

MICHIGAN STATE UNIVERSITY EXTENSION

MICHIGAN SALES TAX FACTS MARCH, 1993 Updated MARCH, 2005

The purpose of this fact sheet is to answer common questions related to Michigan Sales Tax and how it relates to Michigan State University Extension-related organizations. Please feel free to share this information.

1. I thought we were a tax exempt organization; why are we now paying Michigan Sales Tax?

It is important to understand the distinction between being sales tax exempt on items that the organization purchases and collecting sales tax on pieces of tangible personal property sold by the organization. When the 4-H club, council, or other MSU Extension related organization buys something for use in educational programs, we do not pay Sales Tax. When we sell something to the public that is a piece of tangible personal property, we must collect and pay Sales Tax.

2. We have never collected tax in the past, why now?

The University's sales tax audit in 1989 pointed out that the county MSU Extension offices need to collect Sales Tax on plat books, bulletins and any tangible items sold in the county office. All county MSU Extension offices are currently using a simple procedure to collect and remit sales tax. We anticipate that the sales tax auditors may look closely at the sales activities of MSU Extension related groups, particularly plat book sales, during the next audit. It is incumbent upon us to recognize our responsibilities in this regard and act appropriately. To not obey the law is not an acceptable alternative.

3. Do kids pay sales tax on their project animals when they are auctioned off?

No. Neither the seller nor the buyer pay sales tax on animals sold at a 4-H Livestock auction. See the letter from Bill Schuette dated May 28, 1991 that further clarifies this issue.

4. Is there sales tax on the commissions received from clerking the county fair livestock auctions?

No. Clerking is a service, not a piece of tangible personal property.

5. When we do a bake sale or a candy (home-made) sale to raise money, do we pay sales tax?

Attached is the "grocery" rule. An interpretation from Michigan Department of Treasury was requested and received that clarified this rule. The clarification centered on the meaning of "prepared" food in the rule. The interpretation received was that this meant ready to eat food that you would typically purchase at the food booth at the fair, and did not apply to candy and bake sales.

6. What about FROZEN pizzas and FROZEN submarine sandwiches?

Under the interpretation received in #5, above, these would not be subject to sales tax.

7. On financial reports, we're asked to calculate sales tax by dividing the taxable sales by 17.67. Why that number?

Typically, most of the things we sell will include the tax as part of the price of the item, rather than dealing with the pennies needed to make change when you add tax to the selling price. When sales tax is part of the price of the item sold, we call that "inclusive." When sales tax is inclusive, it is already in the price.

Since we don't want to pay tax on tax, we factor the inclusive tax out by dividing by 17.67. When we add tax onto the price of the item, multiply by .06 to get the tax. Be sure that you apply the appropriate tax factor according to your circumstances. If you use the inclusive method, particularly with plat books, you must state somewhere near the price that "Price includes Michigan Sales Tax." Otherwise, the State assumes that we are liable for tax on the entire amount, rather than the gross amount, less sales tax.

8. When we have a craft sale, do we have to collect sales tax?

Yes, craft items are tangible personal property and are subject to sales tax.

9. When we hold a car wash, do we have to charge sales tax?

No, car washes are a service, not an item of tangible personal property.

10. If I don't know whether something we are selling is subject to sales tax, what do I do?

Generally, the very simplest way is to pay the tax rather than worrying about it. You may want to check with the county office if the item you are selling is very large so that paying or not paying sales tax will make a significant difference. Typically, it's easier to raise the price of something enough to cover the tax and not have to worry about it.

11. Is there sales tax when we raffle off something or hold a drawing?

Yes, if you sold tickets for a raffle or drawing and are giving away a piece of tangible personal property. However, the sales tax in this case is figured as 6% of the fair market value of the item. For instance, if you had a \$500 washing machine donated, the sales tax would be $.06 \times \$500 = \30.00 . Presumably you would not ask the recipient to pay tax on their winnings. The tax would be paid from ticket sales.

12. We had a quilt donated by a group of local quilters and we raffled it off. How do we figure the fair market value of the quilt?

In this case, you will need to estimate the value based on local prices. Quilts show up in mail order catalogs and may provide a guide if there isn't a local resource. Chances are that the quilter(s) donating the quilt have a very good idea of the fair market value. A caution here: the fair market value needs to be in the realm of normal retail price of the item, not the wholesale price.

13. Aren't farmers and agricultural producers exempt from paying Sales Tax?

Yes, for “tools” used in their operations. It is conceivable that producers would need a plat book as a part of their business activities. In this case, we would need a signed exemption statement identical to the one used by the county MSU Extension office for the same purpose.

14. How does one go about paying the Michigan Sales Tax?

Contact your local county MSU Extension office.

This next question should be moot; all sales tax should have been remitted through the county MSU Extension office years ago!

15. May groups having their own Michigan Sales Tax License continue to use it?

No. All payments of Michigan Sales Tax are to be remitted through the county MSU Extension office to Michigan State University.

If you have any questions or concerns, please contact your local MSU Extension office, the MSU Extension Regional office, or the Associate Director for Operations in the MSU Extension Director’s office.

See also:

- [Michigan Department of Treasury Specific Sales and Use Tax Rules: R 205.136](#)
- [Michigan Department of Treasury Administrative Bulletin 2002-20: RAB 2002-20](#)
- [5/14/91 Frank J. Kelly, Attorney General, letter re Charitable Trust and Charitable Organizations and Solicitations Acts](#)
- [5/28/91 Bill Schuette letter re Sales Tax on Youth Livestock Sales](#)
- [7/27/91 Jesse A. Weaver letter re 4-H Organizations](#)