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SFA



BILL ANALYSIS

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House Bill 4742 (Substitute H-2 as passed by the House)
House Bill 5053 (Substitute H-2 as passed by the House)
Sponsor: Representative Kirk A. Profit
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 11-10-98

CONTENT

House Bills 4742 (H-2) and 5053 (H-2) would amend the Use Tax Act and the General Sales Tax Act, respectively, to add a definition of "hospital" for purposes of a proposed use tax exemption and an existing sales tax exemption for material used in the construction, alteration, or repair of a nonprofit hospital. House Bill 5053 (H-2) also would create a sales tax exemption for the sale of tangible personal property to persons directly engaged in the business of constructing, altering, repairing, or improving real estate, if the property were affixed to and made a structural part of the real estate owned and occupied by a public college or university. This exemption would apply only to the following universities: Michigan State, the University of Michigan, Wayne State, Eastern Michigan, Western Michigan, Central Michigan, Northern Michigan, Ferris State, Grand Valley State, Michigan Tech, Lake Superior State, Oakland, and Saginaw Valley State.

The bills provide that, for taxes levied after 1991, "hospital" would mean a separately organized entity, or a group of entities sufficiently related to be considered a single employer for purposes of Section 414 of the Internal Revenue Code, the primary purpose of which was to provide medical, obstetrical, psychiatric, or surgical care or nursing; nursing would include care provided by skilled nurses in a long-term care facility. (Section 414 of the Internal Revenue Code contains definitions and special rules regarding payments for deferred compensation, and includes descriptions of single employer and multiemployer plans. In general, all employees of trades or businesses (whether or not incorporated) that are under common control are treated as employed by a single employer.)

House Bill 4742 (H-2) provides that the use tax would not apply to tangible personal property purchased by a person engaged in the business of constructing, altering, repairing, or improving real estate for others if the property were to be affixed to or made a structural part of real estate owned and occupied by a nonprofit hospital, or if the construction costs were paid by the nonprofit hospital and the real estate were used for nonprofit medical care services. At the time of the transfer of tangible personal property for which an exemption was claimed under the bill, the transferee would have to sign an affidavit, in a form approved by the Department of Treasury, attesting to the fact that the property was eligible for exemption. The bill's definition of "hospital" would apply to this exemption. (The bill would not apply the definition to an existing use tax exemption for construction materials affixed to and made a structural part of the real estate of a nonprofit hospital. Under this provision, nonprofit hospital includes only the property of a nonprofit hospital whose income or property does not inure to the benefit of an individual, private stockholder, or other private person (MCL 205.94(l).)

Currently, the General Sales Tax Act exempts from the tax sales of tangible personal property to persons directly engaged in the business of constructing, altering, repairing, or improving real estate, if the property is affixed to and made a structural part of the real estate of a nonprofit hospital, whose income or property does not inure to the benefit of an individual, private stockholder, or other private person. The definition of "hospital" under House Bill 5053 (H-2) would apply to this exemption.

House Bill 4742 (H-2) is tie-barred to House Bill 5053.

Proposed MCL 205.94m (H.B. 4742)
MCL 205.51 (H.B. 5053)

Legislative Analyst: G. Towne

FISCAL IMPACT

These bills would reduce sales and use tax revenue by an estimated \$34 million in FY 1998-99 and \$14 million in FY 1999-2000. These estimated fiscal impacts include the following three components: 1) \$10 million reduction due to the proposed sales tax exemption on construction materials used for State college and university buildings, 2) \$4 million decrease due to the proposed expanded sales and use tax exemptions for nonprofit hospital construction, and 3) \$20 million one-time refunds in FY 1998-99 due to the proposed January 1, 1992, start date of the expanded nonprofit hospital construction exemptions. These declines in revenue, excluding the one-time refunds, would have an impact on the following budget areas: School Aid Fund revenue would decline \$10 million, General Fund/General Purpose revenue would decrease \$1 million, and State revenue sharing payments to local governments would decline \$3 million. In addition, in FY 1998-99 only, the one-time refunds would reduce School Aid Fund revenue \$12.3 million, General Fund/General Purpose revenue \$4.3 million, and revenue sharing payments \$3.4 million.

Fiscal Analyst: J. Wortley

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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.