Legislative Analysis

TAX EXEMPTIONS FOR CERTAIN FULLY AUTOMATED CONSUMER GOODS HANDLING SYSTEMS

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Senate Bills 1149 and 1153 (S-1) as passed by the Senate
Sponsor: Sen. Peter MacGregor

Senate Bill 1150 as passed by the Senate
Sponsor: Sen. Aric Nesbitt

House Committee: Government Operations
Senate Committee: Economic and Small Business Development
Complete to 12-8-20

SUMMARY:

Senate Bills 1149, 1150, and 1153 would respectively amend the General Sales Tax Act, the Use Tax Act, and the General Property Tax Act to exempt certain fully automated consumer goods handling systems (as defined in the bills) from the taxes imposed under those acts.

Senate Bill 1149 would amend the General Sales Tax Act to provide that, beginning January 1, 2021, the sale of a ***fully automated consumer goods handling system*** or ***system parts*** to a ***wholesaler*** for fulfillment of orders to persons engaged in the business of making sales at retail of ***consumer goods*** is exempt from the tax under that act.

> ***Fully automated consumer goods handling system*** would mean a fully automated, integrated goods handling system that separates, sorts, temporarily stores, recombines, and assembles palletized units of consumer goods and that occupies not less than 190,000 square feet of space in a facility owned, leased, or used by a wholesaler.
>
> ***Consumer goods*** would mean finished goods for use primarily for personal, family, or household purposes.
>
> ***Wholesaler*** would mean a person that purchases consumer goods from a manufacturer, producer, or other supplier and sells those consumer goods to another person for sale at retail.
>
> ***System parts*** would mean supply chain optimization machinery, equipment, repair parts, and computer software that are component parts of a fully automated consumer goods handling system.

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Senate Bill 1150 would amend the Use Tax Act to provide that, beginning January 1, 2021, the tax imposed under that act does not apply to the storage, use, or consumption of a fully automated consumer goods handling system or system parts by a wholesaler for fulfillment of orders to persons engaged in the business of making sales at retail of consumer goods.

The bill would use the same definitions for the same terms as Senate Bill 1149, above.

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<u>Senate Bill 1153</u> would amend the General Property Tax Act to provide, beginning January 1, 2021, that personal property comprising a ***fully automated consumer goods handling system*** that occupies at least 190,000 square feet of a facility owned, leased, or used by a wholesaler is exempt from the collection of taxes under that act.

> ***Fully automated consumer goods handling system*** would mean supply chain optimization machinery, equipment, repair or replacement parts, and software that are component parts of a fully automated integrated goods handling system that separates, sorts, temporarily stores, recombines, and assembles palletized units of consumer goods.

Proposed MCL 211.9h

FISCAL IMPACT:

The bills would reduce sales and use tax revenue by an unknown amount because the number of fully automated consumer goods handling systems implemented in the future, along with the magnitude of the capital investment, cannot be determined. In addition, revenue lost from a personal property tax exemption cannot be estimated for the same reasons, as well as not knowing the applicable millage rates.

Approximately 73% of any reduction in sales tax collections would be borne by the School Aid Fund (SAF), and constitutional revenue sharing to cities, villages, and townships would decline by about 10% of the revenue loss. The SAF would also be reduced by virtue of the personal property tax exemption and a reduction in state education tax (SET) collections dedicated to the SAF. The remaining personal property tax loss would be borne by local taxing authorities.

It should be noted that, while the sales/use tax exemption is a one-time loss, the exemption from personal property taxes will continue annually over the useful life of the investment, albeit at declining annual amounts. In addition, while existing facilities would not benefit from the sales/use tax exemption, the personal property tax exemption would apply to existing equipment.

Purely as an example, with a $100.0 million capital investment, sales tax revenue would decline by $6.0 million and SET collections would decline by $600,000 the first year. Overall SAF revenue would decrease by almost $5.0 million.

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