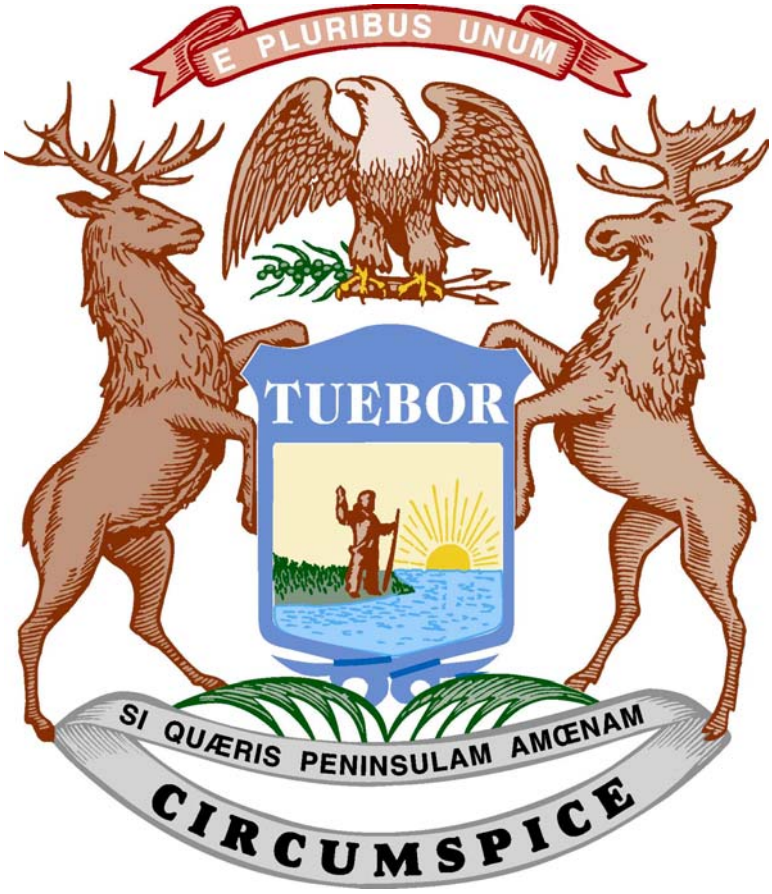
MICHIGAN'S SALES AND USE TAXES 2002



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I. EXECUTIVE SUMMARY

- Michigan sales and use tax revenue totaled $7.746 billion in Fiscal Year (FY) 2002, an increase of 0.8 percent from FY 2001. FY 2002 sales tax revenue was $6.440 billion and FY 2002 use tax revenue was $1.306 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 $8.321 billion in FY 2002. Untaxed services remain the largest single source of tax expenditures.

- The automotive retail sector remits the largest share of sales tax revenue at $1.76 billion. The telecommunications sector provides the largest share of use tax revenue at $289.5 million.

- 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 $188 million in FY 2002. The estimated revenue losses are projected to grow to $248 million in FY 2005.

- Louisiana has the highest average effective combined state and local sales tax rate at 8.39 percent. However, the highest combined state and local statutory sales tax rate is 10.0 percent in Alabama. With an effective rate of 6.0 percent, Michigan ranks 24th 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 4.89 percent. Michigan ranks 24th at 2.64 percent, below the national average of 2.72 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-four states have local units that levy a sales tax. The highest combined state and local sales tax rate is 10 percent in Alabama.

Revenue

Sales and use taxes are the largest source of revenue for the State of Michigan. In FY 2002, sales and use taxes totaled over $7.7 billion, or 36.1 percent of Michigan tax revenue. The personal income tax, by comparison, accounted for 28.4 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 $6,439.9 million in FY 2002, an increase of $87.6 million (1.4 percent) from FY 2001. Use tax revenue totaled $1,306.4 million in FY 2002, a decrease of $27.2 million (-2.0 percent) from FY 2001. Sales tax revenue accounted for 30.0 percent of total state taxes in FY 2002. Sluggish but stable consumer spending has led to small increases in sales tax revenue during 2001 and 2002. Because of the increase in the tax rate, the sales tax now accounts for an increased 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 24 percent of total state taxes.

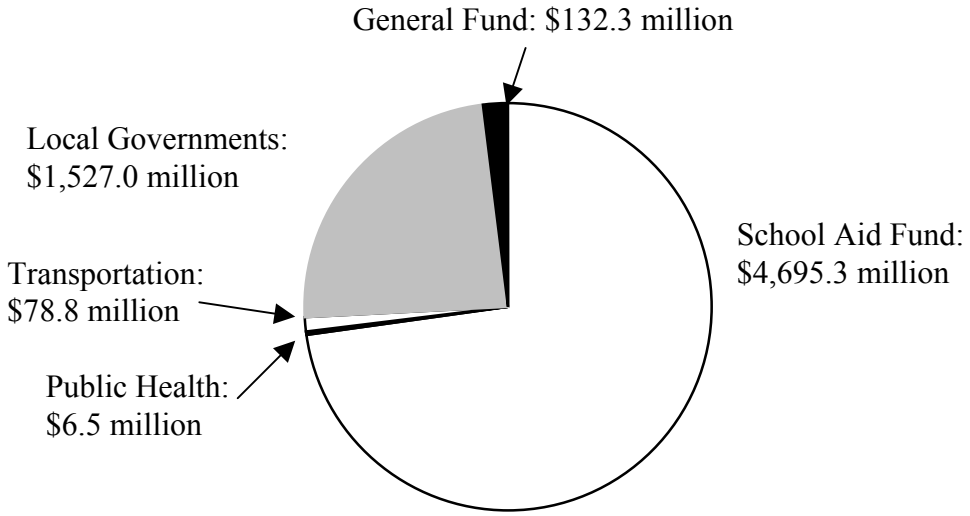
Use tax revenue has also increased steadily over the past 10 years and now accounts for 6.1 percent of total state tax revenue, up from 4 percent at the beginning of the 1990s. This also is in line with a strong economy and the increase in the tax rate in 1994. Exhibits 3, 4, and 5 provide a 23-year history of sales and use tax revenue and its percentage of total state taxes.

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. 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 distribution of sales tax revenue for FY 2002 is shown in Exhibit 1.

Exhibit 1
Sales Tax Revenue Distribution
Fiscal Year 2002



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. From the *Executive Budget Tax Expenditure Appendix Fiscal Year 2002*, the potential revenue loss due to exemptions was estimated to be $8.321 billion. 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 $4.841 billion for Fiscal Year (FY) 2002. The exemptions for food and prescription drugs reduced revenue by $879 million and $363 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 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.

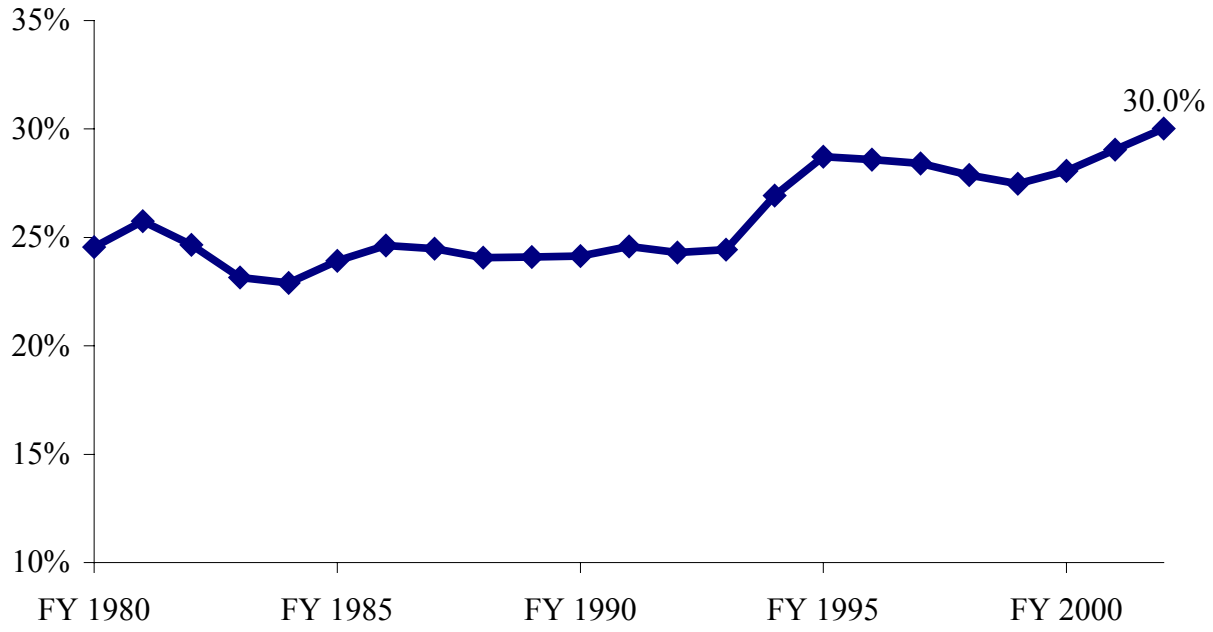
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 3
Sales and Use Tax Revenue
as a Percent of Total State Tax Revenue
FY 1980 to FY 2002

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%

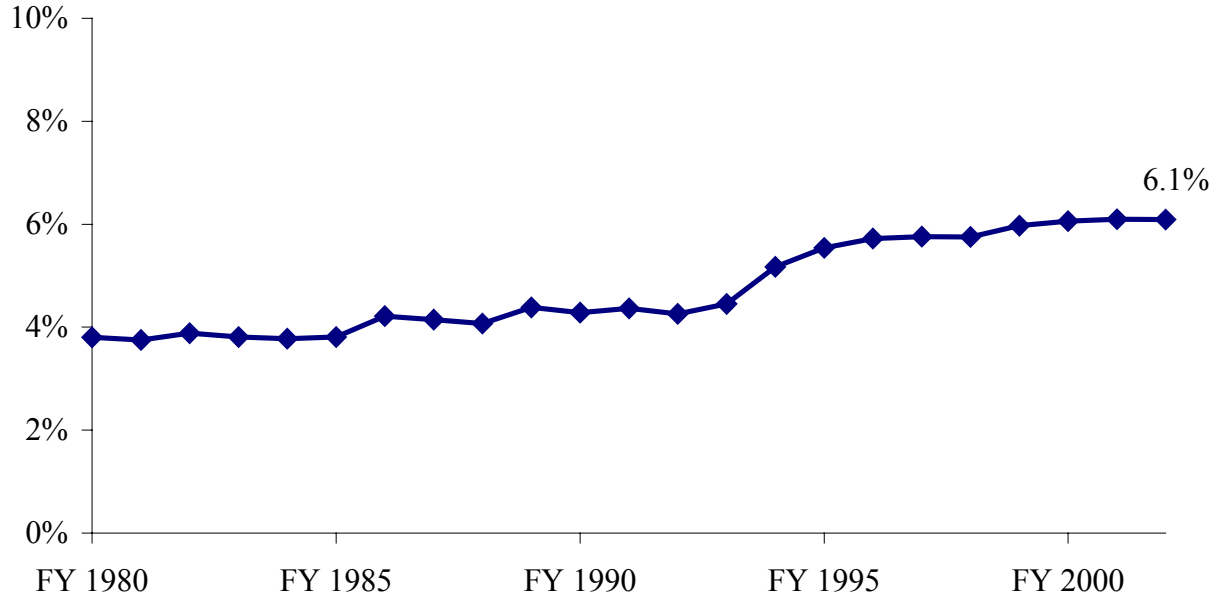
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

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



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

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



Source: Office of Revenue and Tax Analysis, 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. 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 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 final incidence. Statutory incidence refers to the individual or groups of individuals who are supposed to remit the tax under the 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, 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 more covert. 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. 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 example of multiple tax rates is the variation between Indiana's 5-percent tax rate and Michigan's 6-percent rate. 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 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.

There is considerable debate among economists regarding the degree of vertical inequity that exists with the sales tax.[1] 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.[2]

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

[2]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. The Michigan sales tax is also slightly different from a pure 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. 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 2002.

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 $4,841 million in FY 2002. Health care and social assistance services comprised the largest sector of service tax expenditures at $1,929 million, or 40 percent. Administrative and support and waste management and remediation services followed next at $723 million, or 15 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. A recent attempt to broaden Florida's sales tax base has resulted in a ballot proposal to amend the Florida Constitution. In Oklahoma, a recent 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.

Exhibit 6
Michigan Sales and Use Tax Expenditures
(Millions)

Tax Expenditure	FY 2002 Revenue Impact
Air and Water Pollution	$31.0
Aircraft Parts	$8.3
Bad Debts	$58.0
Cargo Aircraft	$30.0
Churches	$7.5
Collection Fees	$16.3
Commercial Domestic Aircraft	$5.0
Communication and Telephone Exemption	$37.0
Delayed Payments	$3.0
Driver Training	$0.6
Employee Meals	$7.0
Food	$879.0
Food for Students	$45.6
Government or Red Cross	$167.7
Gratuities and Tips	$45.7
Horticultural and Agricultural Products	$130.3
Industrial Processing	$851.0
Inmate Purchases	$0.6
Interstate Telecommunications	$44.0
Interstate Trucks and Trailers	$37.0
Investment Coins	$0.3
Military Post-Exchange Sales	$1.6
Newspapers, Periodicals, and Films	$105.5
Nonprofit Hospital or Housing Construction	$10.0
Nonprofit Organizations	$181.9
Ophthalmic and Orthopedic Products	$54.8
Prescription Drugs	$362.9
Radio and Television	$4.4
Rail Rolling Stock	$1.7
Residential Utilities	$104.1
Returned Vehicles	$1.1
Sale of Water	$81.6
Services	$4,841.4
Telephone Services	$16.6
Vehicle and Aircraft Transfer	$126.4
Vending Machines and Mobile Facilities	$21.7
Total	$8,320.6

Source: Office of Revenue and Tax Analysis, 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	T	T	T	E
Kentucky	NT	E	E	E	E
Louisiana	NT	T	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	T	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 the short-term regressivity of the sales tax. According to the 2000 Consumer Expenditure Survey by the Bureau of Labor Statistics, purchases of food for home consumption account for 11.3 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 5.9 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 2002 for exempting food consumed at home from the Michigan sales tax was $879 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 the prescription drug exemption is estimated to be about $363 million in FY 2002.

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 1/6 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 ($4,584 on average) is more than double the amount spent by consumers in the lowest 20 percent of the income distribution ($2,124). Using the difference in annual expenditure between the two groups implies that consumers with the highest income receive an additional $148 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 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 almost $8.3 billion in FY 2002. Eliminating all of these exemptions 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	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 2002 was $6,439.9 million, up $87.6 million (1.4 percent) from FY 2001. Since 1994 (when the sales tax rate 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. The percentage increased slightly to 30.0 percent in FY 2002 (see Exhibit 4).

Nominal sales tax revenue has increased 32 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, and then grew at a sluggish rate in 2001 and 2002. This reflects the slow national economy. Adjusted for inflation, real sales tax revenue rose 9.5 percent or an average of 1.3 percent per fiscal year from 1995 to 2002.

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 1.51 percent to 1.64 percent each year. During the recession in the early 1990s, the sales tax burden fell to 1.45 percent of personal income. In FY 2002, sales tax revenue as a percent of personal income was 2.13 percent. This percentage has remained around 2.15 percent consistently since the tax rate increased in 1994 (see Exhibit 11).

The automotive sector provides the largest share of sales tax revenue, with total sales tax revenue of $1,763.9 million in FY 2002 (see Exhibit 12). Sales of new and used cars account for most of this revenue. Taxable sales in the automotive sector account for 27.5 percent of total sales tax revenue. The food sector was responsible for $907.8 million of sales tax revenue or 14.1 percent in FY 2002, mostly from sales in restaurants and taxable items sold at grocery stores. General merchandise stores accounted for $641.7 million, or 10.0 percent of total sales tax revenue.

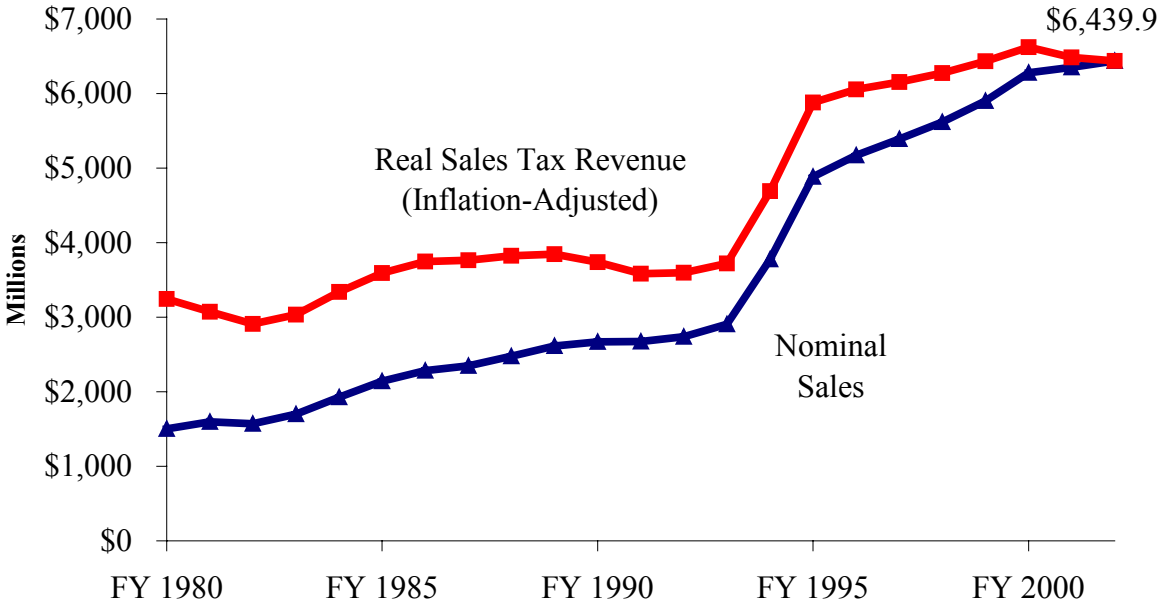
Over the past 10 years, the distribution of sales tax revenue by retail sector has remained fairly constant (see Exhibit 13). Since 1992, the auto, building, and miscellaneous retail sectors have increased their share of sales tax revenue. During the 1990s, consumer spending shifted toward investments in housing. The automotive sector, while fluctuating from year-to-year, maintained a similar share of sales tax revenue from FY 1992 through FY 2000, with a sharp increase in 2001 and 2002. The increase reflects strong auto sales resulting from dealer incentives offered following the terrorist attacks in September 2001. The food, furniture, apparel, and non-retail sectors have seen decreases in their respective shares of sales tax revenue.

Exhibit 9
Michigan Sales Tax Revenue
FY 1980 to FY 2002

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 2002 $ (millions)
1980	$93,913	$1,504.0	1.60%	82.3	$3,245.3
1981	101,539	1,595.0	1.57%	92.1	3,073.4
1982	104,014	1,570.6	1.51%	95.8	2,911.6
1983	108,342	1,699.0	1.57%	99.4	3,035.4
1984	119,996	1,925.0	1.60%	102.4	3,337.9
1985	130,828	2,142.6	1.64%	105.8	3,593.8
1986	140,776	2,283.1	1.62%	108.1	3,748.6
1987	146,403	2,348.4	1.60%	110.7	3,764.6
1988	155,701	2,475.0	1.59%	114.8	3,826.0
1989	166,843	2,615.2	1.57%	120.8	3,844.3
1990	175,250	2,671.3	1.52%	126.8	3,738.9
1991	179,891	2,671.9	1.49%	132.4	3,582.4
1992	188,609	2,738.1	1.45%	135.1	3,596.5
1993	201,015	2,905.7	1.45%	138.6	3,720.7
1994	215,255	3,775.3	1.75%	142.9	4,689.1
1995	229,382	4,884.2	2.13%	147.5	5,879.4
1996	236,150	5,171.6	2.19%	151.6	6,057.1
1997	247,235	5,389.8	2.18%	155.4	6,156.1
1998	260,781	5,617.3	2.15%	158.9	6,275.7
1999	273,569	5,901.7	2.16%	162.8	6,435.1
2000	290,158	6,277.5	2.16%	168.3	6,622.0
2001	296,995	6,352.3	2.14%	173.8	6,486.8
2002	302,020	6,439.9	2.13%	177.5	6,439.9

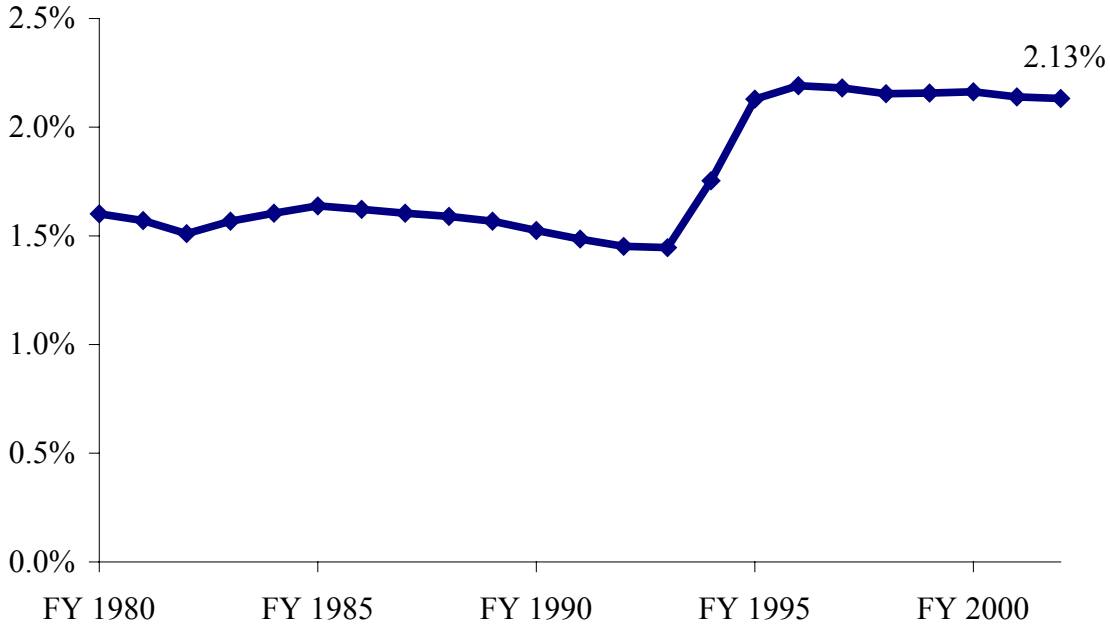
Sources: Office of Revenue and Tax Analysis, Michigan Department of Treasury.
Bureau of Labor Statistcs, U.S. Department of Labor.
Bureau of Economic Analysis, U.S. Department of Commerce.

Exhibit 10
Michigan Sales Tax Nominal and Real Revenue



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

Exhibit 11
Sales Tax Revenue as a Percent of Personal Income



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

Exhibit 12
Michigan Sales Tax Revenue by Retail Sector
FY 1992 to FY 2002

Fiscal Year	Auto	Percent Change	Food	Percent Change	General Merchandise	Percent Change
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%
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%

Fiscal Year	Building Lumber & Hardware	Percent Change	Furniture	Percent Change	Apparel	Percent Change
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%
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%

Fiscal Year	Miscellaneous Retail	Percent Change	Non-Retail	Percent Change	Total	Percent Change
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%
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%

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 accounting methods.

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

Exhibit 13
Share of Sales Tax Revenue by Retail Sector
FY 1992 to FY 2002

Fiscal Year	Auto	Food	General Merchandise	Building Lumber & Hardware
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%
2001	26.2%	14.0%	9.6%	8.0%
2002	27.5%	14.1%	10.0%	8.3%

Fiscal Year	Furniture	Apparel	Miscellaneous Retail	Non-Retail
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%
2001	3.8%	3.5%	10.8%	24.0%
2002	3.7%	3.4%	10.0%	22.9%

Note: Figures do not include use tax.

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

Use Tax Revenue

Michigan use tax revenue totaled $1,306.4 million in FY 2002, down $27.2 million (-2.0 percent) from FY 2001. 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 2002, use tax revenue accounted for 6.1 percent of total state tax revenue.

Nominal use tax revenue increased 38.6 percent from FY 1995 to FY 2002. When adjusted for inflation, real use tax revenue increased 15.1 percent, or an average rate of approximately 2 percent per year. As with the sales tax, strong growth from 1995 to 2000 has given way to flat revenues for 2001 and 2002 (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 2002, use tax revenue as a percent of personal income was 0.43 percent, approximately the average value from 1995 to 2002 (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, with tax payments of $289.5 million in FY 2002 (see Exhibit 17). This accounts for 21.9 percent of total use tax revenue, with most of these payments collected from interstate and intrastate telephone calls. The automotive sector was responsible for $236.3 million of use tax revenue, or 17.9 percent, in FY 2002, generally from leasing and private sales of motor vehicles.

Between 1992 and 2002, 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 8.8 percent in 1992 to 15.1 percent in FY 2002. This sector also pays revenue from the leasing of motor vehicles. The share of use tax paid by the automobile sector had been declining, from a high of 19.1 percent in FY 1994 to 14.4 percent in FY 2001. However, use tax payments from the automobile sector increased by more than 20 percent in FY 2002, raising the sector's share of total use tax payments to 17.9 percent.

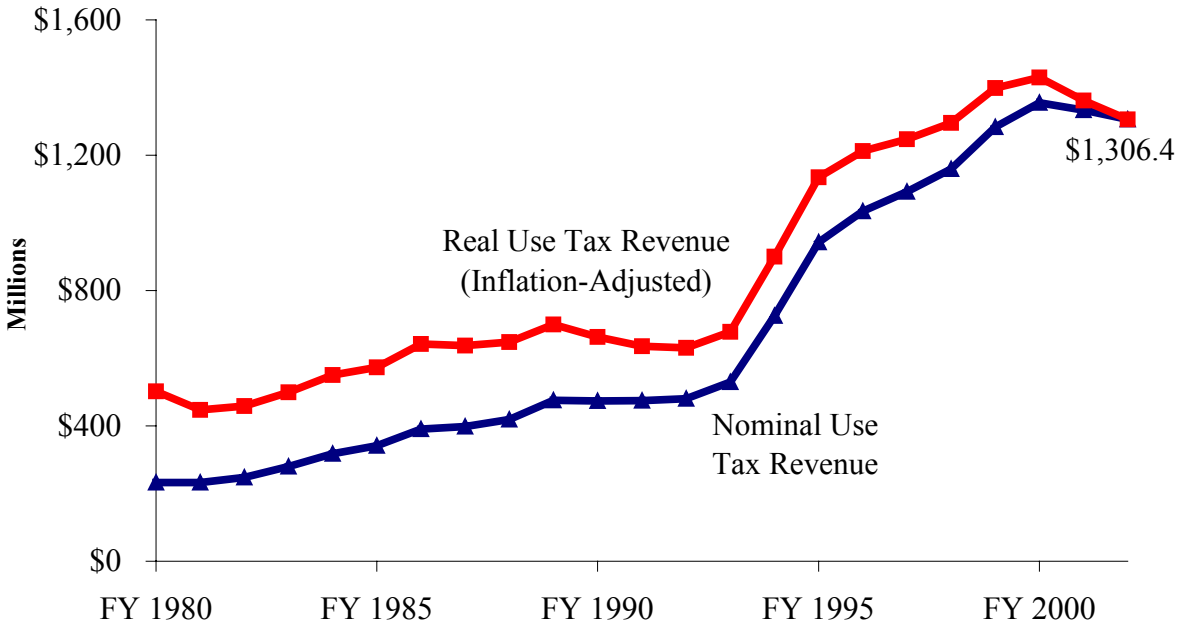
While the use tax is generally paid by businesses, individuals may incur a use tax liability on mail order or Internet purchases since the retailer may not collect Michigan sales tax. Beginning in tax year 1999, a line was added to the Michigan income tax form to aid taxpayers in meeting their use tax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

Exhibit 14
Michigan Use Tax Revenue
FY 1980 to FY 2002

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 2002 $ (millions)
1980	$93,913	$232.9	0.25%	82.3	$502.5
1981	101,539	232.3	0.23%	92.1	447.7
1982	104,014	247.4	0.24%	95.8	458.5
1983	108,342	279.5	0.26%	99.4	499.4
1984	119,996	317.3	0.26%	102.4	550.2
1985	130,828	341.4	0.26%	105.8	572.6
1986	140,776	390.8	0.28%	108.1	641.7
1987	146,403	397.8	0.27%	110.7	637.7
1988	155,701	419.0	0.27%	114.8	647.7
1989	166,843	475.9	0.29%	120.8	699.5
1990	175,250	473.9	0.27%	126.8	663.3
1991	179,891	474.3	0.26%	132.4	635.9
1992	188,609	480.0	0.25%	135.1	630.4
1993	201,015	529.5	0.26%	138.6	678.1
1994	215,255	725.1	0.34%	142.9	900.6
1995	229,382	942.9	0.41%	147.5	1,135.0
1996	236,150	1,034.9	0.44%	151.6	1,212.1
1997	247,235	1,092.2	0.44%	155.4	1,247.5
1998	260,781	1,159.3	0.44%	158.9	1,295.1
1999	273,569	1,283.0	0.47%	162.8	1,399.0
2000	290,158	1,355.4	0.47%	168.3	1,429.8
2001	296,995	1,333.6	0.45%	173.8	1,361.8
2002	302,020	1,306.4	0.43%	177.5	1,306.4

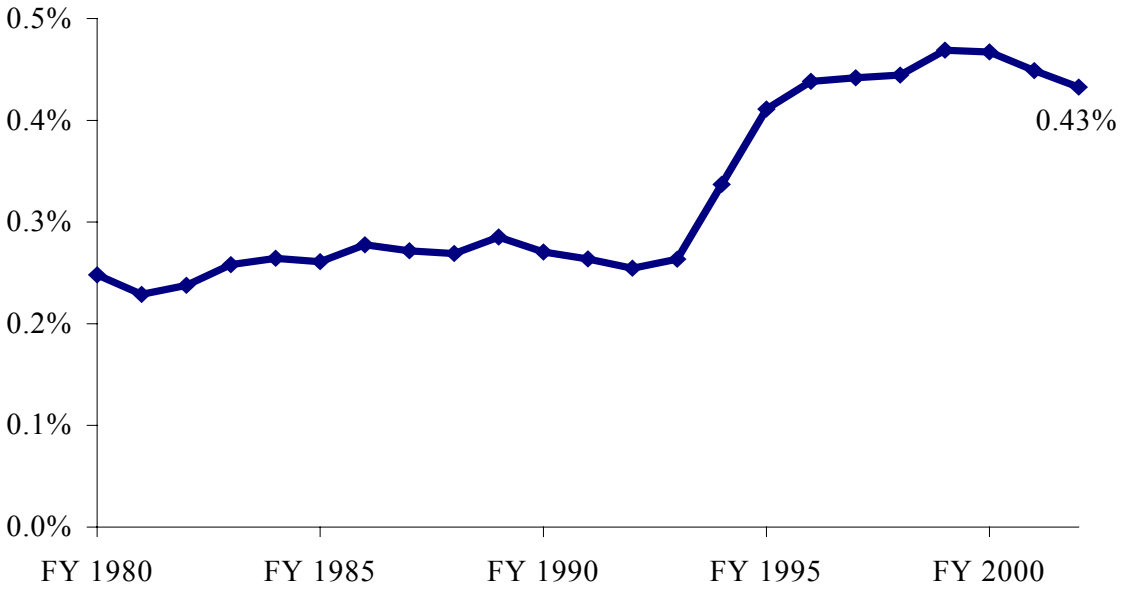
Sources: Office of Revenue and Tax Analysis, Michigan Department of Treasury.
Bureau of Labor Statistics, U.S. Department of Labor.
Bureau of Economic Analysis, U.S. Department of Commerce.

Exhibit 15
Michigan Use Tax Nominal and Real Revenue



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

Exhibit 16
Use Tax Revenue as a Percent of Personal Income



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

Exhibit 17
Michigan Use Tax Revenue by Various Sectors
FY 1992 to FY 2002
(Millions)

Fiscal Year	Telephone & Communication	Percent Change	Auto	Percent Change	Business Services	Percent Change
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%
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%

Fiscal Year	Hotels & Motels	Percent Change	Transportation Manufacturing	Percent Change	General Merchandise	Percent Change
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%
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%

Fiscal Year	Machinery	Percent Change	Other	Percent Change	Total	Percent Change
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%
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%

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 accounting methods.

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

Exhibit 18
Share of Use Tax Revenue by Various Sectors
FY 1992 to FY 2002

Fiscal Year	Telephone & Communication	Auto	Business Services	Hotels & Motels
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%
2001	21.2%	14.4%	14.1%	4.7%
2002	21.9%	17.9%	15.1%	4.5%

Fiscal Year	Transportation Manufacturing	General Merchandise	Machinery	Other
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%
2001	5.1%	2.4%	2.2%	35.8%
2002	5.3%	2.3%	1.8%	31.1%

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.

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 formed the Streamlined Sales Tax Project 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 merchandise delivered 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 allow the collection of use taxes by states for 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. 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.

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 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 the full participation of 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 a simplified and standardized sales and use tax system nationwide. This new system would improve sales and use tax administration. The concept is a win-win approach where traditional retailers, remote sellers, and state and local tax administrators all benefit.

The goal of the SSTP is to provide states and businesses with a Streamlined Sales Tax System (SSTS). Key provisions of the 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 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 nationwide.

To participate in the SSTS, states must adopt the Uniform Sales and Use Tax Administration Act (Act) and the Streamlined Sales and Use Tax Agreement (Agreement). The Act allows the state

to enter into an agreement with one or more states to simplify and modernize sales and use tax administration in order to reduce the burden of tax compliance for all sellers and types of commerce. The Agreement sets out the provisions that must be reflected in state statutes, regulations or other authorities in order to bring about simplification and uniformity. By enacting the 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.

As of July 2002, thirty-five states and the District of Columbia have enacted the Act. These states are considered "Implementing States." The Implementing States began meeting in November of 2001 to develop the final provisions of the Agreement. On November 12, 2002, the Implementing States adopted the Agreement. During 2003, it is expected that many of the Implementing States will pursue implementing legislation. The Department of Treasury is in the process of identifying the statutory changes that will be needed in Michigan to implement the Agreement.

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 $201 million in FY 2002. This loss will grow to $264 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 $148 million to $166 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 forecasted to increase from $53 million in FY 2002 to $98 million in FY 2005 (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

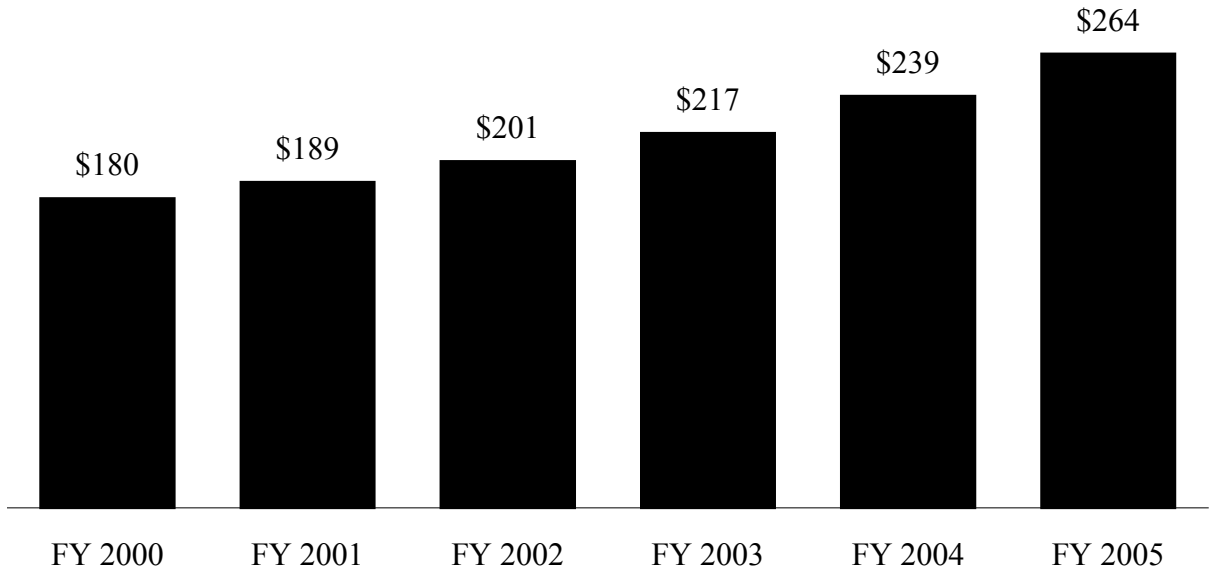
tax loss due to e-commerce sales at over $14 billion in 2003.[3] However, some alternative estimates have produced much smaller revenue losses.[4]

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 2002, 72,872 taxpayers reported over $3.1 million of use tax due on their Michigan income tax returns. This amount is approximately 1.6 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.

[3] 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.

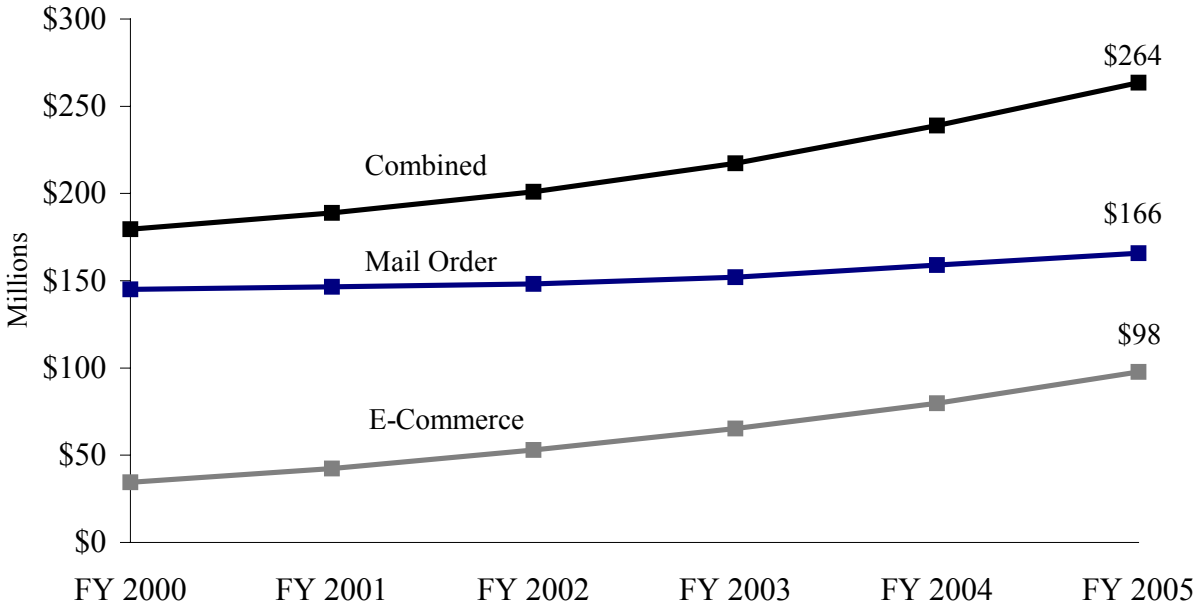
[4] See "A Current Calculation of Uncollected Sales Tax Arising from Internet Growth" by Peter A. Johnson, the Direct Marketing Association, March 2003.

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



Sources: National Mail Order Association and U.S. Census Bureau. Compiled by the Michigan Department of Treasury.

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



Sources: National Mail Order Associating and U.S. Census Bureau. Compiled by the 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
1999	139.5	5.9%	23.2	65.9%	162.7	11.7%
2000	145.0	4.0%	34.5	48.4%	179.5	10.3%
2001	146.5	1.0%	42.4	23.1%	188.9	5.2%
2002	148.1	1.1%	53.0	24.8%	201.0	6.4%
2003	152.1	2.7%	65.3	23.2%	217.3	8.1%
2004	159.1	4.6%	79.8	22.3%	238.9	9.9%
2005	165.9	4.3%	97.7	22.3%	263.5	10.3%

Sources: National Mail Order Association and U.S. Bureau of the Census. Calculations by the 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. 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 2002* (see Exhibit 22).

The estimates of county sales tax revenue range from a high of $1,164 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 $1,339, while Cass County ranked last with $81 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.

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. In 2002, Alaska, Delaware, Montana, New Hampshire, and Oregon did not levy a state 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 percent in Alabama, followed by Oklahoma at 9.85 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 8.16 percent. Michigan ranks 24th 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 4.89 percent in FY 2000. Michigan ranked 24th for sales tax revenue as a percent of personal income at 2.64 percent (see Exhibit 24). The U.S. average for states with a sales tax was 2.72 percent. Alaska, which only levies a local sales tax, was the lowest for states with a sales tax at 0.59 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
2002

County	Population (thousands)	Buying Income Per Person	Estimated Tax Base (thousands)	Sales Tax Revenue (thousands)	Rank	Tax Per Person	Rank
Alcona	12.0	$12,881	$38,998	$2,340	79	$195	80
Alger	10.0	11,377	39,677	2,381	78	238	75
Allegan	107.7	17,447	611,621	36,697	24	341	60
Alpena	31.2	14,923	324,226	19,454	40	624	20
Antrim	24.2	15,657	91,570	5,494	67	227	76
Arenac	17.6	11,376	124,814	7,489	61	426	51
Baraga	8.7	12,326	32,559	1,954	80	225	77
Barry	58.1	16,798	319,574	19,174	41	330	63
Bay	109.6	17,122	1,206,208	72,372	19	660	17
Benzie	16.7	13,557	68,598	4,116	73	246	73
Berrien	162.3	17,069	1,218,472	73,108	18	450	45
Branch	46.3	14,082	340,578	20,435	38	441	48
Calhoun	138.0	15,676	1,609,815	96,589	14	700	11
Cass	51.2	15,862	68,951	4,137	72	81	83
Charlevoix	26.8	16,585	262,762	15,766	47	588	26
Cheboygan	27.5	13,688	306,056	18,363	43	668	15
Chippewa	39.2	12,482	248,197	14,892	50	380	52
Clare	32.2	11,203	200,279	12,017	57	373	53
Clinton	66.0	19,143	363,859	21,832	36	331	62
Crawford	14.6	12,927	103,601	6,216	65	426	50
Delta	38.4	14,388	447,142	26,829	31	699	12
Dickinson	27.5	14,437	306,363	18,382	42	668	14
Eaton	105.0	18,174	828,725	49,723	22	474	42
Emmet	32.5	16,555	477,630	28,658	29	882	5
Genesee	436.5	17,715	4,834,622	290,077	6	665	16
Gladwin	26.6	12,598	162,764	9,766	58	367	57
Gogebic	17.1	13,269	106,346	6,381	64	373	54
Grand Traverse	80.1	19,288	1,787,113	107,227	11	1,339	1
Gratiot	42.6	12,702	229,676	13,781	54	323	66
Hillsdale	47.0	14,258	239,183	14,351	52	305	68
Houghton	36.1	12,402	221,176	13,271	56	368	56
Huron	36.2	14,210	258,015	15,481	48	428	49
Ingham	277.9	17,654	3,048,518	182,911	7	658	18
Ionia	61.8	12,308	329,386	19,763	39	320	67
Iosco	27.4	10,329	240,113	14,407	51	526	34
Iron	13.0	11,979	55,624	3,337	75	257	72
Isabella	64.7	12,496	587,569	35,254	26	545	31
Jackson	159.0	15,704	1,581,966	94,918	15	597	23
Kalamazoo	240.3	18,230	2,364,793	141,888	9	590	25
Kalkaska	17.2	12,408	149,295	8,958	59	521	36
Kent	585.3	19,776	7,862,063	471,724	4	806	7
Keweenaw	2.4	8,462	3,406	204	83	85	82
Lake	11.9	10,101	28,432	1,706	82	143	81
Lapeer	90.0	15,980	904,785	54,287	21	603	22

Exhibit 22 (continued)
Estimated Michigan Sales Tax Revenue by County
2002

County	Population (thousands)	Buying Income Per Person	Estimated Tax Base (thousands)	Sales Tax Revenue (thousands)	Rank	Tax Per Person	Rank
Leelanau	21.8	$19,336	$98,414	$5,905	66	$271	70
Lenawee	100.4	15,181	1,164,168	69,850	20	696	13
Livingston	165.0	23,402	1,641,136	98,468	12	597	24
Luce	7.2	9,336	55,600	3,336	76	463	43
Mackinac	12.3	14,730	115,599	6,936	62	564	28
Macomb	798.3	19,770	10,129,447	607,767	3	761	9
Manistee	25.0	12,625	222,787	13,367	55	535	33
Marquette	64.0	13,710	484,350	29,061	27	454	44
Mason	28.6	14,204	302,073	18,124	44	634	19
Mecosta	41.1	12,127	343,695	20,622	37	502	38
Menominee	25.4	13,970	138,676	8,321	60	328	64
Midland	83.7	19,648	751,625	45,097	23	539	32
Missaukee	14.9	11,566	91,329	5,480	68	368	55
Monroe	148.3	18,846	1,294,308	77,658	17	524	35
Montcalm	62.7	10,815	468,320	28,099	30	448	46
Montmorency	10.5	12,682	46,749	2,805	77	267	71
Muskegon	171.8	14,463	1,449,712	86,983	16	506	37
Newaygo	49.2	12,740	238,710	14,323	53	291	69
Oakland	1,208.1	29,622	19,407,594	1,164,456	1	964	4
Oceana	27.6	11,724	110,844	6,651	63	241	74
Ogemaw	22.1	11,430	285,104	17,106	45	774	8
Ontonagon	7.5	12,769	55,661	3,340	74	445	47
Osceola	23.6	12,583	86,012	5,161	69	219	78
Oscoda	9.6	12,322	32,089	1,925	81	201	79
Otsego	24.2	14,972	410,004	24,600	34	1,017	2
Ottawa	246.6	17,934	2,293,633	137,618	10	558	29
Presque Isle	14.5	11,598	84,820	5,089	70	351	59
Roscommon	26.2	11,667	266,509	15,991	46	610	21
Saginaw	209.1	15,657	2,553,461	153,208	8	733	10
Sanilac	45.2	13,552	249,401	14,964	49	331	61
Schoolcraft	9.0	12,099	73,818	4,429	71	492	40
Shiawassee	71.9	13,934	600,339	36,020	25	501	39
St. Clair	167.2	16,272	1,635,103	98,106	13	587	27
St. Joseph	62.9	15,394	369,083	22,145	35	352	58
Tuscola	58.6	14,199	480,119	28,807	28	492	41
Van Buren	76.6	13,731	417,310	25,039	33	327	65
Washtenaw	330.2	24,065	5,338,875	320,333	5	970	3
Wayne	2,038.0	17,089	18,868,662	1,132,120	2	556	30
Wexford	31.2	15,028	419,278	25,157	32	806	6
Totals	10,016.5	$18,693	$107,709,539	$6,462,572		$645	

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

Exhibit 23
State and Local Sales Tax Rates
2003

State	State Sales Tax Rate	Maximum Local Tax Rate	Maximum State & Local Tax Rate
Alabama	4.0%	6.0%	10.0%
Alaska	No Tax	7.0%	7.0%
Arizona	5.6%	3.0%	8.6%
Arkansas	5.125%	4.8%	9.875%
California	6.00%	2.50%	8.50%
Colorado	2.9%	5.0%	7.9%
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%	3.0%	9.25%
Indiana	6.0%	None	6.0%
Iowa	5.0%	2.0%	7.0%
Kansas	5.3%	3.0%	8.3%
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%	4.125%	8.35%
Montana	No Tax	None	No Tax
Nebraska	5.5%	1.5%	7.0%
Nevada	6.5%	0.8%	7.3%
New Hampshire	No Tax	None	No Tax
New Jersey	6.0%	None	6.0%
New Mexico	5.0%	2.25%	7.25%
New York	4.0%	4.5%	8.5%
North Carolina	4.5%	3.0%	7.5%
North Dakota	5.0%	2.0%	7.0%
Ohio	5.0%	2.0%	7.0%
Oklahoma	4.5%	5.35%	9.85%
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%	2.3%	7.00%
Vermont	5.0%	1.0%	6.0%
Virginia	3.5%	1.0%	4.5%
Washington	6.5%	2.4%	8.9%
West Virginia	6.0%	None	6.0%
Wisconsin	5.0%	0.6%	5.6%
Wyoming	4.0%	2.0%	6.0%

Sources: Commerce Clearing House, Federation of Tax Administrators, and responses from various tax administrators.

Exhibit 24
Effective State and Local Sales Tax Rates and Revenue
FY 2000

	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	$2,868.4	$104,490.3	2.75%	21	4.0%	6.74%	12
Alaska	106.9	18,131.5	0.59%	46	0.0%	NA	46
Arizona	4,853.3	125,661.0	3.86%	7	5.0%	6.68%	13
Arkansas	2,199.2	57,527.0	3.82%	8	4.625%	5.96%	28
California	30,439.7	1,043,978.0	2.92%	18	6.0%	7.79%	2
Colorado	3,775.2	134,820.8	2.80%	19	3.0%	6.12%	22
Connecticut	3,419.9	135,835.3	2.52%	27	6.0%	6.00%	24
Delaware	0.0	23,667.5	0.00%	47	No Tax	NA	46
Florida	15,556.8	437,797.5	3.55%	11	6.0%	6.22%	18
Georgia	7,531.3	222,663.0	3.38%	13	4.0%	6.51%	15
Hawaii	1,536.3	33,428.5	4.60%	3	4.0%	4.00%	45
Idaho	747.1	30,155.5	2.48%	30	5.0%	5.00%	39
Illinois	7,275.6	386,124.8	1.88%	40	6.25%	7.11%	8
Indiana	3,579.4	160,440.0	2.23%	36	5.0%	5.00%	39
Iowa	1,893.1	75,509.5	2.51%	28	5.0%	5.49%	33
Kansas	2,211.2	71,983.3	3.07%	15	4.9%	6.22%	17
Kentucky	2,171.7	94,603.0	2.30%	35	6.0%	6.00%	23
Louisiana	4,324.4	101,222.0	4.27%	4	4.0%	8.39%	1
Maine	847.4	31,784.5	2.67%	23	5.5%	5.50%	32
Maryland	2,498.2	173,277.3	1.44%	44	5.0%	5.00%	39
Massachusetts	3,565.3	228,810.0	1.56%	42	5.0%	5.00%	39
Michigan	**7,666.4**	**290,158.0**	**2.64%**	**24**	**6.0%**	**6.00%**	**24**
Minnesota	3,757.4	152,370.5	2.47%	31	6.5%	6.56%	14
Mississippi	2,333.4	58,457.8	3.99%	5	7.0%	7.00%	9
Missouri	4,107.7	148,591.0	2.76%	20	4.225%	6.23%	16
Montana	0.0	19,948.5	0.00%	47	No Tax	NA	46
Nebraska	1,217.0	46,513.3	2.62%	26	5.0%	5.92%	30
Nevada	2,061.5	57,518.8	3.58%	10	6.5%	6.90%	11
New Hampshire	0.0	39,468.0	0.00%	47	No Tax	NA	46
New Jersey	5,508.0	301,598.8	1.83%	41	6.0%	6.00%	24
New Mexico	1,867.7	38,695.3	4.83%	2	5.0%	6.22%	19
New York	16,473.5	625,124.3	2.64%	25	4.0%	7.69%	4
North Carolina	4,520.0	209,832.0	2.15%	37	4.0%	5.36%	34
North Dakota	381.4	15,468.8	2.47%	32	5.0%	5.77%	31
Ohio	7,431.6	312,782.0	2.38%	34	5.0%	5.93%	29
Oklahoma	2,403.8	79,890.3	3.01%	17	4.5%	7.50%	6
Oregon	0.0	92,246.3	0.00%	47	No Tax	NA	46
Pennsylvania	7,220.6	352,827.3	2.05%	39	6.0%	6.14%	21
Rhode Island	621.1	29,708.8	2.09%	38	7.0%	7.00%	9
South Carolina	2,557.7	94,398.3	2.71%	22	5.0%	5.20%	36
South Dakota	627.2	19,010.0	3.30%	14	4.0%	5.14%	37
Tennessee	5,701.0	145,783.8	3.91%	6	6.0%	7.69%	5
Texas	17,349.0	571,350.8	3.04%	16	6.25%	7.74%	3
Utah	1,841.3	50,791.8	3.63%	9	4.88%	6.15%	20
Vermont	215.4	16,124.5	1.34%	45	5.0%	5.00%	39
Virginia	3,214.2	212,910.3	1.51%	43	3.5%	4.55%	44
Washington	8,918.8	182,219.8	4.89%	1	6.5%	7.49%	7
West Virginia	917.1	38,449.3	2.39%	33	6.0%	6.00%	24
Wisconsin	3,695.2	148,446.8	2.49%	29	5.0%	5.27%	35
Wyoming	464.0	13,257.8	3.50%	12	4.0%	5.03%	38
U.S. Average	214,472,202	8,055,852	2662.32%				

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

VIII. PUBLIC ACTS IN 2002 – SALES AND USE TAXES

Public Act 110 codifies the existing practice of taxing demonstration vehicles in excess of a dealer's tax-exempt quota at 2.5 percent of the vehicle's value plus $30 per month.

Public Act 255 allows the lessor of an aircraft additional time to elect whether to pay sales tax on the purchase price of the aircraft or pay use tax on receipts from the lease or rental of the aircraft.

Public Acts 452, 455 and 456 make several changes related to the taxation of mobile telecommunications services to bring Michigan into compliance with federal law, provide for consistency in interstate tax policy with regard to mobile telecommunications, and clarify the application of use tax to taxable and nontaxable telecommunications.

Public Act 457 eliminates the $1 registration fee businesses had been required to pay to obtain a sales tax license.

Public Acts 510 and 511 allow the sponsors of certain athletic events to apply the sales and use taxes to only the taxable portion of bundled tangible personal property and services. Generally, only separately identified sales of exempt property or services qualify for an exemption.

Public Acts 579 and 580 require a corporation seeking to dissolve to request the Department of Treasury to certify that the corporation does not have any unpaid sales or use tax liability.

Public Act 614 exempts the sale of motor vehicles, recreational watercraft, snowmobiles, all terrain vehicles, or mobile homes made to a resident tribal member from the use tax. To qualify, the resident tribal member must be a member of a federally recognized tribe that has entered into an agreement with the State as provided in the Revenue Act.

Public Act 617 exempts the sale of motor vehicles, recreational watercraft, snowmobiles, all terrain vehicles, or mobile homes made to a resident tribal member from the sales tax. To qualify, the resident tribal member must be a member of a federally recognized tribe that has entered into an agreement with the State as provided in the Revenue Act.

Public Act 669 amends the Use Tax Act to simplify the diesel fuel collection system. In addition to changes in the Motor Fuel Tax Act enacted in related legislation, a 6 percent use tax on diesel fuel used by interstate motor carriers replaces 6 cents of the motor carrier fuel tax.

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