



**Senate Fiscal Agency**  
P. O. Box 30036  
Lansing, Michigan 48909-7536



**BILL ANALYSIS**

**Telephone: (517) 373-5383**  
**Fax: (517) 373-1986**

Senate Bills 566 and 567 (as enacted)  
House Bills 5164 and 5173 (as enacted)  
Sponsor: Senator Dale W. Zorn (S.B. 566 & 567)  
Representative Bronna Kahle (H.B. 5164)  
Representative Julie Alexander (H.B. 5173)  
Senate Committee: Finance  
House Committee: Tax Policy

**PUBLIC ACTS 220 & 221 of 2017**  
**PUBLIC ACTS 218 & 219 of 2017**

Date Completed: 3-27-19

### **RATIONALE**

According to the Department of Treasury, Michigan law has exempted various prosthetic devices from sales and use taxes since 1955. In 1985, the Department issued a Letter Ruling addressing sales of a specific type of dental prosthetic. (A Letter Ruling is a formal document issued by the Department to a taxpayer on one or more specific tax matters.)

Specifically, according to a June 2017 Department publication, Letter Ruling 1985-20 found that, "when a dental lab manufacturers a device in accordance with specifications provided by a dentist it provides a non-taxable service rather than making a [taxable] sale to the ultimate consumer." Therefore, dental prosthetics were exempt from sales and use tax. As of July 1, 2017, however, the Department revoked the Letter Ruling, citing the definition of "prosthetic device" enacted by Public Acts 172 and 173 of 2004, which excluded dental prosthetics. (Those Acts made a number of changes to the Use Tax Act and the General Sales Tax Act, respectively, as part of a package of legislation implementing Michigan's participation in the multistate Streamlined Sales Tax Project.)

Some believed that revoking the dental prosthetics tax exemption improperly increased the already burdensome medical costs that consumers face. In addition, since oral health is considered to be a critical component of a person's overall health, some feel that it was inappropriate to tax the sale of these devices. Therefore, it was suggested that the exemption be reinstated.

### **CONTENT**

Senate Bill 566 and Senate Bill 567 amended the Use Tax Act and General Sales Tax Act, respectively, to define "dental prosthesis" as a bridge, crown, denture, or other similar artificial device used to repair or replace intraoral defects such as missing teeth, missing parts of teeth, and missing soft or hard structures of the jaw or palate.

House Bill 5164 and House Bill 5173 amended the Use Tax Act and the General Sales Tax Act, respectively, to exempt from taxation under those Acts the sale of dental prostheses.

Each bill is retroactive and effective beginning July 1, 2017.

MCL 205.92b (S.B. 566)  
205.51a (S.B. 567)  
205.94 (H.B. 5164)  
205.54a (H.B. 5173)

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

Research has shown the importance of oral health for a person's overall health. According to the Mayo Clinic, oral health problems have the ability to affect the rest of a person's body. Besides the more obvious oral problems that can develop due to poor oral health care, such as gum disease or tooth decay, oral health may contribute to endocarditis (an infection of the inner lining of the heart), cardiovascular disease, and premature birth or low birth weights. Other conditions, such as diabetes, HIV/AIDS, osteoporosis, and Alzheimer's disease also may affect a person's oral health.

Maintaining one's oral health can be expensive. According to bankrate.com, approximately 2.3 million dental implants are made each year to replace lost teeth. The website states that the two most common options for replacing a missing tooth or teeth are implants and dentures. While dentures tend to be less expensive than implants, they can still cost around \$2,500, and dentures wear down over time, meaning they will need to be replaced for an additional \$2,500. In contrast, an implant starts at \$3,000, and replacing multiple teeth with implants may increase the cost to well over \$10,000, although implants do not need to be replaced as often as dentures. Regardless of the prosthetic the consumer chooses, he or she is faced with an expensive decision.

The bills will reduce burdensome medical costs, make necessary dental prosthetics more affordable, and improve the health of consumers.

Legislative Analyst: Drew Krogulecki

## **FISCAL IMPACT**

The bills will reduce State General Fund and School Aid Fund revenue, and local unit revenue from constitutional revenue sharing, by approximately \$8.1 million per year. Formerly, labs may claim an industrial processing exemption for property used in manufacturing dental prosthetics and the sales tax was paid on the transaction from the labs to the dentists. Based on national data, the value of shipments from dental labs increased 2.8% between 2007 and 2012. Applying the same growth rate to the 2012 data, the most recent data available, suggests that sales and use tax revenue will decline by approximately \$8.1 million if the bills are effective for all of 2017.

The distribution of the impact between the General Fund, School Aid Fund, and constitutional revenue sharing depends on the amounts exempted under the sales tax relative to the amounts exempted under the use tax. The School Aid Fund receives approximately 73.3% of sales tax revenue, while constitutional revenue sharing receives 10%, and the remainder is directed to the General Fund. However, the School Aid Fund receives one-third of use tax revenue, and the remainder of any reduction lowers General Fund revenue. (Use tax collections providing revenue to the Local Community Stabilization Authority would be unaffected by the bills.) The bills' potential impact is expected to affect mostly sales tax revenue. If 100% of the bills' impact is under the sales tax, the bills will reduce School Aid Fund revenue by approximately \$6.0 million per year, constitutional revenue sharing to local units by approximately \$0.8 million per year, and General Fund revenue by approximately \$1.4 million per year.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.