



# Facts Matter

Facts Matter is a series of briefs highlighting Michigan's budget and tax system

## Sales Tax on Services:

- Michigan only taxes 26 services out of a possible 168
- In 2008, taxable sales accounted for only 38.4 percent of personal income, compared with 50 percent in 1978
- Thirty-eight states and the District of Columbia tax more services than Michigan

## Sales Tax on Services: Modernizing the Revenue Structure

*In 2007, spending on services (as opposed to goods) represented nearly 60 percent of personal consumption nationwide, according to the Institute on Taxation and Economic Policy. When Michigan implemented the sales tax in 1933, however, services represented a much smaller share of personal spending. Currently, Michigan taxes only 26 services out of a possible 168. Modernizing Michigan's tax code to tax additional services is one way to address the state's structural budget deficit.*

### Services currently taxed in Michigan

Compared with other Midwestern states, Michigan taxes relatively few services, the majority of which are utilities. According to the Federation of Tax Administrators, Illinois taxes 17 services, slightly fewer than Michigan's 26, while Iowa taxes 94.

In recent decades there has been a significant shift away from the consumption of taxable goods to the consumption of un-taxed services. This shift is having a particularly adverse impact on the School Aid Fund, which has been heavily reliant on sales tax revenues since the passage of Proposal A in 1994.

	Number of Services Taxed
Illinois	17
Indiana	24
<b>Michigan</b>	<b>26</b>
Minnesota	66
Ohio	68
Wisconsin	76
Iowa	94
Source: Federation of Tax Administrators, 2007	

As households spend less on tangible goods and more on services, expanding the number of taxable services would help mitigate the resulting loss of revenues and provide the basis for future growth. And because Michigan currently taxes so few services, less than 20 percent of those identified in an analysis by the Federation of Tax Administrators, this tax code modernization alternative has great potential for stabilizing and ultimately expanding the

revenue available to support Michigan's public schools and other critical public services.

The Michigan Department of Treasury estimates that taxing all services transactions in Michigan's economy at the current sales tax rate of 6 percent would yield over \$10 billion annually. If all business-to-business, nonprofit and medical services transactions were excluded from taxation, the potential annual yield of a sales tax on services would be approximately \$1.65 billion (see the list below), roughly equivalent to the structural deficit anticipated in FY2011 and out-years.

Previous attempts to expand the sales tax to services have failed, due in part to the unevenness of services being taxed, such as taxing skiing services but excluding boat marinas and golf fees. Additionally, businesses would have been expected to pay taxes on services they engage in with other businesses, such as office administration services. These transactions, known as business-to-business sales, have been avoided by most states, as have taxes on health care services and nonprofits. The following list, compiled by the Michigan Department of Treasury, excludes those categories.

<b>Services</b>	<b>FY 2010 estimates (\$s in millions)</b>
Cable/Satellite TV	\$48.6
Entertainment admissions	\$95.1
Amusement and recreation (skiing, golfing, bowling, fitness centers)	\$98.4
Dry cleaning	\$31.5
Landscaping	\$62.6
Vended food	\$29.5
Personal care services	\$89.9
Other personal care services	\$104.3
Child care	\$44.0
Ground transportation	\$22.7
Real estate services	\$112.7
Personal share of professional services (including investment advice, legal, accounting, and insurance services)	\$240.9
Waste collection (including government contracted)	\$45.2
Service contracts	\$28.8
Construction (excludes government and business to business)	\$299.0
Death care services	\$20.4
Repair and maintenance	\$220.6
Other services (security, towing, residence care, storage)	\$53.9
<b>Total</b>	<b>\$1,648.1</b>