MICHIGAN'S SALES AND USE TAXES 2001

Office of Revenue and Tax Analysis
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Acknowledgments

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I. EXECUTIVE SUMMARY

- Michigan sales and use tax revenue totaled $7.686 billion in Fiscal Year (FY) 2001, an increase of 0.7 percent from FY 2000. FY 2001 sales tax revenue was $6.352 billion and FY 2001 use tax revenue was $1.334 billion.

- Michigan sales tax revenue is dedicated mostly to the state School Aid Fund (73.3 percent) and local government revenue sharing (24.2 percent). Michigan use tax revenue is dedicated to the General Fund (66.7 percent) and School Aid Fund (33.3 percent).

- Exemptions and other tax expenditures reduced sales and use tax collections by an estimated $7.575 billion in FY 2001. Untaxed services remain the largest single source of tax expenditures.

- The automotive retail sector remits the largest share of sales tax revenue at $1.66 billion. The telecommunications sector provides the largest share of use tax revenue at $288.9 million.

- Sales and use tax revenues are being eroded by remote sales (mail order and Internet). Michigan's tax revenue losses from consumer remote sales are estimated at $210 million in FY 2001. The estimated revenue losses are projected to grow to $349 million in FY 2005.

- Louisiana has the highest average effective combined state and local sales tax rate at 8.16 percent. Michigan is below the national average, ranking 25th among states with a rate of 6.0 percent.

- Washington has the highest amount of general sales tax revenue as a percent of personal income at 4.95 percent. Michigan ranks 24th at 2.65 percent, below the national average of 2.70 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.

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 sales tax rate to 4 percent effective January 1, 1961. A constitutional amendment was passed in 1994 that raised the sales tax rate to 6 percent, as a partial revenue replacement for property tax reductions.

In 1937, Michigan enacted Public Act 94 that created the use tax to correspond with the Michigan sales tax. 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.

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

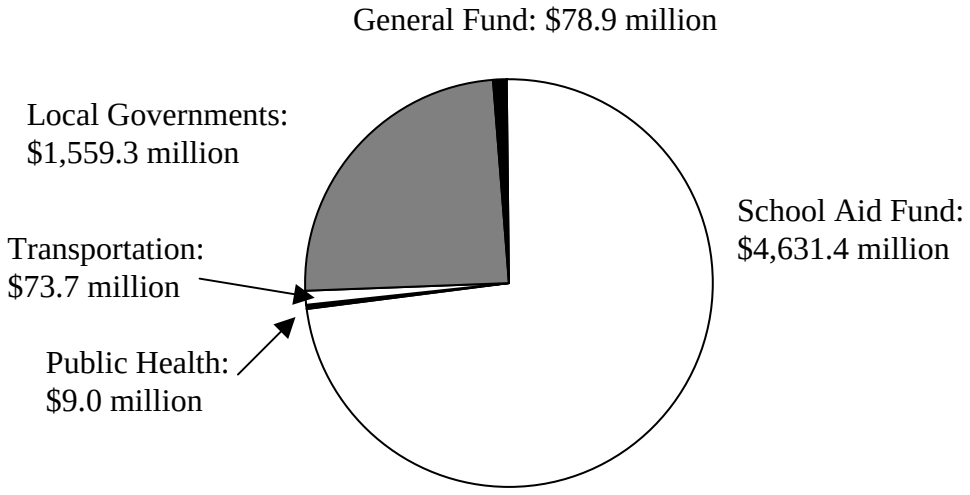
Sales and use taxes are the largest source of revenue for the State of Michigan. In FY 2001, sales and use taxes totaled over $7.7 billion, or 35 percent of Michigan tax revenue. The personal income tax, by comparison, accounted for 31 percent of tax revenue. Before Proposal A, a reform of the school finance system passed in 1994, Michigan sales and use taxes made up approximately 28 percent of total state tax revenue.

Michigan sales and use taxes are levied similarly, but the revenue from the two taxes is distributed differently. Two-thirds of use tax revenue is deposited in the General Fund, while one-third is deposited in the School Aid Fund (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. Proposal A earmarked all the revenue from

the 2-percent increase in the sales and use tax rates to the SAF. Also, a recent major change in the funding of state revenue sharing for local governments affected how sales tax revenues were distributed. Local government revenue sharing previously received funds from four different taxes. The law change made the sales tax the only source of funding for revenue sharing.

As stated previously, the 2-percent increase due to Proposal A 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 2001 is shown in Exhibit 1.

Exhibit 1
Sales Tax Revenue Distribution
Fiscal Year 2001



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 2001*, the potential revenue loss due to exemptions was estimated to be $7.6 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 $4.6 billion for Fiscal Year (FY) 2001. The exemptions for food and prescription drugs reduced revenue by $900 million and $269 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.

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

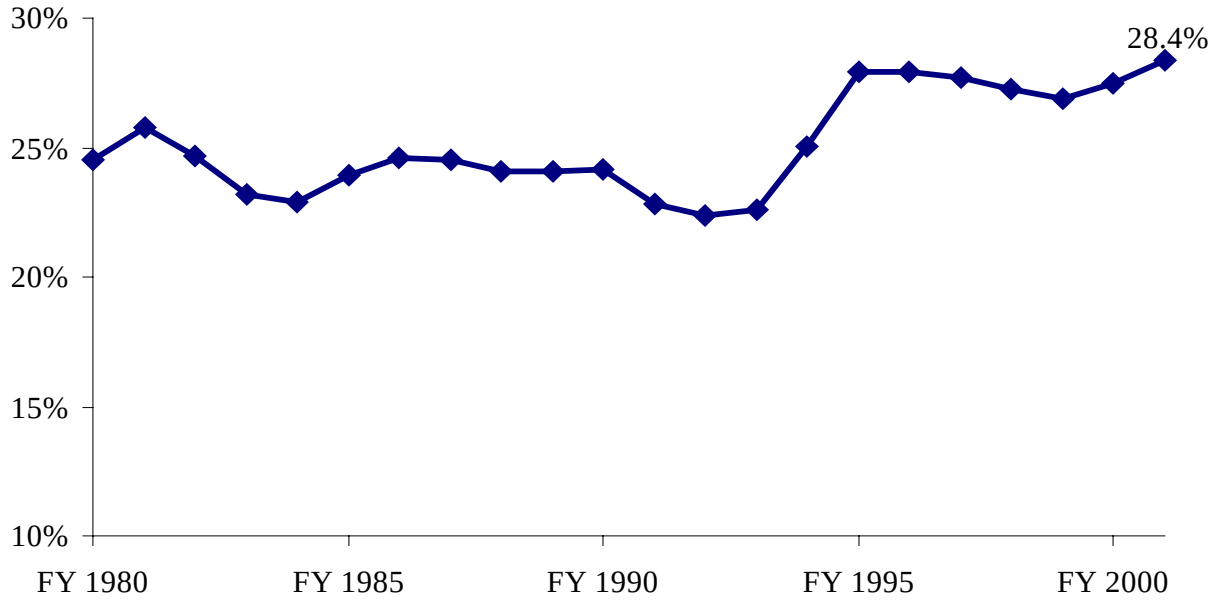
The sales tax generated $6,352.3 million in FY 2001, an increase of $74.8 million (1.2 percent) from FY 2000. Use tax revenue totaled $1,333.6 million in FY 2001, a decrease of $21.8 million (-1.6 percent) from FY 2000. Sales tax revenue accounted for 28.4 percent of total state taxes in FY 2001. Strong consumer spending has led to healthy increases in sales tax revenue over the past few years. 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 22 percent of total state taxes. Use tax revenue has increased steadily over the past 10 years and now accounts for 6.0 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 22-year history of sales and use tax revenue and its percentage of total state taxes.

Exhibit 3
Sales and Use Tax Revenue
as a Percent of Total State Tax Revenue
FY 1980 to FY 2001

Fiscal Year	Sales Tax Revenue (millions)	Use Tax Revenue (millions)	Total State Tax Revenue (millions)	Sales Tax as a Percent of Total State Taxes
1980	$1,504.0	$232.9	$6,126.4	24.5%
1981	1,595.0	232.3	6,195.0	25.7%
1982	1,570.6	247.4	6,371.2	24.7%
1983	1,699.0	279.5	7,337.4	23.2%
1984	1,925.0	317.3	8,405.7	22.9%
1985	2,142.6	341.4	8,958.0	23.9%
1986	2,283.1	390.8	9,270.8	24.6%
1987	2,348.4	397.8	9,591.7	24.5%
1988	2,475.0	419.0	10,285.5	24.1%
1989	2,615.2	475.9	10,850.9	24.1%
1990	2,671.3	473.9	11,062.4	24.1%
1991	2,671.9	474.3	11,722.3	22.8%
1992	2,738.1	480.0	12,232.2	22.4%
1993	2,905.7	529.5	12,866.3	22.6%
1994	3,775.3	725.1	15,082.5	25.0%
1995	4,884.2	942.9	17,468.7	28.0%
1996	5,171.6	1,034.9	18,520.1	27.9%
1997	5,389.8	1,092.2	19,440.3	27.7%
1998	5,617.3	1,159.3	20,626.0	27.2%
1999	5,901.7	1,283.0	21,958.9	26.9%
2000	6,277.5	1,355.4	22,865.5	27.5%
2001	6,352.3	1,333.6	22,405.0	28.4%

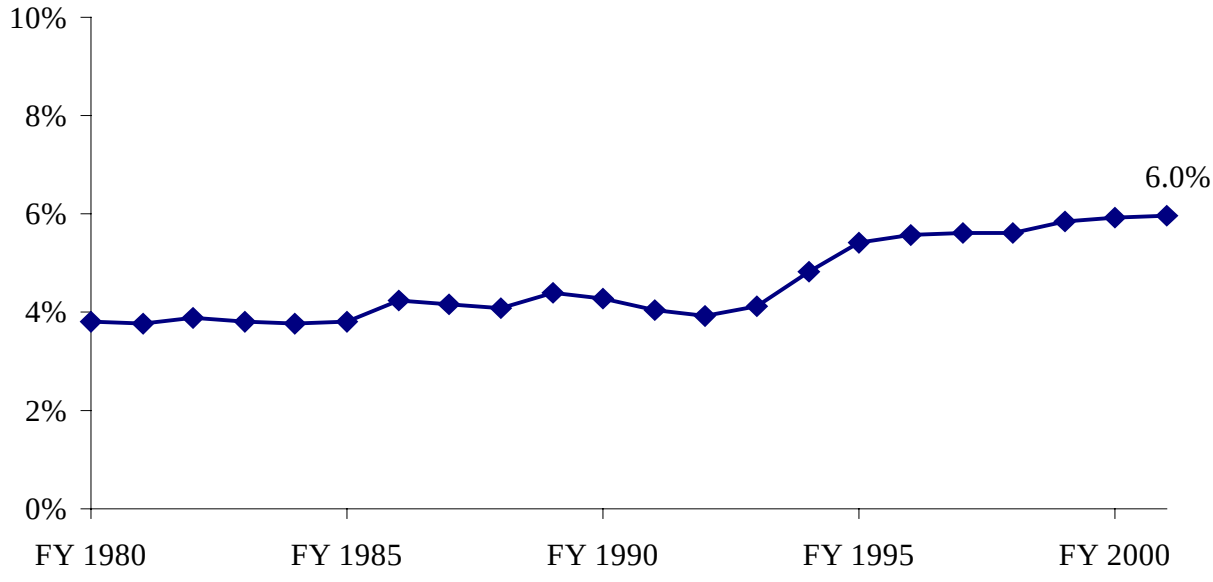
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury

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.

Another type of effect caused by the sales tax is that it may influence a consumer's decision on whether or not to purchase a good at all. 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.

The third type of effect relates closely to the second, whereby the price a consumer pays for an item with the sales tax included is less than the price a firm receives for the item. 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 fails to take place. The seller, formerly willing to accept $20,000 for the car, now requires a larger payment ($21,200). The buyer is unwilling to pay the higher price as the sales tax has now increased the prices of 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 low-income individuals should pay a lower percentage of their income in taxes than individuals with higher incomes. 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 tax law, while final incidence refers to those who actually end up bearing the burden of the tax.

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

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 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

[1]For a fuller discussion, see Slemrod and Bakija (1996), pp. 171-173, or Browning and Browning (1994), pp. 420-422.

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]

[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 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 to change the incidence of a tax; and (2) to give an incentive for individuals or firms to change their behavior. An example of the first type of tax expenditure is the prescription-drug exemption, which is meant to reduce the incidence of the sales tax on low-income senior citizens. An example of the second type is the Enterprise Zone exemption, which 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 2001.

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 $4,584 million in FY 2001. Health care and social assistance services comprised the largest sector of service tax expenditures at $1,826 million, or 40 percent. Administrative and support and waste management and remediation services followed next at $684 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 generally unsuccessful. 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 2001 Revenue Impact
Air and Water Pollution	$25.0
Aircraft Parts	$5.5
Bad Debts	$63.0
Cargo Aircraft	$30.0
Churches	$6.3
Collection Fees	$16.9
Commercial Domestic Aircraft	$5.0
Commercial Vessels	NA
Communication and Telephone Exemption	$37.0
Damaged Beer	NA
Delayed Payments	$2.8
Donated Property	NA
Driver Training	$0.5
Enterprise Zone	$0.1
Food	$900.0
Food for Students	$42.0
Government or Red Cross	$194.0
Gratuities and Tips	$53.0
Horticultural and Agricultural Products	$146.0
Industrial Processing	$688.0
Inmate Purchases	$0.5
Interstate Telecommunications	$38.0
Interstate Trucks and Trailers	$49.0
Investment Coins	$0.3
Isolated Sales	NA
Military Post-Exchange Sales	$1.0
Military Vehicle Sales (Nonresident)	NA
Military Vehicle Sales (Resident Out-of-State)	NA
Newspapers, Periodicals, and Films	$76.0
Nonprofit Ambulance and Fire Services	NA
Nonprofit Hospital or Housing Construction	$6.2
Nonprofit Organizations	$137.0
Nonresident Property	NA
Ophthalmic and Orthopedic Products	$41.0
Prescription Drugs	$269.0
Radio and Television	$4.4
Rail Rolling Stock	$30.0
Residential Utilities	$62.0
Returned Vehicles	$1.1
Sale of Business	NA
Sale of Water	$6.0
Services	$4,584.0
Small Out-of-State Purchases	NA
Telephone Services	$10.0
Textbooks Sold by Schools	NA
Vehicle and Aircraft Transfer	$34.0
Vehicles Purchased for Use in Another State	NA
Vending Machines and Mobile Facilities	$10.7
Total	$7,575.3

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	E	T	T
Idaho	NT	E	T	E	E
Illinois	NT	E	E	E	E
Indiana	NT	E	E	E	E
Iowa	MT	T	E	T	T
Kansas	MT	T	T	T	E
Kentucky	NT	E	E	E	E
Louisiana	NT	T	E	T	E
Maine	MT	E	E	E	E
Maryland	NT	T	E	E	E
Massachusetts	NT	E	E	E	E
Michigan	NT	E	E	E	E
Minnesota	NT	T	E	E	E
Mississippi	MT	T	E	T	E
Missouri	NT	E	T	E	E
Montana			No Sales Tax		
Nebraska	NT	E	E	E	E
Nevada	NT	E	E	E	E
New Hampshire			No Sales Tax		
New Jersey	NT	E	E	T	E
New Mexico	GT	T	T	T	T
New York	MT	T	E	T	E
North Carolina	NT	T	E	E	E
North Dakota	NT	E	E	E	E
Ohio	MT	T	E	T	E
Oklahoma	MT	E	T	E	E
Oregon			No Sales Tax		
Pennsylvania	MT	T	E	T	E
Rhode Island	NT	E	E	E	E
South Carolina	NT	T	E	E	E
South Dakota	GT	T	T	T	T
Tennessee	NT	T	E	T	E
Texas	MT	T	T	T	E
Utah	MT	T	T	T	E
Vermont	NT	E	E	E	E
Virginia	NT	E	E	E	E
Washington	MT	T	T	T	E
West Virginia	GT	T	E	T	E
Wisconsin	MT	T	E	T	E
Wyoming	NT	T	T	T	E

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

Source: Commerce Clearing House, Inc.

Food for home consumption is another major item excluded from most states' sales tax bases. The primary reason for excluding food from taxation is to reduce 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 10 percent of expenditures for consumers in the lowest 20 percent of income. In contrast, for consumers in the highest 20 percent of income, purchases of food for home consumption account for only 6 percent of expenditures. If food consumed at home were 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 2001 for exempting food consumed at home from the Michigan sales tax was $900 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 $269 million in FY 2001.

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 almost 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 ($4,507 on average) is nearly 2.5 times higher than the amount spent by consumers in the lowest 20 percent of the income distribution ($1,826). Using the difference in annual expenditure between the two groups implies that consumers with the highest income receive an additional $160 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 $7.6 billion in FY 2001. Eliminating all of these exemptions would increase Michigan's sales tax revenue by approximately 98.5 percent, and could allow for the rate to be cut nearly in half.

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 2001 was $6,352.3 million, up $74.8 million (1.2 percent) from FY 2000. Since the passage of Proposal A (which increased the sales tax rate from 4 percent to 6 percent on May 1, 1994), the sales tax has 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 slightly over 22 percent of total state tax revenue. In FY 1995, sales tax revenues were 28.0 percent of total state tax revenue, the highest amount since the 1970s, before the food and prescription drug exemptions were enacted. The percentage increased slightly to 28.4 percent in FY 2001 (see Exhibit 4).

Nominal sales tax revenue has increased 30 percent since FY 1995, the first full fiscal year with a sales tax rate of 6 percent. However, adjusted for inflation, real sales tax revenue rose 10 percent, or less than 2 percent per fiscal year. As Exhibits 9 and 10 show, the robust Michigan economy, along with an increased sales tax rate, have led to healthy increases in sales tax revenue.

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 2001, sales tax revenue as a percent of personal income was 2.17 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 $1,660.0 million in FY 2001 (see Exhibit 12). Sales of new and used cars account for most of this revenue. Taxable sales in the automotive sector account for 26.2 percent of total sales tax revenue. The food sector was responsible for $885.9 million of sales tax revenue or 14.0 percent in FY 2001, mostly from sales in restaurants and taxable items sold at grocery stores. General merchandise stores accounted for $611.0 million, or 9.6 percent of total sales tax revenue.

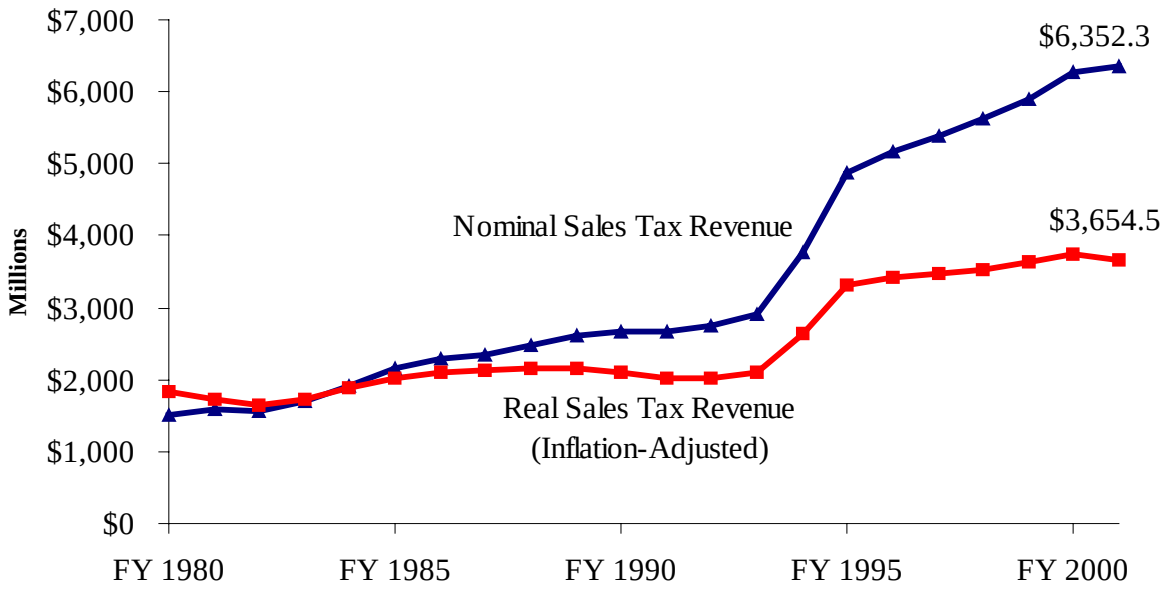
Over the past 12 years, the distribution of sales tax revenue by retail sector has remained fairly constant (see Exhibit 13). Since 1990, the general merchandise and building sectors have increased their share of sales tax revenue. During the 1990s, consumer spending shifted toward investments in housing and durable goods. The automotive sector, while fluctuating from year-to-year, has maintained a similar share of sales tax revenue from FY 1990 through FY 2001. The food, furniture, apparel, and non-retail sectors have seen decreases in their respective shares of sales tax revenue, with the food and non-retail sectors experiencing the largest declines.

Exhibit 9
Michigan Sales Tax Revenue
FY 1980 to FY 2001

Fiscal Year	Fiscal Year Personal Income (millions)	Sales Tax Revenue (millions)	Sales Tax Revenue as a Percent of Income	Fiscal Year Detroit Consumer Price Index (1982-84=100)	Real Sales Tax Revenue (millions)
1980	$93,913	$1,504.0	1.60%	82.3	$1,828.4
1981	101,539	1,595.0	1.57%	92.1	1,731.5
1982	104,014	1,570.6	1.51%	95.8	1,640.3
1983	108,342	1,699.0	1.57%	99.4	1,710.1
1984	119,996	1,925.0	1.60%	102.4	1,880.5
1985	130,828	2,142.6	1.64%	105.8	2,024.7
1986	140,776	2,283.1	1.62%	108.1	2,111.9
1987	146,403	2,348.4	1.60%	110.7	2,120.9
1988	155,701	2,475.0	1.59%	114.8	2,155.5
1989	166,843	2,615.2	1.57%	120.8	2,165.8
1990	175,250	2,671.3	1.52%	126.8	2,106.4
1991	179,891	2,671.9	1.49%	132.4	2,018.3
1992	188,609	2,738.1	1.45%	135.1	2,026.2
1993	201,015	2,905.7	1.45%	138.6	2,096.2
1994	215,255	3,775.3	1.75%	142.9	2,641.7
1995	229,382	4,884.2	2.13%	147.5	3,312.3
1996	236,150	5,171.6	2.19%	151.6	3,412.5
1997	247,235	5,389.8	2.18%	155.4	3,468.2
1998	260,781	5,617.3	2.15%	158.9	3,535.6
1999	272,985	5,901.7	2.16%	162.8	3,625.4
2000	286,728	6,277.5	2.19%	168.3	3,730.7
2001	293,243	6,352.3	2.17%	173.8	3,654.5

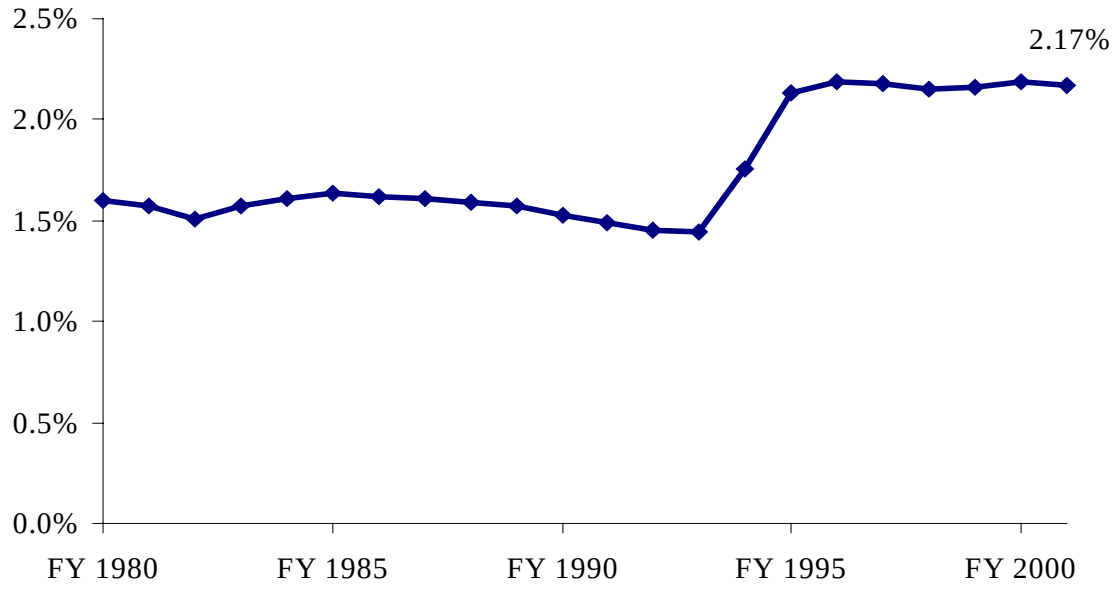
Sources: Office of Revenue and Tax Analysis, Michigan Department of Treasury.
Bureau of Labor Statistcs, U.S. Department of Labor.
Bureau of Economic Analysis, U.S. Department of Commerce.

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 1991 to FY 2001

Fiscal Year	Auto	Percent Change	Food	Percent Change	General Merchandise	Percent Change
1991	648.8	--	428.7	--	257.4	--
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%

Fiscal Year	Building Lumber & Hardware	Percent Change	Furniture	Percent Change	Apparel	Percent Change
1991	170.3	--	123.1	--	120.3	--
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%

Fiscal Year	Miscellaneous Retail	Percent Change	Non-Retail	Percent Change	Total	Percent Change
1991	241.8	--	673.1	--	2,663.6	--
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%

Note: Figures do not include use tax.
Sales tax rate increases from 4 percent to 6 percent on May 1, 1994.
Total sales tax differs slightly due to differences between accrual and cash account methods.

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

Exhibit 13
Share of Sales Tax Revenue by Retail Sector
FY 1991 to FY 2001

Fiscal Year	Auto	Food	General Merchandise	Building Lumber & Hardware
1990	25.4%	15.4%	8.6%	6.7%
1991	24.4%	16.1%	9.7%	6.4%
1992	24.4%	16.7%	10.3%	6.5%
1993	24.7%	16.0%	11.0%	6.6%
1994	26.0%	15.1%	11.0%	7.2%
1995	25.9%	14.9%	11.1%	7.5%
1996	25.7%	14.6%	10.9%	7.3%
1997	25.1%	14.3%	10.7%	7.7%
1998	24.7%	14.3%	10.6%	8.1%
1999	25.0%	14.3%	9.6%	8.5%
2000	25.4%	13.8%	10.0%	8.2%
2001	26.2%	14.0%	9.6%	8.0%

Fiscal Year	Furniture	Apparel	Miscellaneous Retail	Non-Retail
1990	4.6%	4.5%	8.9%	25.8%
1991	4.6%	4.5%	9.1%	25.3%
1992	4.6%	4.4%	8.8%	24.4%
1993	4.6%	4.4%	8.6%	24.0%
1994	5.0%	4.2%	8.6%	22.9%
1995	5.1%	3.9%	8.9%	22.7%
1996	4.2%	3.8%	9.8%	23.7%
1997	3.9%	3.7%	10.3%	24.4%
1998	4.0%	3.7%	10.7%	23.9%
1999	4.0%	3.6%	10.7%	24.2%
2000	4.0%	3.6%	10.7%	24.4%
2001	3.8%	3.5%	10.8%	24.0%

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 $1,333.6 million in FY 2001, down $21.8 million (-1.6 percent) from FY 2000. As with the sales tax, the share of use tax revenue has increased due to the change in tax rate from 4 percent to 6 percent from Proposal A.

Use tax revenue as a percent of total state revenue has increased at a higher rate than the sales tax. 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 2001, use tax revenue accounted for a record high of 6.0 percent of total state tax revenue.

Nominal use tax revenue increased 41 percent from FY 1995 to FY 2001. When adjusted for inflation, real use tax revenue increased 20 percent, or an average rate of approximately 3 percent per year. As with the sales tax, favorable economic conditions have facilitated the growth of overall use tax revenue (see Exhibits 14 and 15).

The effective burden of the use tax can be measured 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 2001, use tax revenue as a percent of personal income reached a record high of 0.45 percent (see Exhibit 16).

Because the use tax is generally paid by businesses, different sectors of the economy remit use tax versus the sales tax. The telecommunications sector provided the largest share of use tax revenue in Michigan, with tax payments of $288.9 million in FY 2001 (see Exhibit 17). This accounts for 21.2 percent of total use tax revenue, with most of these payments collected from interstate and intrastate telephone calls. The automotive sector was responsible for $196.3 million of use tax revenue, or 14.4 percent, in FY 2001, generally from leasing and private sales of motor vehicles.

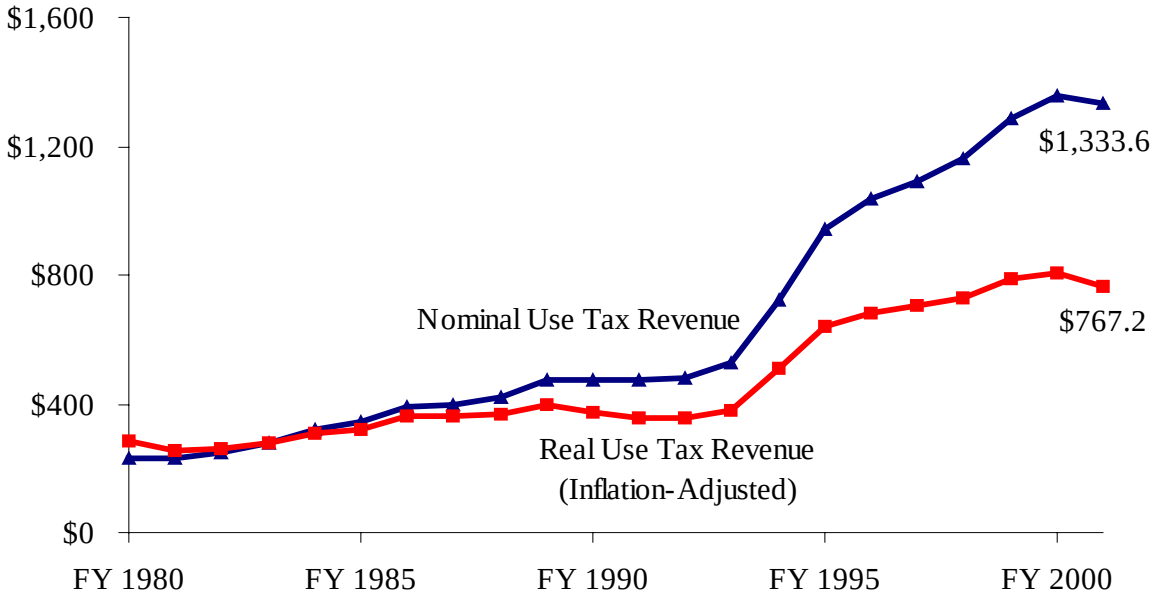
Between 1990 and 2001, the distribution of use tax revenue by sector has remained stable, except for business services (see Exhibit 18). The business service sector has seen a large increase in its share of use tax revenue paid from 4.9 percent in 1990 to 14.1 percent in FY 2001. This sector also pays revenue from the leasing of motor vehicles. The share of use tax paid by the automobile sector has declined steadily, from 18.2 percent in FY 1990 to 14.4 percent in FY 2001.

Exhibit 14
Michigan Use Tax Revenue
FY 1980 to FY 2001

Fiscal Year	Fiscal Year Personal Income (millions)	Use Tax Revenue (millions)	Use Tax Revenue as a Percent of Income	Fiscal Year Detroit Consumer Price Index (1982-84=100)	Real Use Tax Revenue (millions)
1980	$93,913	$232.9	0.25%	82.3	$283.1
1981	101,539	232.3	0.23%	92.1	252.2
1982	104,014	247.4	0.24%	95.8	258.3
1983	108,342	279.5	0.26%	99.4	281.3
1984	119,996	317.3	0.26%	102.4	310.0
1985	130,828	341.4	0.26%	105.8	322.6
1986	140,776	390.8	0.28%	108.1	361.5
1987	146,403	397.8	0.27%	110.7	359.3
1988	155,701	419.0	0.27%	114.8	364.9
1989	166,843	475.9	0.29%	120.8	394.1
1990	175,250	473.9	0.27%	126.8	373.7
1991	179,891	474.3	0.26%	132.4	358.3
1992	188,609	480.0	0.25%	135.1	355.2
1993	201,015	529.5	0.26%	138.6	382.0
1994	215,255	725.1	0.34%	142.9	507.4
1995	229,382	942.9	0.41%	147.5	639.4
1996	236,150	1,034.9	0.44%	151.6	682.9
1997	247,235	1,092.2	0.44%	155.4	702.8
1998	260,781	1,159.3	0.44%	158.9	729.6
1999	272,985	1,283.0	0.47%	162.8	788.2
2000	286,728	1,355.4	0.47%	168.3	805.5
2001	293,243	1,333.6	0.45%	173.8	767.2

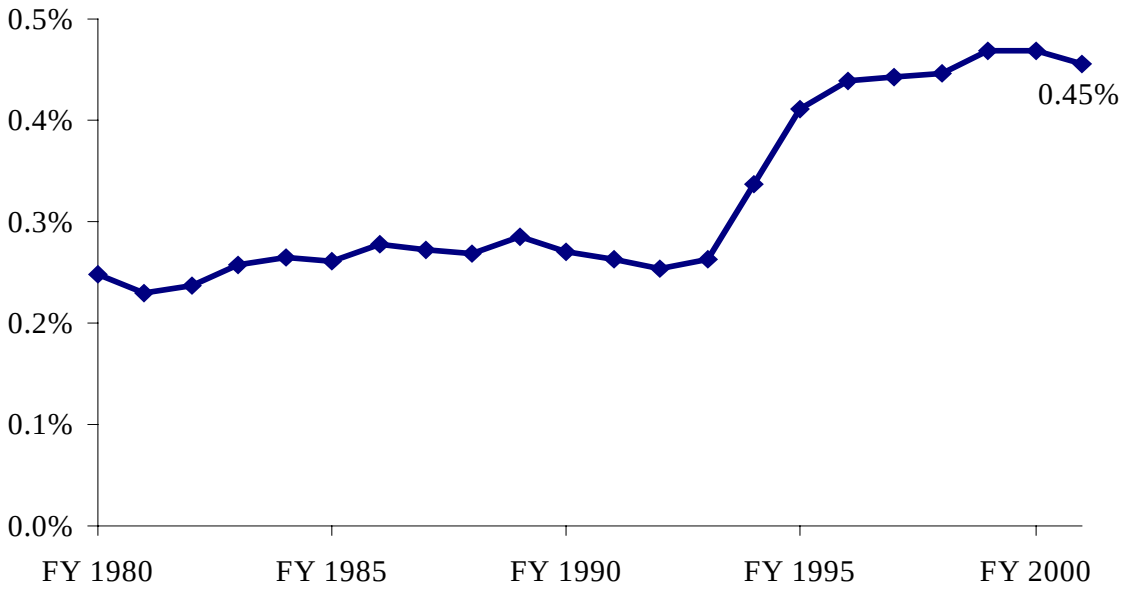
Sources: Office of Revenue and Tax Analysis, Michigan Department of Treasury.
Bureau of Labor Statistics, U.S. Department of Labor.
Bureau of Economic Analysis, U.S. Department of Commerce.

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 1991 to FY 2001
(Millions)

Fiscal Year	Telephone & Communication	Percent Change	Auto	Percent Change	Business Services	Percent Change
1991	93.7	--	81.9	--	32.1	--
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%

Fiscal Year	Hotels & Motels	Percent Change	Transportation Manufacturing	Percent Change	General Merchandise	Percent Change
1991	20.1	--	24.8	--	13.2	--
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%

Fiscal Year	Machinery	Percent Change	Other	Percent Change	Total	Percent Change
1991	10.7	--	195.6	--	472.1	--
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%

Note: Use tax rate increased from 4 percent to 6 percent on May 1, 1994.
Total use tax differs slightly due to differences between accrual and cash account methods.

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

Exhibit 18
Share of Use Tax Revenue by Various Sectors
FY 1991 to FY 2001

Fiscal Year	Telephone & Communication	Auto	Business Services	Hotels & Motels
1990	22.7%	18.2%	4.9%	4.3%
1991	19.9%	17.3%	6.8%	4.2%
1992	22.9%	17.1%	8.8%	4.3%
1993	22.4%	16.9%	8.7%	4.5%
1994	19.7%	19.1%	8.7%	4.6%
1995	21.2%	18.2%	10.6%	4.5%
1996	20.9%	17.2%	9.3%	4.3%
1997	21.4%	16.6%	10.5%	4.5%
1998	21.7%	16.5%	11.5%	4.1%
1999	21.7%	16.0%	13.6%	4.7%
2000	19.4%	15.7%	15.6%	4.7%
2001	21.2%	14.4%	14.1%	4.7%

Fiscal Year	Transportation Manufacturing	General Merchandise	Machinery	Other
1990	4.1%	2.4%	2.4%	40.9%
1991	5.3%	2.8%	2.3%	41.4%
1992	5.8%	3.2%	2.3%	35.7%
1993	5.8%	3.1%	2.1%	36.6%
1994	4.9%	3.4%	2.4%	37.2%
1995	4.4%	3.1%	2.5%	35.5%
1996	8.0%	2.7%	1.9%	35.6%
1997	7.9%	2.5%	1.8%	34.9%
1998	5.9%	2.5%	2.1%	35.8%
1999	5.2%	2.5%	2.1%	34.2%
2000	4.2%	2.3%	2.1%	36.0%
2001	5.1%	2.4%	2.2%	35.8%

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

VI. REMOTE SALES TAXATION

Currently, mail order and Internet (e-commerce) firms that do not have nexus within a state are not required to collect sales taxes on purchases from consumers within that state. Nexus is defined as a minimum physical presence or link to a state that would require a business to collect and be subject to a state's tax system. To force remote-sales firms to collect sales taxes would require an act of Congress or a ruling by the U.S. Supreme Court. Increasingly, sales and use tax revenues are being eroded by remote sales (mail order and Internet or e-commerce). In part, many multi-state businesses seek to avoid collecting sales and use taxes because of the burden of complying with the thousands of different administrative requirements in the more than 7,500 state and local sales tax jurisdictions. Businesses with nexus in a state, and 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 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. Sales and use taxes were still allowed on products sold through the Internet. The moratorium was extended for two years with the enactment of the Internet Tax Nondiscrimination Act in November 2001.

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

The goal of the SSTP is to provide states with a Streamlined Sales Tax System (SSTS). Key provisions of the SSTS are uniform definitions, rate simplification, uniform sourcing and audit procedures, and helping to reduce the financial burden on sellers participating in the SSTS. To facilitate the collection of sales taxes, new technological models have been developed to aid businesses, especially remote sellers. These models include software systems that will make remittance and audit procedures simpler. All these issues are part of an ongoing discussion to help make the SSTP reach its goal of simplifying and modernizing the sales tax.

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.

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. A final Agreement is expected in the fall of 2002. By July 1, 2003, a state must pass all legislation conforming to the Agreement to continue participating in the SSTS.

Michigan enacted Public Act 122 of 2001, which is a form of the Act, in October 2001. Also, Michigan is one of four states involved in a pilot project to test how remote sellers would remit sales and use taxes under the SSTS.

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

Remote Sales Revenue Impact

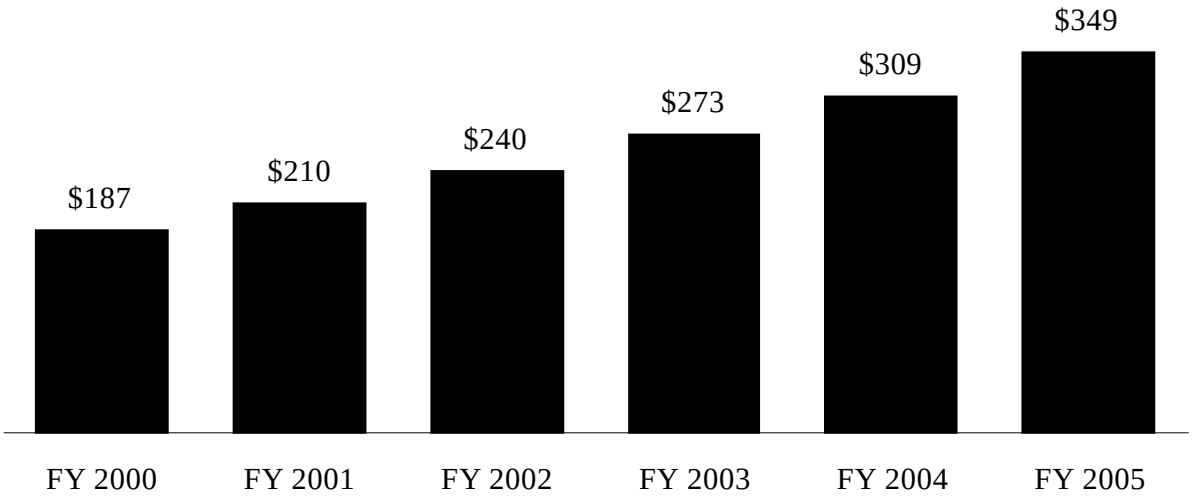
Estimates of the loss of tax revenue from remote sales vary widely. This is due to the fast growth of e-commerce. There are two types of e-commerce to consider when estimating the revenue loss: business-to-business e-commerce and business-to-consumer e-commerce. The tax revenue loss estimates presented 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 $210 million in FY 2001. This loss will grow to $349 million in FY 2005, primarily due to the growth of e-commerce (see Exhibit 19). Over this period, the revenue loss from traditional mail order sales is expected to increase from $156 million to $188 million (see Exhibit 20 and Exhibit 21). This estimate assumes that mail order retailers collect Michigan sales tax on one-third of sales to Michigan residents. Due to the explosion in the growth of e-commerce, the expected revenue loss will also increase for Michigan. The revenue loss due to consumer e-commerce is forecasted to increase from $54 million in FY 2000 to $160 million in FY 2005 (see Exhibit 20 and Exhibit 21).

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

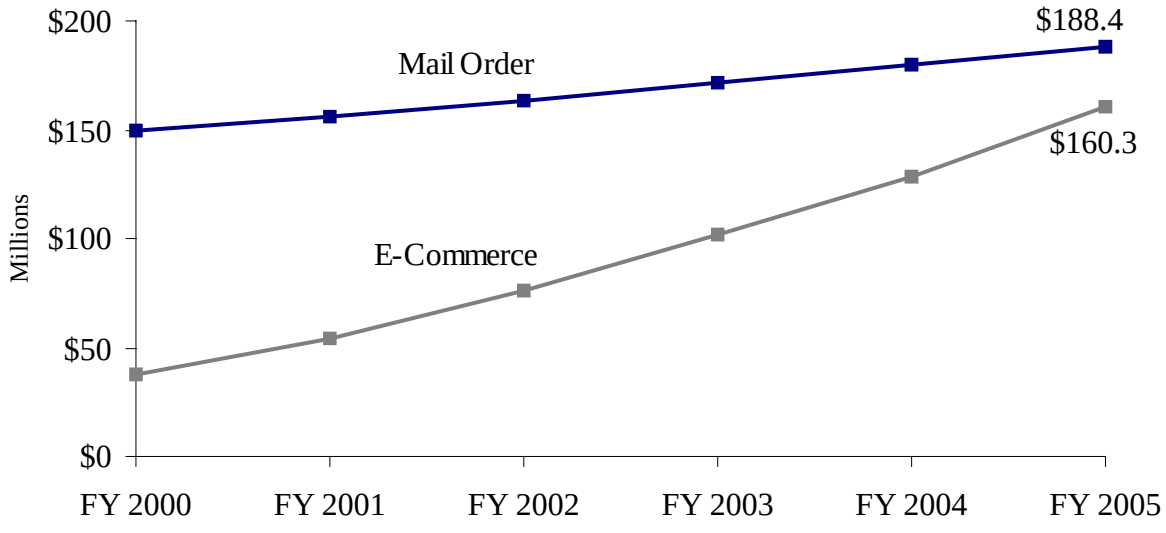
Beginning with tax year 1999, Michigan added a line on the personal income tax form for taxpayers to include use tax due on remote sales to make it easier for Michigan income tax filers to pay any use tax that they owe. Taxpayers have the option of reporting actual use tax due or using a table provided 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 year 2000, 80,152 taxpayers submitted almost $3.1 million of use tax on their Michigan income tax returns. This amount is approximately 1.5 percent of the estimated tax liability that goes uncollected due to remote sales. State officials hope that as more taxpayers become educated on their use tax responsibility, compliance will increase.

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



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

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



Sources: Michigan Mail Order Association, Forrester Research, Bureau of the Census, and 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
1998	$131.7	7.0%	$14.0	94.1%	$145.7	11.9%
1999	138.8	5.4%	25.1	79.6%	163.9	12.5%
2000	149.3	7.6%	37.3	48.4%	186.7	13.9%
2001	156.2	4.6%	53.9	44.4%	210.1	12.5%
2002	163.6	4.8%	76.0	41.0%	239.6	14.1%
2003	172.0	5.1%	101.5	33.5%	273.4	14.1%
2004	180.2	4.8%	128.9	27.0%	309.1	13.0%
2005	188.4	4.5%	160.3	24.4%	348.7	12.8%

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

VII. MICHIGAN COUNTIES AND INTERSTATE COMPARISONS

This section estimates Michigan sales tax revenue by county and compares Michigan's sales tax structure to the sales tax in other states. Estimates of sales tax revenue by county should be regarded with caution. Many of the retail sales that occur in Michigan occur in more developed and concentrated commercial areas. Because of this, the estimates by county 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 2001* (see Exhibit 22).

The estimates of county sales tax revenue range from a high of $1,206 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 $1,364, while Cass County ranked last with $86 per-person sales tax collections. Grand Traverse and other counties with high per-person sales tax collections have a large volume of tourism; therefore, permanent residents do not pay much of the sales tax. This statistic attributes all revenue to permanent residents.

There are 45 states and the District of Columbia that levy a sales tax. Exhibit 23 compares current state and local sales tax rates. Mississippi and Rhode Island levy the highest state sales tax at 7 percent. Of states with a sales tax, Colorado levied the lowest state sales tax at 2.9 percent. In 2002, Alaska, Delaware, Montana, New Hampshire, and Oregon did not levy a sales tax, although Alaska allows local sales taxes.

In the 34 states that allow local sales taxes, the tax rate a consumer faces depends on the combined state and local tax rates. The local rates listed are the maximum tax rates effective in that state; therefore, some localities within a state will have a lower combined state and local sales tax rate. Currently, the highest state and local tax rate is 10.5 percent in Oklahoma, followed by Alabama at 10.0 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 25th at 6.0 percent.

A second measure of the effective sales tax rate in each state is sales tax revenue as a percentage of personal income. Washington has the highest percentage of sales tax revenue as a percent of personal income at 4.88 percent in FY 1999. Michigan ranked 24th for sales tax revenue as a percent of personal income at 2.65 percent (see Exhibit 24). The U.S. average for states with a sales tax was 2.70 percent. Alaska, which only levies a local sales tax, was the lowest for states with a sales tax at 0.73 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
2001

County	Population (thousands)	Buying Income Per Person	Estimated Tax Base (thousands)	Sales Tax Revenue (thousands)	Rank	Tax Per Person	Rank
Alcona	11.8	$11,972	$37,519	$2,251	80	$191	80
Alger	9.9	10,884	41,957	2,517	78	254	74
Allegan	106.8	16,929	606,069	36,364	24	340	68
Alpena	31.4	14,212	334,764	20,086	39	640	21
Antrim	23.5	13,649	91,610	5,497	70	234	79
Arenac	17.4	10,974	123,285	7,397	61	425	52
Baraga	8.8	12,180	35,044	2,103	81	239	78
Barry	57.3	15,823	330,819	19,849	40	346	63
Bay	110.0	16,491	1,188,232	71,294	19	648	19
Benzie	16.3	13,142	68,810	4,129	74	253	75
Berrien	162.5	16,070	1,254,021	75,241	17	463	48
Branch	46.1	14,052	327,232	19,634	41	426	51
Calhoun	138.1	15,936	1,711,100	102,666	12	743	11
Cass	51.2	17,529	73,709	4,423	72	86	83
Charlevoix	26.4	17,172	267,700	16,062	49	608	24
Cheboygan	26.8	12,974	322,962	19,378	42	723	13
Chippewa	38.8	13,912	260,508	15,630	52	403	53
Clare	31.7	11,573	230,651	13,839	56	437	50
Clinton	65.3	18,315	393,670	23,620	35	362	60
Crawford	14.4	13,293	111,364	6,682	64	464	47
Delta	38.6	14,750	470,820	28,249	33	732	12
Dickinson	27.5	15,410	315,607	18,936	43	689	16
Eaton	104.5	18,595	841,308	50,478	22	483	44
Emmet	31.9	16,328	471,753	28,305	32	887	5
Genesee	436.6	15,606	5,079,309	304,759	6	698	15
Gladwin	26.3	12,253	168,582	10,115	58	385	57
Gogebic	17.3	13,430	100,265	6,016	65	348	62
Grand Traverse	78.7	20,209	1,788,981	107,339	11	1,364	1
Gratiot	42.5	13,597	262,925	15,776	51	371	59
Hillsdale	46.8	14,666	266,143	15,969	50	341	67
Houghton	36.1	12,122	215,040	12,902	57	357	61
Huron	36.2	14,279	287,981	17,279	44	477	46
Ingham	279.1	16,683	3,196,562	191,794	7	687	17
Ionia	61.9	13,260	352,882	21,173	37	342	64
Iosco	27.1	13,066	246,408	14,784	54	546	35
Iron	13.1	11,708	60,037	3,602	75	275	71
Isabella	64.0	13,217	578,988	34,739	26	543	36
Jackson	159.1	14,712	1,533,935	92,036	15	578	32
Kalamazoo	239.7	18,161	2,496,625	149,798	9	625	22
Kalkaska	16.8	13,759	161,546	9,693	59	577	33
Kent	579.9	20,366	8,227,344	493,641	4	851	6
Keweenaw	2.3	13,574	3,461	208	83	90	82
Lake	11.5	10,773	29,897	1,794	82	156	81
Lapeer	88.9	16,315	968,615	58,117	21	654	18

Exhibit 22 (continued)
Estimated Michigan Sales Tax Revenue by County
2001

County	Population (thousands)	Buying Income Per Person	Estimated Tax Base (thousands)	Sales Tax Revenue (thousands)	Rank	Tax Per Person	Rank
Leelanau	21.5	$19,596	$93,852	$5,631	69	$262	73
Lenawee	99.4	15,466	1,176,137	70,568	20	710	14
Livingston	160.0	23,138	1,627,636	97,658	14	610	23
Luce	7.1	11,452	69,073	4,144	73	584	29
Mackinac	12.0	15,029	119,149	7,149	63	596	26
Macomb	793.5	19,994	10,333,427	620,006	3	781	8
Manistee	24.8	11,336	233,732	14,024	55	565	34
Marquette	64.2	14,458	511,324	30,679	27	478	45
Mason	28.5	14,346	275,753	16,545	48	581	31
Mecosta	40.8	13,346	351,609	21,097	38	517	38
Menominee	25.4	14,377	157,996	9,480	60	373	58
Midland	83.4	22,583	817,668	49,060	23	588	28
Missaukee	14.7	11,329	94,545	5,673	67	386	56
Monroe	146.9	18,523	1,215,418	72,925	18	496	41
Montcalm	61.9	11,687	505,639	30,338	28	490	42
Montmorency	10.4	12,873	52,409	3,145	77	302	70
Muskegon	171.0	14,590	1,421,519	85,291	16	499	40
Newaygo	48.6	13,021	276,878	16,613	46	342	66
Oakland	1,202.4	26,737	20,102,375	1,206,143	2	1,003	4
Oceana	27.2	12,165	120,000	7,200	62	265	72
Ogemaw	21.9	11,796	282,083	16,925	45	773	9
Ontonagon	7.7	12,411	57,048	3,423	76	445	49
Osceola	23.4	13,002	97,634	5,858	66	250	76
Oscoda	9.5	13,944	38,406	2,304	79	243	77
Otsego	23.7	15,620	472,466	28,348	31	1,196	2
Ottawa	242.1	19,436	2,353,324	141,199	10	583	30
Presque Isle	14.5	12,101	94,212	5,653	68	390	54
Roscommon	25.9	12,440	276,613	16,597	47	641	20
Saginaw	209.9	14,872	2,699,571	161,974	8	772	10
Sanilac	44.9	13,354	251,113	15,067	53	336	69
Schoolcraft	8.9	12,118	79,546	4,773	71	536	37
Shiawassee	71.8	13,954	585,786	35,147	25	490	43
St. Clair	165.6	16,771	1,629,364	97,762	13	590	27
St. Joseph	62.7	15,687	357,351	21,441	36	342	65
Tuscola	58.5	14,248	490,208	29,412	30	503	39
Van Buren	76.7	15,395	495,117	29,707	29	387	55
Washtenaw	325.9	23,453	5,656,561	339,394	5	1,041	3
Wayne	2,057.4	15,920	20,660,856	1,239,651	1	603	25
Wexford	30.8	13,936	430,560	25,834	34	839	7
Totals	9,986.4	$18,091	$112,499,998	$6,750,000		$676	

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

Exhibit 23
State and Local Sales Tax Rates
2002

State	State Sales Tax Rate (percent)	Maximum Local Tax Rate (percent)	Maximum State & Local Tax Rate (percent)
Alabama	4.0%	6.0%	10.0%
Alaska	No Tax	7.0%	7.0%
Arizona	5.6%	4.0%	9.6%
Arkansas	5.125%	4.8%	9.875%
California	6.00%	2.50%	8.50%
Colorado	2.9%	6.6%	9.5%
Connecticut	6.0%	None	6.0%
Delaware	No Tax	None	No Tax
Florida	6.0%	1.5%	7.5%
Georgia	4.0%	3.0%	7.0%
Hawaii	4.0%	None	4.0%
Idaho	5.0%	3.0%	8.0%
Illinois	6.25%	2.5%	8.75%
Indiana	5.0%	None	5.0%
Iowa	5.0%	2.0%	7.0%
Kansas	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%	4.0%	8.225%
Montana	No Tax	None	No Tax
Nebraska	5.0%	1.5%	6.5%
Nevada	6.5%	1.0%	7.5%
New Hampshire	No Tax	None	No Tax
New Jersey	6.0%	None	6.0%
New Mexico	5.0%	2.1875%	7.1875%
New York	4.0%	4.5%	8.5%
North Carolina	4.5%	2.5%	7.0%
North Dakota	5.0%	2.0%	7.0%
Ohio	5.0%	2.0%	7.0%
Oklahoma	4.5%	6.00%	10.50%
Oregon	No Tax	None	No Tax
Pennsylvania	6.0%	1.0%	7.0%
Rhode Island	7.0%	None	7.0%
South Carolina	5.0%	2.0%	7.0%
South Dakota	4.0%	2.0%	6.0%
Tennessee	6.0%	2.75%	8.75%
Texas	6.25%	2.0%	8.25%
Utah	4.75%	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, The Public Policy Institute of AARP, and various state tax administrators.

Exhibit 24
Effective State and Local Sales Tax Rates and Revenue
FY 1999

	State & Local General 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	$2,740.5	$99,527.3	2.75%	0	4.0%	6.65%	12
Alaska	126.2	17,297.5	0.73%	0	0.0%	NA	46
Arizona	4,294.0	116,272.8	3.69%	0	5.0%	6.49%	15
Arkansas	2,019.3	54,995.5	3.67%	0	4.625%	5.83%	30
California	27,736.1	963,726.8	2.88%	0	6.0%	7.34%	7
Colorado	3,381.2	122,769.8	2.75%	0	3.0%	5.95%	29
Connecticut	3,218.1	127,477.0	2.52%	0	6.0%	6.00%	25
Delaware	0.0	22,227.8	0.00%	0	No Tax	NA	46
Florida	14,464.4	413,110.5	3.50%	0	6.0%	6.25%	17
Georgia	7,113.3	207,192.0	3.43%	0	4.0%	6.54%	14
Hawaii	1,447.3	32,032.8	4.52%	0	4.0%	4.00%	45
Idaho	701.7	27,765.5	2.53%	0	5.0%	5.00%	37
Illinois	6,818.1	369,006.8	1.85%	0	6.25%	7.16%	8
Indiana	3,308.2	152,174.5	2.17%	0	5.0%	5.00%	37
Iowa	1,771.9	72,009.5	2.46%	0	5.0%	5.38%	33
Kansas	2,153.9	68,865.8	3.13%	0	4.9%	6.26%	16
Kentucky	2,087.7	89,631.5	2.33%	0	6.0%	6.01%	23
Louisiana	4,083.6	98,488.3	4.15%	0	4.0%	8.16%	1
Maine	828.6	30,098.0	2.75%	0	5.5%	5.50%	32
Maryland	2,299.6	162,519.5	1.41%	0	5.0%	5.00%	37
Massachusetts	3,269.8	211,140.3	1.55%	0	5.0%	5.00%	37
Michigan	**7,230.4**	**272,984.8**	**2.65%**	**0**	**6.0%**	**6.00%**	**25**
Minnesota	3,435.0	143,364.8	2.40%	0	6.5%	6.56%	13
Mississippi	2,230.3	55,968.8	3.98%	0	7.0%	7.00%	9
Missouri	3,925.7	141,608.8	2.77%	0	4.225%	6.11%	20
Montana	0.0	19,150.5	0.00%	0	No Tax	NA	46
Nebraska	1,028.5	44,317.3	2.32%	0	5.0%	6.01%	22
Nevada	1,940.6	54,071.0	3.59%	0	6.5%	6.89%	11
New Hampshire	0.0	36,233.8	0.00%	0	No Tax	NA	46
New Jersey	5,054.4	284,552.0	1.78%	0	6.0%	6.00%	25
New Mexico	1,812.2	37,332.8	4.85%	0	5.0%	6.24%	18
New York	15,257.2	597,744.5	2.55%	0	4.0%	7.66%	4
North Carolina	4,400.3	197,680.8	2.23%	0	4.0%	5.27%	35
North Dakota	380.3	14,716.0	2.58%	0	5.0%	5.71%	31
Ohio	7,001.9	298,402.3	2.35%	0	5.0%	5.96%	28
Oklahoma	2,313.8	75,959.0	3.05%	0	4.5%	7.57%	5
Oregon	0.0	87,051.3	0.00%	0	No Tax	NA	46
Pennsylvania	6,812.2	337,095.8	2.02%	0	6.0%	6.14%	19
Rhode Island	561.2	28,300.0	1.98%	0	7.0%	7.00%	9
South Carolina	2,423.3	89,059.5	2.72%	0	5.0%	5.16%	36
South Dakota	563.5	17,859.0	3.16%	0	4.0%	4.88%	43
Tennessee	5,543.1	136,874.3	4.05%	0	6.0%	7.88%	2
Texas	16,096.6	529,863.5	3.04%	0	6.25%	7.68%	3
Utah	1,763.9	47,957.0	3.68%	0	4.88%	6.09%	21
Vermont	205.6	15,076.5	1.36%	0	5.0%	5.00%	37
Virginia	3,094.1	199,512.3	1.55%	0	3.5%	4.52%	44
Washington	8,326.0	168,096.0	4.95%	0	6.5%	7.46%	6
West Virginia	897.5	37,104.3	2.42%	0	6.0%	6.00%	24
Wisconsin	3,440.1	140,554.8	2.45%	0	5.0%	5.27%	34
Wyoming	432.6	12,440.0	3.48%	0	4.0%	4.99%	42

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

VIII. PUBLIC ACTS IN 2001 – SALES AND USE TAXES

Public Acts 39 and 40 amended the Sales Tax Act of 1933 and the Use Tax Act of 1937 to exempt the sale of an aircraft to a person for the subsequent lease to a domestic air carrier for use in transporting passengers on a regularly scheduled basis.

Public Act 102 exempts the Michigan Liquor Control Commission (MLCC), a wholesaler licensed by the MLCC, and a distribution agent certified by the MLCC from the requirement of collecting an exemption certificate from a person licensed by the MLCC, as long as the required information on the exempt sale is maintained in routine business records.

Public Act 122 created the Equitable Sales and Use Tax Administration Act. The Act allows Michigan to enter into a multi-state agreement to modernize the collection of sales and use taxes. Any necessary changes to the sales or use tax base to comply with a Streamlined Sales Tax Project Agreement between Michigan and other states would require additional legislation. The Equitable Sales and Use Tax Administration Act sunsets on December 31, 2002.

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