



## Testimony before the House Tax Policy Committee 15 April 2010

### Regarding HB 4404

Good morning Madam Chair and Committee members. My name is Tom Barnes and I am the Executive Director of The Michigan Association of Timbermen (MAT). MAT supports House Bill 4404 which will amend section 205.54t of Michigan Compiled Law reducing the amount of Sales Tax assessed to our sawmill members.

The Michigan Association of Timbermen with your help was instrumental in getting Public Act 117 and 116 changed last session to clarify our Sale and Use Tax exemption to our logging equipment. Unfortunately, we thought this process would help with our sawmills and we were mistaken. The current law states "Tangible personal property used for receiving or storage of natural resources extracted by the user or consumer" is exempt from Sale Tax. Unlike other manufacturing facilities when a wood processing facility receives the raw material, logs, they can not be used for any type of consumable product until they are processed. Our industry is unique in this aspect.

MAT members and non-members are being assessed Sale tax on a portion of the purchase price for machinery used to unload, load and move raw material around the facility. Here is an example: A front end loader is a piece of mobile equipment that unloads logs from trucks and moves logs from sorted piles to the milling process. In many cases the log trucks do not have any way of unloading themselves and the front end loader is needed to unload the truck. The portion of the time the front end loader is unloading a truck is what is being assessed sales tax. A new front end loader costs roughly \$350,000.00. The percentage of time unloading a truck is deemed to be 50% so the taxed assessed is  $\$350,000 \times .5 \times .06 = \$10,500$  for this one piece of equipment. The loaders on a self loading truck are exempt from sales tax and they would do the same work as the front end loader that is currently taxable if it unloads logs from a truck and places these logs in different piles. If a front end loader takes the logs from either a log pile or from the truck and places it in the milling process, this period of time is exempt from sales tax. The taxable rate does not have any formula to determine percent of usage.

The issue is the portion of time the front end loader unloads logs from a truck and places them in different log piles. Wood processing facilities sort the raw material, logs, by species. This allows them to fill orders for their different markets. This is necessary in these difficult

economic times. We are also encountering problems when loading our trucks with green lumber. The front end loader is exempt from sales tax when it loads a truck with green lumber that comes straight from the mill and is either placed on both a truck and trailer for shipment or placed on a trailer. However, if the green lumber is placed in temporary storage prior to shipment the time front end loaders spends loading a truck from temporary storage is taxable. There is also a difference of opinion among the Auditors employed by Treasury. This has become evident as members who have been audited have not all had to pay the tax assessed for the portion of time loading a truck.

The additional tax burden that has been assessed to our members is the proverbial “straw that broke the camel’s back” causing them to go out of business. Our industry and State can not afford to lose any more forest industry as we play a vital role in our states economy. We believe the amended language will resolve this issue. We strongly support House Bill 4404 and ask for your support in passing them.

Submitted by

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Front End Loader used to load logs on and off of trucks as well as lumber.

