amount spent by consumers in the lowest 20 percent of the income distribution ($2,044). Using the difference in annual expenditure between the two groups implies that consumers with the highest income receive an additional $176 per year in tax savings from the food exemption. Replacing the sales tax exemption on food with a transfer payment, perhaps in the form of a refundable income tax credit, to all families would also offset the burden of the sales tax on low-income families, but would allow the tax relief to be targeted more precisely to families in need.

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 each sale of an intermediate good used in the production process. In order for a good to qualify for this exemption, a product must be directly used in the production process.

The Michigan sales tax base is further reduced by the exemptions for certain purchases and sales by nonprofit organizations, and federal, state, and local government purchases. The exemption for purchases made by the federal government is required by the U.S. Constitution. Imposing a sales tax on purchases made by the State of Michigan would not raise any revenue, since the state would both pay and receive the tax.

In total, exemptions in Michigan's sales tax base reduced state revenues by more than $12.2 billion in FY 2005. Eliminating all of these exemptions (assuming such a reform were possible) would increase Michigan's sales tax revenue by more than 100 percent allowing the tax rate to be cut in half while maintaining current revenues.

Exhibit 8
State Sales Taxation of Food and Meals

	Grocery Food	Meals	Sales by Caterers
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	E	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	E	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 are 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 2005 was $6,599.1 million, up $125.6 million (1.9 percent) from FY 2004. Since 1994 (when the sales tax rate increased from 4 percent to 6 percent on May 1), the sales tax has provided a higher percentage of total state revenue compared to the early 1990s (see Exhibit 3). The shrinking sales tax base, as well as other emerging issues (for example, the taxation of Internet purchases), will affect Michigan's ability to rely on sales tax revenues to finance government expenditures.

During the early 1990s, sales tax revenues totaled approximately 24 percent of total state tax revenue. In FY 1995, sales tax revenues were 28.7 percent of total state tax revenue, the highest amount since the 1970s, before the food and prescription drug exemptions were enacted. Sales tax revenue represented 28.5 percent of total state taxes in FY 2005 (see Exhibits 3 and 4).

Nominal sales tax revenue has increased 35.1 percent since FY 1995, the first full fiscal year with a sales tax rate of 6 percent. As Exhibits 9 and 10 show, sales tax collections rose at a healthy rate from 1995 through 2000, grew at a slower rate in 2001 and 2002, fell in 2003, and then rebounded somewhat in 2004 and 2005. The pattern of collections reflects the national economy. Adjusted for inflation, real sales tax revenue rose 5.4 percent or an average of 0.5 percent per fiscal year from 1995 to 2005.

One way to measure the effective burden of the sales tax is to compare tax revenue with personal income. Throughout the 1980s, sales tax revenue as a percent of personal income was between 1.50 percent to 1.65 percent each year. During the recession in the early 1990s, the sales tax burden fell to 1.44 percent of personal income. In FY 2005, sales tax revenue as a percent of personal income was 1.98 percent. This represents the lowest amount since tax reform was enacted in 1994 (see Exhibit 11).

The automotive sector provides the largest share of sales tax revenue, with total sales tax revenue of $1,741.0 million in FY 2005 (see Exhibit 12). Sales of new and used cars account for most of this revenue. Taxable sales in the automotive sector account for 26.4 percent of total sales tax revenue. The food sector was responsible for $916.7 million of sales tax revenue or 13.9 percent in FY 2005, mostly from sales in restaurants and taxable items sold at grocery stores. General merchandise stores accounted for $696.3 million, or 10.6 percent of total sales tax revenue.

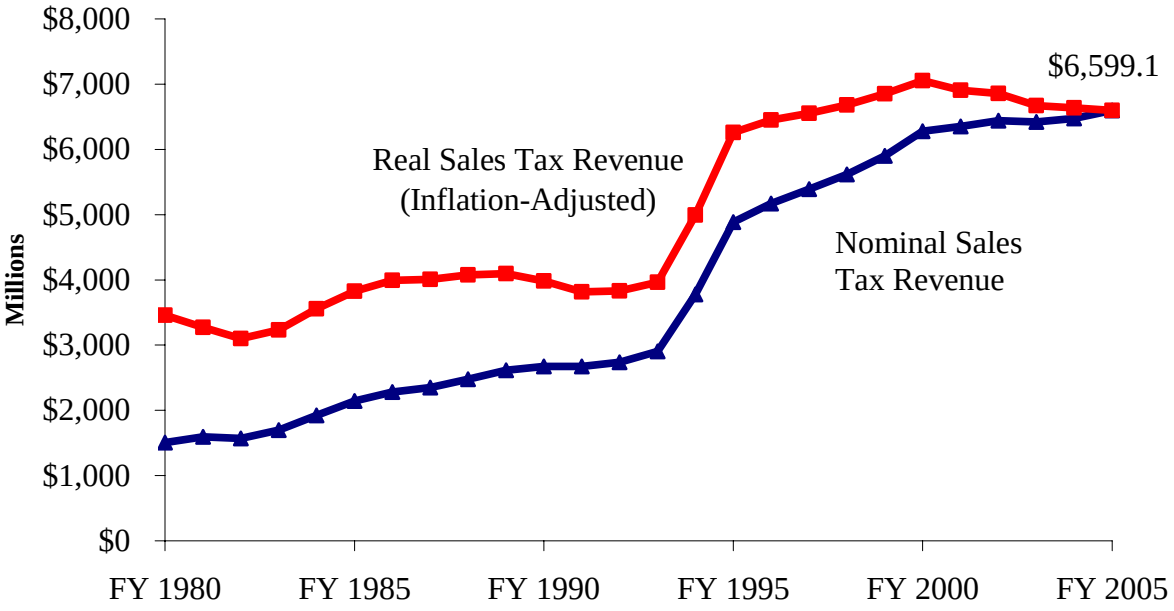
Over the past 10 years, the distribution of sales tax revenue by retail sector has remained fairly stable (see Exhibit 13). Since 1995, the building and miscellaneous retail sectors have increased their share of sales tax revenue. During the 1990s, consumer spending shifted toward investments in housing. The automotive sector, while fluctuating from year-to-year, maintained a similar share of sales tax revenue from FY 1995 to FY 2005, although a decline during the late 1990s was offset by a sharp increase in 2001 through 2003. The increase reflects strong auto sales resulting from dealer incentives offered following the terrorist attacks in September 2001. The largest decline has occurred in furniture.

Exhibit 9
Michigan Sales Tax Revenue
FY 1980 to FY 2005

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 in 2005 $ (millions)
1980	$93,265	$1,504.0	1.61%	82.3	3,455.6
1981	101,114	1,595.0	1.58%	92.1	3,272.5
1982	104,608	1,570.6	1.50%	95.8	3,100.3
1983	109,162	1,699.0	1.56%	99.4	3,232.1
1984	120,635	1,925.0	1.60%	102.4	3,554.1
1985	131,316	2,142.6	1.63%	105.8	3,826.7
1986	140,998	2,283.1	1.62%	108.1	3,991.5
1987	145,970	2,348.4	1.61%	110.7	4,008.5
1988	154,344	2,475.0	1.60%	114.8	4,073.9
1989	166,096	2,615.2	1.57%	120.8	4,093.4
1990	174,411	2,671.3	1.53%	126.8	3,981.1
1991	179,536	2,671.9	1.49%	132.4	3,814.5
1992	189,586	2,738.1	1.44%	135.1	3,829.5
1993	199,577	2,905.7	1.46%	138.6	3,961.8
1994	213,413	3,775.3	1.77%	142.9	4,992.9
1995	226,193	4,884.2	2.16%	147.5	6,260.3
1996	234,309	5,171.6	2.21%	151.6	6,449.6
1997	245,823	5,389.8	2.19%	155.4	6,555.0
1998	260,778	5,617.3	2.15%	158.9	6,682.3
1999	274,918	5,901.7	2.15%	162.8	6,852.0
2000	291,485	6,277.5	2.15%	168.3	7,051.0
2001	298,129	6,352.3	2.13%	173.8	6,907.0
2002	301,926	6,439.9	2.13%	177.5	6,857.1
2003	313,961	6,422.6	2.05%	182.0	6,669.7
2004	322,581	6,473.5	2.01%	184.4	6,635.0
2005	332,461	6,599.1	1.98%	189.0	6,599.1

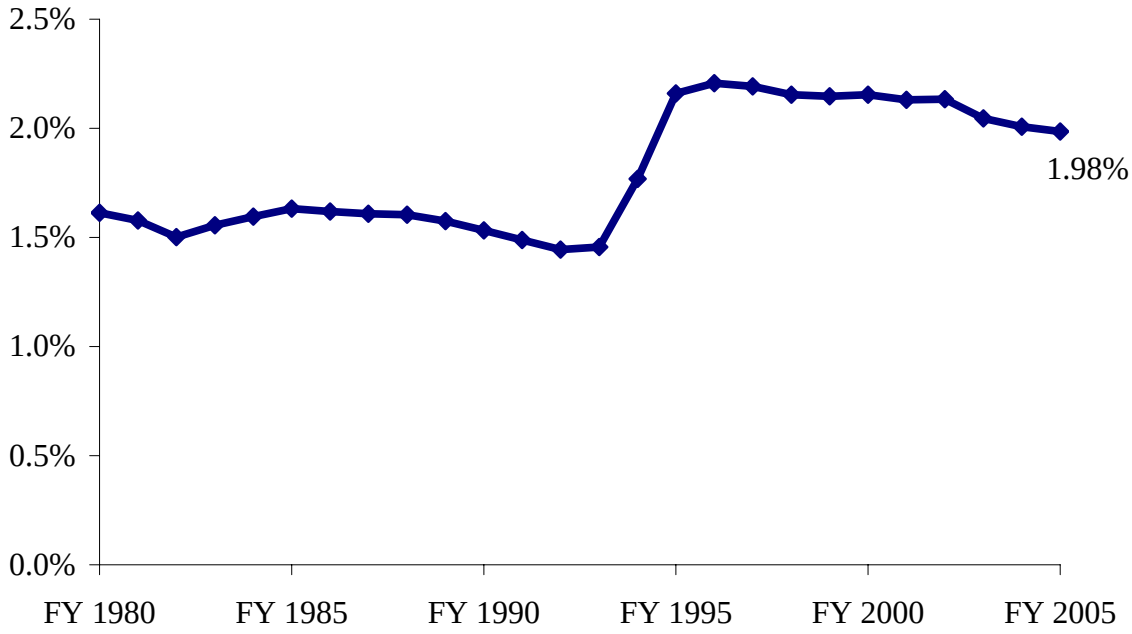
Sources: Tax Analysis Division, Michigan Department of Treasury.
Bureau of Labor Statistcs, U.S. Department of Labor.
Bureau of Economic Analysis, U.S. Department of Commerce.

Exhibit 10
Michigan Sales Tax Nominal and Real Revenue



Source: Tax Analysis Division, Michigan Department of Treasury.

Exhibit 11
Sales Tax Revenue as a Percent of Personal Income



Source: Tax Analysis Division, Michigan Department of Treasury.

Exhibit 12
Michigan Sales Tax Revenue by Retail Sector
FY 1995 to FY 2005

Fiscal Year	Auto	Percent Change	Food	Percent Change	General Merchandise	Percent Change
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%
2001	1,660.0	5.1%	885.9	3.5%	611.0	-1.5%
2002	1,763.9	6.3%	907.8	2.5%	641.7	5.0%
2003	1,778.5	0.8%	903.5	-0.5%	622.7	-3.0%
2004	1,693.6	-4.8%	936.2	3.6%	638.4	2.5%
2005	1,741.0	2.8%	916.7	-2.1%	696.3	9.1%

Fiscal Year	Building Lumber & Hardware	Percent Change	Furniture	Percent Change	Apparel	Percent Change
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%
2001	509.8	0.7%	243.8	-2.6%	224.4	1.6%
2002	534.5	4.8%	240.0	-1.5%	221.5	-1.3%
2003	532.7	-0.3%	235.6	-1.8%	222.6	0.5%
2004	591.5	11.0%	239.9	1.8%	231.7	4.1%
2005	610.7	3.2%	236.8	-1.3%	232.9	0.5%

Fiscal Year	Miscellaneous Retail	Percent Change	Non-Retail	Percent Change	Total	Percent Change
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%
2001	682.9	2.8%	1,520.5	0.4%	6,338.4	2.0%
2002	645.4	-5.5%	1,469.5	-3.4%	6,424.3	1.4%
2003	649.5	0.6%	1,457.9	-0.8%	6,402.9	-0.3%
2004	656.8	1.1%	1,461.9	0.3%	6,450.0	0.7%
2005	648.7	-1.2%	1,513.2	3.5%	6,596.3	2.3%

Note: Figures do not include use tax.
Total sales tax differs slightly due to differences between accrual and cash accounting methods.

Source: Tax Analysis Division, Michigan Department of Treasury.

Exhibit 13
Share of Sales Tax Revenue by Retail Sector
FY 1995 to FY 2005

Fiscal Year	Auto	Food	General Merchandise	Building Lumber & Hardware
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%
2001	26.2%	14.0%	9.6%	8.0%
2002	27.5%	14.1%	10.0%	8.3%
2003	27.8%	14.1%	9.7%	8.3%
2004	26.3%	14.5%	9.9%	9.2%
2005	26.4%	13.9%	10.6%	9.3%

Fiscal Year	Furniture	Apparel	Miscellaneous Retail	Non-Retail
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%
2001	3.8%	3.5%	10.8%	24.0%
2002	3.7%	3.4%	10.0%	22.9%
2003	3.7%	3.5%	10.1%	22.8%
2004	3.7%	3.6%	10.2%	22.7%
2005	3.6%	3.5%	9.8%	22.9%

Note: Figures do not include use tax.

Source: Tax Analysis Division, Michigan Department of Treasury.

Use Tax Revenue

Michigan use tax revenue totaled $1,402.4 million in FY 2005, up $85.9 million (6.5 percent) from FY 2004. As with the sales tax, the use tax makes up an increased share of overall state tax revenue since the change in the tax rate from 4 percent to 6 percent in 1994.

Use tax revenue as a percent of total state revenue has increased at a higher rate than the sales tax. During the 1980s, the Michigan use tax accounted for anywhere between 3.8 percent and 4.4 percent of total state tax revenue (see Exhibit 3). In FY 2005, use tax revenue accounted for 6.1 percent of total state tax revenue.

Nominal use tax revenue increased 48.7 percent from FY 1995 to FY 2005. When adjusted for inflation, real use tax revenue increased 16.0 percent, or an average rate of approximately 1.5 percent per year. Sluggish economic growth in 2001 through 2003 reversed the strong growth during the late 1990s, resulting in small gains in real use tax revenue (see Exhibits 14 and 15).

The effective burden of the use tax can be measured by comparing Michigan use tax revenue to Michigan personal income. From FY 1980 until the tax rate increased to 6 percent, use tax revenue as a percent of personal income ranged from 0.23 percent to 0.29 percent. In FY 2005, use tax revenue as a percent of personal income was 0.42 percent, practically unchanged from the FY 2004 amount of 0.41 percent (see Exhibit 16). Use tax revenues as a percentage of personal income remain noticeably below the levels reached in 1999 and 2000.

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, with tax payments of $298.1 million in FY 2005 (see Exhibit 17). This accounts for 21.0 percent of total use tax revenue, with most of these payments collected from interstate and intrastate telephone calls. The automotive sector was responsible for $221.2 million of use tax revenue, or 15.6 percent, in FY 2005, generally from leasing and private sales of motor vehicles.

Between 1994 and 2004, the distribution of use tax revenue by sector has remained stable, 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 10.6 percent in 1995 to 12.8 percent in FY 2005. This sector also includes revenue from the leasing of motor vehicles. The share of use tax paid by the automobile sector had been declining, from a high of 18.2 percent in FY 1995 to 14.4 percent in FY 2001. However, use tax payments from the automobile sector increased by more than 20 percent in FY 2002 to return to 17.9 percent of total use tax collections. Collections from the automobile sector have declined for the past three years and stood at 15.6 percent for FY 2005.

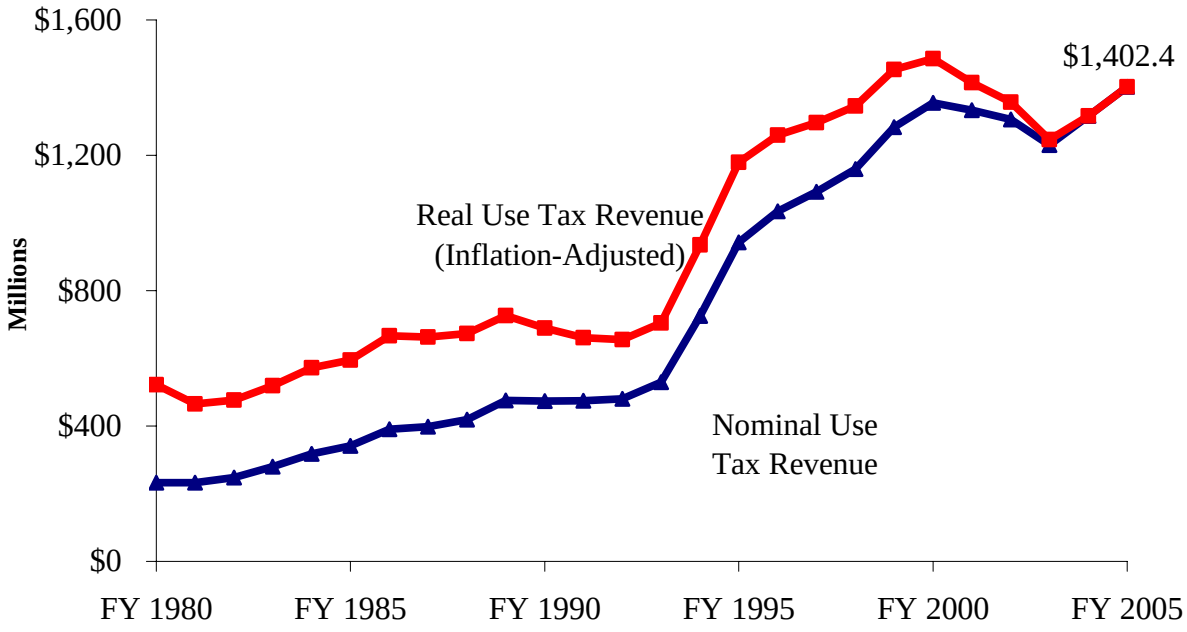
While the use tax is generally paid by businesses, individuals may incur a use tax liability on mail order or Internet purchases since the retailer may not collect Michigan sales tax. Beginning in tax year 1999, a line was added to the Michigan income tax form to aid taxpayers in meeting their use tax liability. The taxation of remote sales is discussed in greater detail in Chapter VI.

Exhibit 14
Michigan Use Tax Revenue
FY 1980 to FY 2005

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 in 2005 $ (millions)
1980	$93,265	$232.9	0.25%	82.3	535.1
1981	101,114	232.3	0.23%	92.1	476.7
1982	104,608	247.4	0.24%	95.8	488.3
1983	109,162	279.5	0.26%	99.4	531.7
1984	120,635	317.3	0.26%	102.4	585.9
1985	131,316	341.4	0.26%	105.8	609.7
1986	140,998	390.8	0.28%	108.1	683.3
1987	145,970	397.8	0.27%	110.7	679.0
1988	154,344	419.0	0.27%	114.8	689.6
1989	166,096	475.9	0.29%	120.8	744.8
1990	174,411	473.9	0.27%	126.8	706.3
1991	179,536	474.3	0.26%	132.4	677.1
1992	189,586	480.0	0.25%	135.1	671.3
1993	199,577	529.5	0.27%	138.6	722.0
1994	213,413	725.1	0.34%	142.9	959.0
1995	226,193	942.9	0.42%	147.5	1,208.5
1996	234,309	1,034.9	0.44%	151.6	1,290.6
1997	245,823	1,092.2	0.44%	155.4	1,328.3
1998	260,778	1,159.3	0.44%	158.9	1,379.0
1999	274,918	1,283.0	0.47%	162.8	1,489.6
2000	291,485	1,355.4	0.46%	168.3	1,522.4
2001	298,129	1,333.6	0.45%	173.8	1,450.1
2002	301,926	1,306.4	0.43%	177.5	1,391.0
2003	313,961	1,229.8	0.39%	182.0	1,277.1
2004	322,581	1,316.5	0.41%	184.4	1,349.3
2005	332,461	1,402.4	0.42%	189.0	1,402.4

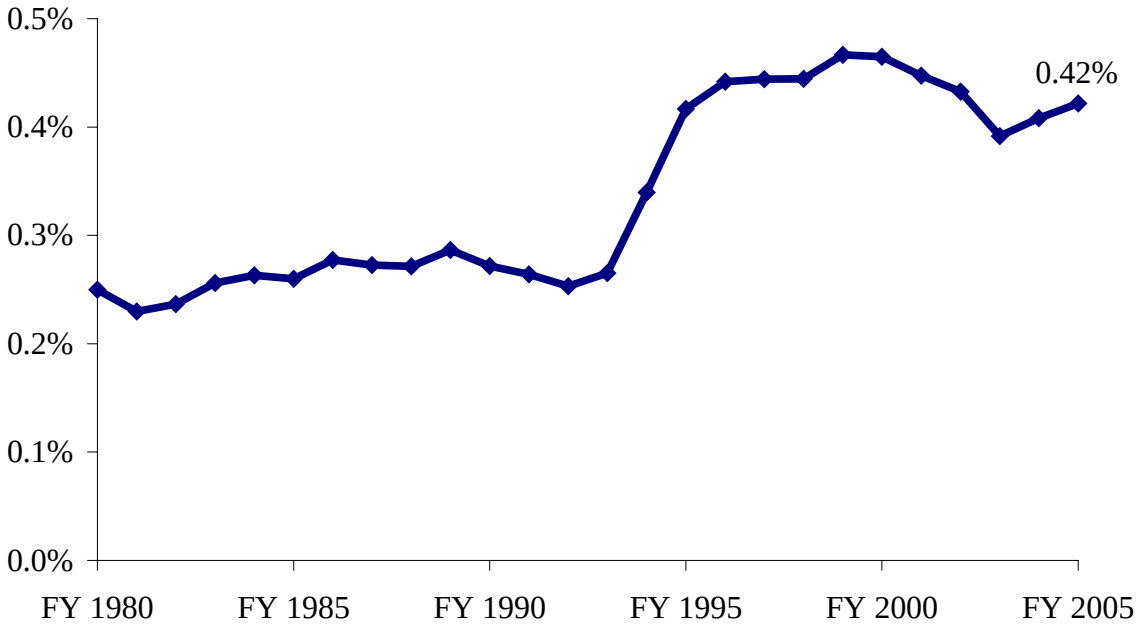
Sources: Tax Analysis Division, Michigan Department of Treasury.
Bureau of Labor Statistics, U.S. Department of Labor.
Bureau of Economic Analysis, U.S. Department of Commerce.

Exhibit 15
Michigan Use Tax Nominal and Real Revenue



Source: Tax Analysis Division, Michigan Department of Treasury.

Exhibit 16
Use Tax Revenue as a Percent of Personal Income



Source: Tax Analysis Division, Michigan Department of Treasury.

Exhibit 17
Michigan Use Tax Revenue by Various Sectors
FY 1995 to FY 2005
(Millions)

Fiscal Year	Telephone & Communication	Percent Change	Auto	Percent Change	Business Services	Percent Change
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%
2001	288.9	12.2%	196.3	-5.8%	192.2	-7.0%
2002	289.5	0.2%	236.4	20.5%	199.1	3.6%
2003	261.9	-9.5%	216.9	-8.3%	165.3	-17.0%
2004	299.5	14.4%	225.5	4.0%	152.9	-7.5%
2005	298.1	-0.5%	221.2	-1.9%	180.6	18.2%

Fiscal Year	Hotels & Motels	Percent Change	Transportation Manufacturing	Percent Change	General Merchandise	Percent Change
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%
2001	64.0	3.3%	69.8	24.0%	32.1	5.3%
2002	59.3	-7.3%	69.7	-0.1%	30.7	-4.3%
2003	58.4	-1.5%	66.4	-4.8%	28.0	-8.8%
2004	61.0	4.4%	71.2	7.2%	31.5	12.3%
2005	61.9	1.6%	52.4	-26.4%	46.2	46.7%

Fiscal Year	Machinery	Percent Change	Other	Percent Change	Total	Percent Change
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%
2001	29.8	9.2%	487.4	1.9%	1,360.5	2.5%
2002	24.1	-19.0%	410.7	-15.8%	1,319.6	-3.0%
2003	25.2	4.2%	431.4	5.0%	1,253.3	-5.0%
2004	22.5	-10.5%	450.9	4.5%	1,314.8	4.9%
2005	22.2	-1.4%	533.8	18.4%	1,416.4	7.7%

Note: Total use tax differs slightly due to differences between accrual and cash accounting methods.

Source: Tax Analysis Division, Michigan Department of Treasury.

Exhibit 18
Share of Use Tax Revenue by Various Sectors
FY 1995 to FY 2005

Fiscal Year	Telephone & Communication	Auto	Business Services	Hotels & Motels
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%
2001	21.2%	14.4%	14.1%	4.7%
2002	21.9%	17.9%	15.1%	4.5%
2003	20.9%	17.3%	13.2%	4.7%
2004	22.8%	17.1%	11.6%	4.6%
2005	21.0%	15.6%	12.8%	4.4%

Fiscal Year	Transportation Manufacturing	General Merchandise	Machinery	Other
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%
2001	5.1%	2.4%	2.2%	35.8%
2002	5.3%	2.3%	1.8%	31.1%
2003	5.3%	2.2%	2.0%	34.4%
2004	5.4%	2.4%	1.7%	34.3%
2005	3.7%	3.3%	1.6%	37.7%

Source: Tax Analysis Division, 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.

Currently a firm with mail order or Internet sales is not required to collect sales tax for sales in a state in which the firm does not have nexus. Some businesses voluntarily collect sales taxes on remote sales. Others will only collect if there is an act of Congress or a ruling by the U.S. Supreme Court requiring collection.

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. However, businesses with nexus in a state, and thus collecting sales tax, are forced to compete with firms without nexus who do not collect the 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 working with major retailers have entered into the Streamlined Sales and Use Tax Agreement to simplify state sales taxes and to encourage Congress to enact laws allowing the collection of sales taxes by firms making remote sales.

Current Law

The issue of taxation on mail order sales 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 delivering merchandise through the mail established nexus. An important court 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 shipping flyers and catalogs, and delivering merchandise through a common carrier or the U.S. Postal Service, 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 require the collection of sales/use taxes by all businesses engaging in remote 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. The ITFA did not affect the legal status of state and local sales and use taxes. Sales and use taxes were still allowed on products sold through the Internet. The distinction that Internet-based retail sales are subject to taxation while Internet access is not has caused much confusion. The ITFA was subsequently extended through November 1, 2007.

Rapid growth of e-commerce is a threat to the viability of the sales tax. As computer technology becomes more prevalent in everyday life, shopping through the Internet is growing rapidly. 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 the full participation of local governments and the business sector, the Streamlined Sales Tax Project (SSTP) is designed to simplify and standardize sales and use tax administration and collection procedures nationwide. The concept is a win-win approach where traditional retailers, remote sellers, and state and local tax administrators all benefit. Business participation in SSTP is voluntary.

Key provisions of the Streamlined Sales Tax System (SSTS) are uniform definitions, rate simplification, uniform sourcing and audit procedures, and a reduction in the financial burden on sellers participating in the SSTS. To facilitate the collection of sales taxes, new technological models have been developed to aid all businesses, especially remote sellers. These models include certified service providers able to perform all sales tax functions for a seller, and software systems that will make remittance and audit procedures simpler. The cost of developing these new technological models will be at least partially underwritten by the participating states through compensation programs based on a percentage of the tax collected.

On November 12, 2002 delegates from thirty states and the District of Columbia approved the "Streamlined Sales and Use Tax Agreement" (Agreement). Among other things, the Agreement

addresses and provides for state level administration of sales and use taxes, uniform definitions, rate simplification, uniform determination of where sales occur (sourcing), simplified exemption administration, and uniform audit and registration.

The approval of the Agreement did not modify the laws of any state. The determination as to whether and how to implement the terms of the Streamlined Agreement rests with each state. Since approval of the Agreement 21 states have enacted legislation intended to conform to at least some of the provisions of the Agreement. The Agreement took effect on October 1, 2005, when at least 10 states comprising at least 20 percent of the overall population of all states with a sales tax were deemed to be in compliance with the Agreement. Currently 19 states, including Michigan, are members of the Agreement.

In June 2004, Michigan enacted the Streamlined Sales and Use Tax Administration Act as well as several changes to the Sales Tax and Use Tax Acts in order to comply with the Agreement. The administration act allows Michigan to appoint a four-member delegation to represent the State at meetings of the governing board of the SSTP. Also included in the administration act are provisions that allow sellers to register under Agreement, describe how different technological models of collecting and remitting use tax to member states will be established, and protect personal information obtained during the administration of taxes under the Agreement. Michigan may withdraw from the Agreement by decision of the State Treasurer or by resolution of the State Legislature.

Additional information on the SSTP can be found at ***www.streamlinedsalestax.org***. Additional information on Public Acts 172 – 175 of 2004, related to the SSTP, can be found at ***www.michiganlegislature.org***.

Remote Sales Revenue Impact

Estimates of the loss of tax revenue from remote sales vary widely. This is due to the fast growth of e-commerce. There are two types of e-commerce to consider 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 volume of business-to-business transactions compared to business-to-consumer purchases over the Internet predicted for 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 $263 million in FY 2005. This loss will grow to $349 million in FY 2008, 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 $166 million to $185 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 rapid rate of growth of e-commerce, the expected revenue loss will also increase for Michigan. The revenue loss due to consumer e-commerce is expected to

increase from $97 million in FY 2005 to $164 million in FY 2008 (see Exhibit 20 and Exhibit 21). Earlier estimates of the tax loss from remote sales were higher since they were prepared prior to the impact of the 2001 recession. The overall decline in economic activity due to the recession has resulted in slower than expected growth in remote sales, especially e-commerce sales.

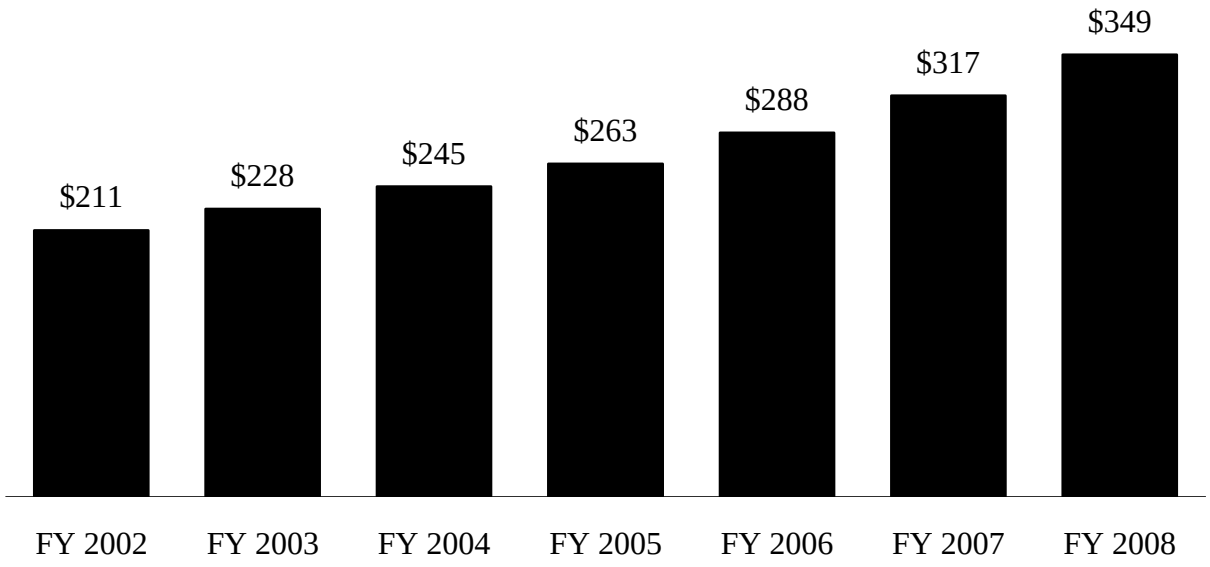
Various studies have attempted to estimate the tax loss for remote sales. One study by the Center for Business and Economic Research at the University of Tennessee forecasted the sales and use tax loss due to e-commerce sales at over $14 billion in 2003.[4] However, some alternative estimates have produced much smaller revenue losses.[5]

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 any 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 returns processed during 2005, approximately 89,400 taxpayers reported over $4.56 million of use tax due on their Michigan income tax returns. This amount is less than 2.0 percent of the estimated tax liability that goes uncollected on remote sales. State officials hope that as more taxpayers become educated on their use tax responsibility, compliance will increase.

[4] See "State and Local Sales Tax Revenue Losses from E-Commerce: Updated Estimates" by Donald Bruce and William F. Fox, University of Tennessee, September 2001.

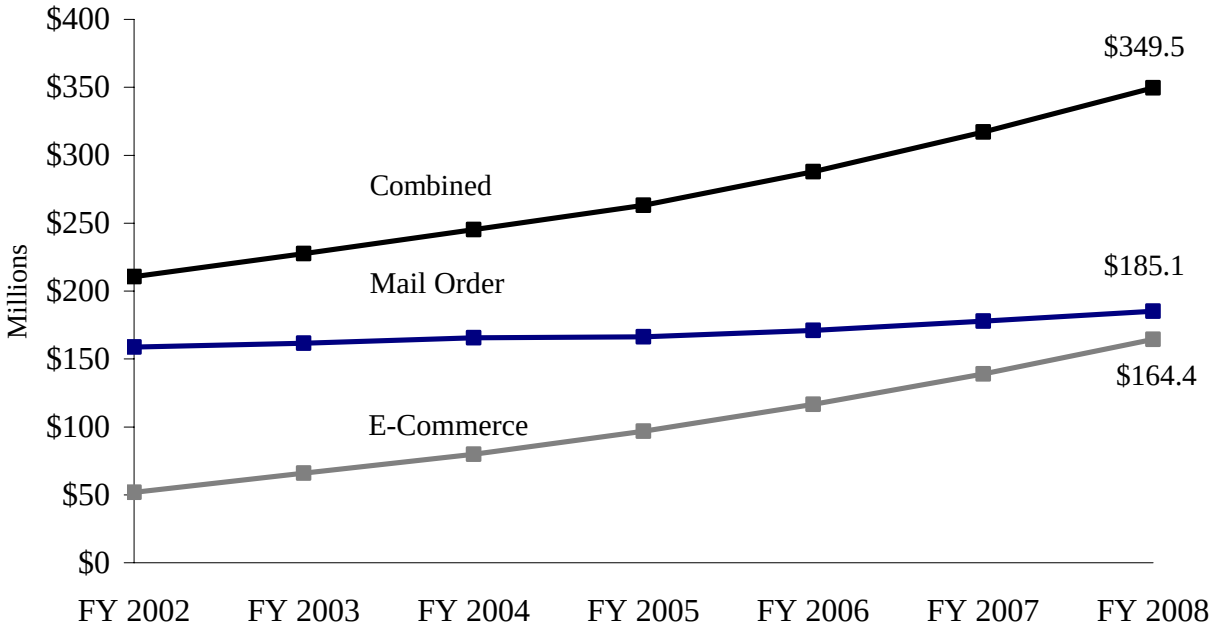
[5] See "A Current Calculation of Uncollected Sales Tax Arising from Internet Growth" by Peter A. Johnson, the Direct Marketing Association, March 2003.

Exhibit 19
Michigan Consumer Remote Sales and Use Tax Loss Impact
(Millions)



Source: U.S. Census Bureau. Compiled by the Tax Analysis Division, Michigan Department of Treasury.

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



Source: U.S. Census Bureau. Compiled by the Tax Analysis Division, Michigan Department of Treasury.

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

	Revenue Impact					
Fiscal Year	Traditional Mail Order	Percent Change	E-Commerce	Percent Change	Total Remote Sales	Percent Change
2001	$158.1	3.1%	$40.5	24.5%	$198.6	6.9%
2002	158.9	0.5%	51.8	28.0%	210.6	6.1%
2003	161.6	1.7%	66.0	27.4%	227.6	8.1%
2004	165.5	2.4%	79.8	20.9%	245.3	7.8%
2005	166.2	0.4%	96.9	21.4%	263.1	7.2%
2006	171.1	2.9%	116.7	20.4%	287.8	9.4%
2007	178.0	4.0%	139.1	19.2%	317.0	10.2%
2008	185.1	4.0%	164.4	18.2%	349.5	10.2%

Source: U.S. Census Bureau. Compiled by the Tax Analysis Division, 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.

Michigan Counties

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 do not accurately reflect the sales tax actually paid by the residents of each county. These estimates are based on retail sales, adjusted for the food and prescription drug exemptions and sales of residential utilities. 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 2005* (see Exhibit 22).

The estimates of county sales tax revenue range from a high of $1,195 million in Wayne County to a low of $0.4 million in Keweenaw County. Grand Traverse County ranked first in sales tax collections per person at $1,325, while Cass County ranked last with $127 per-person sales tax collections. Grand Traverse, Otsego, 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.

Interstate Comparisons

A sales tax is levied by 45 states and the District of Columbia. Exhibit 23 compares current state and local sales tax rates. Mississippi, Rhode Island, and Tennessee 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. For 2006, Alaska, Delaware, Montana, New Hampshire, and Oregon do not levy a state sales tax, although Alaska allows local sales taxes.

In the 35 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 11 percent, which is levied within Alabama, Arkansas, and Louisiana.

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 Tennessee has the highest effective average state and local tax rate at 8.75 percent, based on data from 2002. Michigan ranks 28th highest at 6.0 percent.

A second measure of the effective sales tax rate in each state is state and local sales tax revenue as a percentage of personal income. Washington has the highest percentage of sales tax revenue as a percent of personal income at 4.72 percent in FY 2002. Michigan ranked 23rd for sales tax revenue as a percent of personal income at 2.59 percent (see Exhibit 24). The U.S. average for all states was 2.54 percent, while the average for states with a sales tax was 2.60 percent. Alaska, which only levies a local sales tax, was the lowest for states with a sales tax at 0.60 percent. 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
2005

County	Population (thousands)	Buying Income Per Person	Estimated Tax Base (thousands)	Sales Tax Revenue (thousands)	Rank	Tax Per Person	Rank
Alcona	11.7	$15,815	$41,853	$2,581	79	$221	81
Alger	9.7	15,337	41,998	2,523	80	261	76
Allegan	113.2	17,280	756,060	43,432	24	384	60
Alpena	30.4	15,829	370,589	20,469	41	673	18
Antrim	24.4	18,232	110,806	6,622	65	271	75
Arenac	17.2	14,950	107,842	6,228	68	363	67
Baraga	8.7	13,956	37,034	2,232	82	255	78
Barry	59.9	18,646	333,590	19,489	42	325	70
Bay	109.0	17,406	1,479,810	81,327	18	746	9
Benzie	17.6	17,280	90,209	5,318	71	301	72
Berrien	162.6	17,643	1,304,678	73,878	19	454	49
Branch	46.5	14,784	340,630	19,419	43	418	55
Calhoun	139.2	16,648	1,859,659	102,274	13	735	10
Cass	52.0	17,189	93,405	6,610	66	127	83
Charlevoix	26.7	18,648	279,335	15,553	51	582	27
Cheboygan	27.5	16,901	322,662	17,853	48	650	19
Chippewa	38.8	13,035	323,281	18,256	45	471	46
Clare	31.7	14,582	240,079	13,651	56	431	51
Clinton	69.3	20,366	456,642	26,264	36	379	61
Crawford	15.1	15,290	118,473	6,719	63	446	50
Delta	38.3	16,654	490,723	27,041	34	705	13
Dickinson	28.0	16,047	398,193	21,841	39	779	6
Eaton	107.4	19,853	1,217,980	67,515	21	629	23
Emmet	33.6	19,617	567,559	30,922	30	921	3
Genesee	443.9	17,913	5,161,228	285,731	5	644	21
Gladwin	27.2	15,378	205,828	11,706	58	430	53
Gogebic	16.9	14,770	96,680	5,632	69	334	69
Grand Traverse	84.0	19,718	2,064,751	111,244	11	1,325	1
Gratiot	42.3	13,887	287,065	16,470	49	389	59
Hillsdale	47.1	16,105	378,163	21,411	40	455	48
Houghton	35.7	13,349	228,109	13,155	57	368	64
Huron	34.6	16,271	291,048	16,427	50	474	45
Ingham	278.6	18,809	3,239,940	179,365	7	644	20
Ionia	64.6	15,052	423,837	24,385	37	377	62
Iosco	27.0	15,556	255,661	14,317	53	530	39
Iron	12.3	15,747	49,621	3,010	77	245	80
Isabella	65.6	14,497	655,593	36,596	25	558	34
Jackson	163.6	17,229	1,781,330	98,957	15	605	25
Kalamazoo	240.5	19,126	3,042,111	167,724	8	697	15
Kalkaska	17.2	15,180	157,264	8,828	61	512	41
Kent	596.7	19,061	7,483,098	412,737	4	692	16
Keweenaw	2.2	15,118	6,323	404	83	184	82
Lake	12.1	13,410	51,631	3,108	76	258	77
Lapeer	93.4	18,374	953,527	53,160	22	569	32

Exhibit 22 (continued)
Estimated Michigan Sales Tax Revenue by County
2005

County	Population (thousands)	Buying Income Per Person	Estimated Tax Base (thousands)	Sales Tax Revenue (thousands)	Rank	Tax Per Person	Rank
Leelanau	22.2	$22,198	$106,710	$6,332	67	$286	73
Lenawee	102.0	17,369	1,320,088	72,705	20	713	12
Livingston	181.5	24,353	1,869,853	104,194	12	574	28
Luce	6.8	12,886	56,086	3,169	75	467	47
Mackinac	11.3	16,734	138,614	7,654	62	676	17
Macomb	829.5	21,003	11,666,617	640,185	3	772	7
Manistee	25.2	16,156	252,561	14,097	55	559	33
Marquette	64.8	16,153	626,550	35,042	27	541	37
Mason	29.0	15,650	329,090	18,241	46	629	22
Mecosta	42.4	14,618	477,055	26,455	35	624	24
Menominee	25.0	15,244	186,867	10,637	59	426	54
Midland	84.1	20,426	862,030	48,048	23	572	30
Missaukee	15.3	14,804	96,428	5,568	70	364	65
Monroe	153.9	19,295	1,505,629	84,153	17	547	36
Montcalm	63.9	14,243	542,194	30,581	31	479	44
Montmorency	10.4	15,674	56,253	3,298	74	316	71
Muskegon	175.6	15,570	1,793,559	99,990	14	570	31
Newaygo	50.0	14,608	323,721	18,647	44	373	63
Oakland	1,214.4	28,656	18,175,624	994,807	2	819	5
Oceana	28.5	14,559	164,771	9,590	60	337	68
Ogemaw	21.9	14,788	279,361	15,396	52	703	14
Ontonagon	7.4	15,709	50,805	2,911	78	395	58
Osceola	23.8	14,350	111,792	6,651	64	280	74
Oscoda	9.3	14,722	38,157	2,309	81	248	79
Otsego	24.7	18,052	594,065	32,023	29	1,298	2
Ottawa	255.4	18,412	2,464,094	137,838	10	540	38
Presque Isle	14.3	15,985	90,269	5,212	72	364	66
Roscommon	26.1	16,575	255,838	14,297	54	548	35
Saginaw	208.4	16,851	2,758,590	151,773	9	728	11
Sanilac	44.8	15,258	316,551	18,098	47	404	57
Schoolcraft	8.8	15,394	77,383	4,355	73	494	42
Shiawassee	72.9	17,051	628,897	35,433	26	486	43
St. Clair	171.4	18,912	1,759,019	98,040	16	572	29
St. Joseph	63.0	15,804	477,614	27,158	33	431	52
Tuscola	58.4	15,555	533,328	29,937	32	512	40
Van Buren	78.8	15,801	567,578	32,403	28	411	56
Washtenaw	341.8	24,074	5,203,924	284,635	6	833	4
Wayne	1,998.2	17,643	21,500,384	1,195,162	1	598	26
Wexford	31.9	15,357	439,049	24,114	38	756	8
Totals	10,120.9	$19,480	$116,892,896	$6,473,522		$640	

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

Exhibit 23
State and Local Sales Tax Rates
2006

State	State Sales Tax Rate	Maximum Local Tax Rate	Maximum State & Local Tax Rate
Alabama	4.0%	7.0%	11.0%
Alaska	No Tax	7.0%	7.0%
Arizona	5.6%	5.0%	10.60%
Arkansas	6.0%	5.0%	11.0%
California	6.3%	2.50%	8.75%
Colorado	2.9%	7.0%	9.90%
Connecticut	6.0%	None	6.0%
Delaware	No Tax	None	No Tax
Florida	6.0%	3.0%	9.0%
Georgia	4.0%	3.0%	7.0%
Hawaii	4.0%	None	4.0%
Idaho	5.0%	3.0%	8.0%
Illinois	6.25%	3.0%	9.25%
Indiana	6.0%	None	6.0%
Iowa	5.0%	2.0%	7.0%
Kansas	5.3%	3.0%	8.30%
Kentucky	6.0%	None	6.0%
Louisiana	4.0%	7.00%	11.0%
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%	7.50%
Mississippi	7.0%	0.25%	7.25%
Missouri	4.225%	4.9%	9.10%
Montana	No Tax	None	No Tax
Nebraska	5.5%	1.5%	7.0%
Nevada	6.5%	1.3%	7.75%
New Hampshire	No Tax	None	No Tax
New Jersey	6.0%	None	6.0%
New Mexico	5.0%	2.8125%	7.8125%
New York	4.00%	5.5%	9.50%
North Carolina	4.5%	3.5%	8.0%
North Dakota	5.0%	2.5%	7.50%
Ohio	5.5%	2.0%	7.50%
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	7.0%	2.75%	9.75%
Texas	6.25%	2.0%	8.25%
Utah	4.75%	3.35%	8.10%
Vermont	6.0%	1.0%	7.0%
Virginia	4.0%	1.0%	5.0%
Washington	6.5%	2.4%	8.90%
West Virginia	6.0%	None	6.0%
Wisconsin	5.0%	0.6%	5.60%
Wyoming	4.0%	2.0%	6.0%

Sources: *State Tax Guide* , Commerce Clearing House and state tax Internet sites.
Compiled by Tax Analysis Division.

Exhibit 24
Effective State and Local Sales Tax Rates and Revenue
FY 2002

	State & Local Taxes on Sales/ Gross Receipts (millions)	Personal Income (millions)	Sales Tax Revenue as % of Income	Rank	State Tax Rate	Effective State & Local Sales Tax Rate	Rank
Alabama	$2,968.3	$113,609.5	2.61%	21	4.0%	6.79%	14
Alaska	121.9	20,473.8	0.60%	46	0.0%	NA	46
Arizona	5,783.2	142,197.8	4.07%	4	5.6%	7.56%	8
Arkansas	2,540.8	62,746.0	4.05%	5	5.125%	6.69%	16
California	31,292.8	1,139,799.0	2.75%	18	6.0%	7.88%	4
Colorado	4,127.7	153,075.8	2.70%	19	2.9%	6.29%	20
Connecticut	3,044.0	146,954.3	2.07%	38	6.0%	6.00%	28
Delaware	0.0	26,285.5	0.00%	47	No Tax	NA	46
Florida	15,034.3	485,901.3	3.09%	13	6.0%	6.26%	22
Georgia	7,493.3	243,354.8	3.08%	14	4.0%	6.20%	24
Hawaii	1,612.3	35,815.5	4.50%	2	4.0%	4.00%	45
Idaho	796.4	33,716.3	2.36%	29	6.0%	6.01%	26
Illinois	7,528.5	408,143.5	1.84%	40	6.25%	7.14%	10
Indiana	3,798.5	169,267.8	2.24%	34	6.0%	6.00%	28
Iowa	2,016.2	80,536.5	2.50%	24	5.0%	5.77%	36
Kansas	2,294.7	78,029.3	2.94%	16	5.3%	6.76%	15
Kentucky	2,312.3	103,245.5	2.24%	35	6.0%	6.00%	27
Louisiana	4,838.0	112,493.8	4.30%	3	4.0%	8.32%	2
Maine	836.1	35,835.0	2.33%	31	5.0%	5.00%	41
Maryland	2,690.4	195,559.8	1.38%	44	5.0%	5.00%	41
Massachusetts	3,695.9	249,222.8	1.48%	43	5.0%	5.00%	41
Michigan	**7,784.3**	**300,698.0**	**2.59%**	**23**	**6.0%**	**6.00%**	**28**
Minnesota	3,782.2	164,243.0	2.30%	32	6.5%	6.57%	19
Mississippi	2,341.4	63,615.3	3.68%	9	7.0%	7.00%	11
Missouri	4,246.1	160,043.0	2.65%	20	4.225%	6.28%	21
Montana	0.0	22,399.5	0.00%	47	No Tax	NA	46
Nebraska	1,287.5	49,354.0	2.61%	22	5.5%	6.62%	17
Nevada	2,216.8	65,538.3	3.38%	11	6.5%	6.96%	13
New Hampshire	0.0	43,308.0	0.00%	47	No Tax	NA	46
New Jersey	5,996.8	334,449.5	1.79%	41	6.0%	6.00%	28
New Mexico	1,764.9	44,754.8	3.94%	6	5.0%	6.60%	18
New York	16,630.2	678,139.3	2.45%	25	4.25%	8.21%	3
North Carolina	4,909.2	227,497.0	2.16%	37	4.5%	5.91%	34
North Dakota	394.5	16,675.3	2.37%	27	5.0%	5.88%	35
Ohio	7,686.5	328,861.0	2.34%	30	6.0%	7.22%	9
Oklahoma	2,600.2	90,484.8	2.87%	17	4.5%	7.65%	6
Oregon	0.0	99,582.8	0.00%	47	No Tax	NA	46
Pennsylvania	7,500.0	377,516.0	1.99%	39	6.0%	6.14%	25
Rhode Island	731.6	32,788.3	2.23%	36	7.0%	7.00%	12
South Carolina	2,435.4	103,030.0	2.36%	28	5.0%	5.21%	38
South Dakota	672.0	20,357.0	3.30%	12	4.0%	5.14%	40
Tennessee	5,841.6	157,369.8	3.71%	8	7.0%	8.75%	1
Texas	18,321.5	622,098.6	2.95%	15	6.25%	7.86%	5
Utah	$1,970.4	57,442.3	3.43%	10	4.75%	6.24%	23
Vermont	214.7	18,046.3	1.19%	45	6.0%	6.00%	28
Virginia	3,586.9	236,572.8	1.52%	42	3.5%	4.48%	44
Washington	9,231.3	195,585.8	4.72%	1	6.5%	7.59%	7
West Virginia	962.8	42,562.8	2.26%	33	6.0%	6.00%	28
Wisconsin	3,913.8	160,633.3	2.44%	26	5.0%	5.29%	37
Wyoming	579.7	15,301.3	3.79%	7	4.0%	5.21%	39
U.S. Average	$222,428.2	$8,765,210.1	2.54%				

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

VIII. PUBLIC ACTS IN 2005 – SALES AND USE TAXES

There were no public acts that took effect during 2005 that affect either the sales or use tax.

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