

**SENATE SUBSTITUTE FOR  
HOUSE BILL NO. 4054**

A bill to amend 1933 PA 167, entitled  
"General sales tax act,"  
by amending section 4t (MCL 205.54t), as amended by 2015 PA 205.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1           Sec. 4t. (1) The sale of tangible personal property to the  
2 following after March 30, 1999, subject to subsection (2), is  
3 exempt from the tax under this act:

4           (a) An industrial processor for use or consumption in  
5 industrial processing.

6           (b) A person, whether or not the person is an industrial  
7 processor, if the tangible personal property is intended for  
8 ultimate use in and is used in industrial processing by an  
9 industrial processor.



1 (c) A person, whether or not the person is an industrial  
2 processor, if the tangible personal property is used by that person  
3 to perform an industrial processing activity for or on behalf of an  
4 industrial processor.

5 (d) A person, whether or not the person is an industrial  
6 processor, if the tangible personal property is 1 of the following:

7 (i) A computer used in operating industrial processing  
8 equipment.

9 (ii) Equipment used in a computer assisted manufacturing  
10 system.

11 (iii) Equipment used in a computer assisted design or  
12 engineering system integral to an industrial process.

13 (iv) A subunit or electronic assembly comprising a component in  
14 a computer integrated industrial processing system.

15 (v) Computer equipment used in connection with the computer  
16 assisted production, storage, and transmission of data if the  
17 equipment would have been exempt had the data transfer been made  
18 using tapes, disks, CD-ROMs, or similar media by a company whose  
19 business includes publishing doctoral dissertations and information  
20 archiving, and that sells the majority of the company's products to  
21 nonprofit organizations exempt under section 4q.

22 (vi) Equipment used in the production of prewritten computer  
23 software or software modified or adapted to the user's needs or  
24 equipment by the seller, only if the software is available for sale  
25 from a seller of software on an as-is basis or as an end product  
26 without modification or adaptation.

27 (2) The property under subsection (1) is exempt only to the  
28 extent that the property is used for the exempt purpose stated in  
29 this section. The exemption is limited to the percentage of exempt



1 use to total use determined by a reasonable formula or method  
2 approved by the department.

3 (3) Industrial processing includes the following activities:

4 (a) Production or assembly.

5 (b) Research or experimental activities.

6 (c) Engineering related to industrial processing.

7 (d) Inspection, quality control, or testing to determine  
8 whether particular units of materials or products or processes  
9 conform to specified parameters at any time before materials or  
10 products first come to rest in finished goods inventory storage.

11 (e) Planning, scheduling, supervision, or control of  
12 production or other exempt activities.

13 (f) Design, construction, or maintenance of production or  
14 other exempt machinery, equipment, and tooling.

15 (g) Remanufacturing.

16 (h) Processing of production scrap and waste up to the point  
17 it is stored for removal from the plant of origin.

18 (i) Recycling of used materials for ultimate sale at retail or  
19 reuse.

20 (j) Production material handling.

21 (k) Storage of in-process materials.

22 **(l) Production, manufacturing, or recycling of aggregate by the**  
23 **property, and for the purpose, described in subsection (4) (i) if**  
24 **that aggregate is subject to the tax levied under the use tax act,**  
25 **1937 PA 94, MCL 205.91 to 205.111.**

26 (4) Property that is eligible for an industrial processing  
27 exemption includes the following:

28 (a) Property that becomes an ingredient or component part of  
29 the finished product to be sold ultimately at retail **or affixed to**



1 **and made a structural part of real estate located in another state.**

2 (b) Machinery, equipment, tools, dies, patterns, foundations  
3 for machinery or equipment, or other processing equipment used in  
4 an industrial processing activity and in their repair and  
5 maintenance.

6 (c) Property that is consumed or destroyed or that loses its  
7 identity in an industrial processing activity.

8 (d) Tangible personal property, not permanently affixed and  
9 not becoming a structural part of real estate, that becomes a part  
10 of, or is used and consumed in installation and maintenance of,  
11 systems used for an industrial processing activity.

12 (e) Fuel or energy used or consumed for an industrial  
13 processing activity.

14 (f) Machinery, equipment, or materials used within a plant  
15 site or between plant sites operated by the same person for  
16 movement of tangible personal property in the process of  
17 production. Property exempt under this subdivision includes front  
18 end loaders, forklifts, pettibone lifts, skidsters, multipurpose  
19 loaders, knuckle-boom log loaders, tractors, and log loaders used  
20 to unload logs from trucks at a saw mill site for the purpose of  
21 processing at the site and to load lumber onto trucks at a saw mill  
22 site for purposes of transportation from the site.

23 (g) Office equipment, including data processing equipment,  
24 used for an industrial processing activity.

25 (h) Tangible personal property used or consumed in an  
26 industrial processing activity to produce alcoholic beverages that  
27 are sold at retail by that industrial processor through its own  
28 retail locations.

29 **(i) Notwithstanding anything to the contrary in subsection**



1 (6) (d), property that performs an industrial processing activity  
 2 upon an aggregate product or material that will be used as an  
 3 ingredient or component part for the construction, maintenance,  
 4 repair, or reconstruction of real property in this state if that  
 5 aggregate product or material is subject to the tax levied under  
 6 the use tax act, 1937 PA 94, MCL 205.91 to 205.111.

7 (5) Property that is not eligible for an industrial processing  
 8 exemption includes the following:

9 (a) Tangible personal property permanently affixed and  
 10 becoming a structural part of real estate including building  
 11 utility systems such as heating, air conditioning, ventilating,  
 12 plumbing, lighting, and electrical distribution, to the point of  
 13 the last transformer, switch, valve, or other device at which point  
 14 usable power, water, gas, steam, or air is diverted from  
 15 distribution circuits for use in industrial processing.

16 (b) Office equipment, including data processing equipment used  
 17 for nonindustrial processing purposes.

18 (c) Office furniture or office supplies.

19 (d) An industrial processor's own product or finished good  
 20 that it uses or consumes for purposes other than industrial  
 21 processing.

22 (e) Tangible personal property used for receiving and storage  
 23 of materials, supplies, parts, or components purchased by the user  
 24 or consumer.

25 (f) Tangible personal property used for receiving or storage  
 26 of natural resources extracted by the user or consumer.

27 (g) Vehicles, including special bodies or attachments,  
 28 required to display a vehicle permit or license plate to operate on  
 29 public highways, except for a vehicle bearing a manufacturer's



1 plate or a specially designed vehicle, together with parts, used to  
2 mix and agitate materials at a plant or job site in the concrete  
3 manufacturing process.

4 (h) Tangible personal property used for the preparation of  
5 food or beverages by a retailer for ultimate sale at retail through  
6 its own locations, except as provided in subsection (4) (h).

7 (i) Tangible personal property used or consumed for the  
8 preservation or maintenance of a finished good once it first comes  
9 to rest in finished goods inventory storage.

10 (j) Returnable shipping containers or materials, except as  
11 provided in subsection (4) (f).

12 (k) Tangible personal property used in the production of  
13 computer software originally designed for the exclusive use and  
14 special needs of the purchaser.

15 (6) Industrial processing does not include the following  
16 activities:

17 (a) Purchasing, receiving, or storage of raw materials.

18 (b) Sales, distribution, warehousing, shipping, or advertising  
19 activities.

20 (c) Administrative, accounting, or personnel services.

21 (d) Design, engineering, construction, or maintenance of real  
22 property and nonprocessing equipment.

23 (e) Plant security, fire prevention, or medical or hospital  
24 services.

25 **(7) Notwithstanding anything to the contrary in this act, the**  
26 **following applies only to industrial processing activities and**  
27 **property described in subsection (3) (l) or (4) (i):**

28 (a) Not later than 90 days after the effective date of the  
29 amendatory act that added this subsection, the department shall



1 cancel all outstanding balances related to such industrial  
2 processing activities and property on notices of intent to assess  
3 that were issued under section 21 of 1941 PA 122, MCL 205.21, for  
4 the tax levied under this act and that were issued before the  
5 effective date of the amendatory act that added this subsection.

6 (b) Not later than 90 days after the effective date of the  
7 amendatory act that added this subsection, the department shall  
8 cancel all outstanding balances related to such industrial  
9 processing activities and property on final assessments that were  
10 issued under section 22 of 1941 PA 122, MCL 205.22, for the tax  
11 levied under this act and that were issued before the effective  
12 date of the amendatory act that added this subsection.

13 (c) After the effective date of the amendatory act that added  
14 this subsection, the department shall not issue any new assessments  
15 for the tax levied under this act on such industrial processing  
16 activities and property for any tax period before the effective  
17 date of the amendatory act that added this subsection that is open  
18 under the statute of limitations provided in section 27a of 1941 PA  
19 122, MCL 205.27a.

20 (8) Notwithstanding anything to the contrary in this act, from  
21 the money received and collected under this act that would  
22 otherwise be deposited in the general fund under section 25, an  
23 amount equal to all revenue lost to the state school aid fund as a  
24 result of the exemption under this section for industrial  
25 processing activities and property described in subsection (3) (l) or  
26 (4) (i), as determined by the department, must be deposited in the  
27 state school aid fund. As used in this subsection, "state school  
28 aid fund" means the state school aid fund established in section 11  
29 of article IX of the state constitution of 1963.



1           (9) ~~(7)~~—As used in this section:

2           (a) **"Aggregate" means common variety building materials like**  
3 **sand, gravel, crushed stone, slag, recycled concrete, recycled**  
4 **asphalt, and geosynthetic aggregates.**

5           (b) ~~(a)~~—"Industrial processing" means the activity of  
6 converting or conditioning tangible personal property by changing  
7 the form, composition, quality, combination, or character of the  
8 property for ultimate sale at retail, ~~or~~ for use in the  
9 manufacturing of a product to be ultimately sold at retail **or to be**  
10 **affixed to and made a structural part of real estate located in**  
11 **another state, or for the exempt purposes described in subsection**  
12 **(3) (l) or (4) (i).** Industrial processing begins when tangible  
13 personal property begins movement from raw materials storage to  
14 begin industrial processing and ends when finished goods first come  
15 to rest in finished goods inventory storage.

16           (c) ~~(b)~~—"Industrial processor" means a person who performs the  
17 activity of converting or conditioning tangible personal property  
18 for ultimate sale at retail, ~~or~~ for use in the manufacturing of a  
19 product to be ultimately sold at retail **or to be affixed to and**  
20 **made a structural part of real estate located in another state, or**  
21 **for the exempt purposes described in subsection (3) (l) or (4) (i).**

22           (d) ~~(e)~~—"Product", as used in subdivision ~~(e)~~, ~~(f)~~, includes,  
23 but is not limited to, a prototype, pilot model, process, formula,  
24 invention, technique, patent, or similar property, whether intended  
25 to be used in a trade or business or to be sold, transferred,  
26 leased, or licensed.

27           (e) ~~(d)~~—"Remanufacturing" means the activity of overhauling,  
28 retrofitting, fabricating, or repairing a product or its component  
29 parts for ultimate sale at retail.





1           **(f)** ~~(e)~~—"Research or experimental activity" means activity  
2 incident to the development, discovery, or modification of a  
3 product or a product related process. Research or experimental  
4 activity also includes activity necessary for a product to satisfy  
5 a government standard or to receive government approval. Research  
6 or experimental activity does not include the following:

7           (i) Ordinary testing or inspection of materials or products for  
8 quality control purposes.

9           (ii) Efficiency surveys.

10          (iii) Management surveys.

11          (iv) Market or consumer surveys.

12          (v) Advertising or promotions.

13          (vi) Research in connection with literacy, historical, or  
14 similar projects.

