THE UNIVERSITY OF MICHIGAN

STANDARD PRACTICE GUIDE

SECTION:	Sales and Cash Collections	**Number:**	502.3
		Revised:	3/21/00
SUBJECT:	Michigan Sales and Use Tax	**Date Issued:**	
		Attachment(s)	2
APPLIES TO:	All Departments and Units of the University		
ISSUED BY:	Financial Operations		

I. Policy

A. Applicability

The University of Michigan, as an instrumentality of the State of Michigan, is exempt from the payment of sales and use taxes on purchases of tangible property and applicable rentals. The purchase or rental must be for University consumption or use, and the consideration for these transactions must move from the funds of the University of Michigan. However, the University is liable for the collection and remittance of taxes on sales and rentals to others where non exempt transactions are involved.

B. Collection

All units of the University engaged in retail sales or retail rental transactions subject to the Michigan sales or use tax must:

1. Collect due taxes.

2. Keep records of transactions.

3. Report and submit tax collected as deposits are made or accounts receivables are established.

C. Sales Tax

Generally, the sales tax applies to retail sales of tangible personal property to consumers in the State of Michigan. Examples of transactions which may be subject to sales tax are sale of:

1. Books, pamphlets, duplicated materials. For example, course packets produced in a non-commercial manner are not taxable. For a sale to be made in a commercial manner, the item sold must be sold at retail and priced to generate a profit. If you are not sure if an item is taxable or not, contact the Office of the General Counsel or the University Tax Department, for clarification.

2. Meals, except to bona fide enrolled students.

3. Pharmaceutical and optical wear.

4. Films, audio and video tape recordings.

D. Use Tax

This tax applies to the rental of tangible personal property to Michigan renters and to rental charges for overnight lodgings or accommodations. Examples of transactions which may be subject to use tax are rentals of:

1. Films, audio and video tape recordings.

2. Equipment.

3. Overnight lodgings and accommodations of a month or less. Lodging and accommodations not available to the general public and not rented on a commercial basis are not taxable. For example, the overnight use of guest rooms and cots at Martha Cook Residence Hall is not taxable because the rooms and cots are only available to guests of Martha Cook residents, they are not available to the general public.

4. Personal long distance telephone service. See SPG 512.02 Personal Long Distance Telephone Calls.

E. Exempt Transactions

Some transactions exempt from the sales and use tax are:

1. Sales for resale.

2. Sales or rentals for industrial processing or for agricultural production.

3. Sales or rentals outside the State of Michigan.

4. Sales or rentals to the federal government or state government, or their agencies.

5. Sales or rentals to qualified non-profit health, welfare, educational, charitable and benevolent institutions, religious organizations, and hospitals. The consideration for these transactions must move from the funds of the purchasing institution.

6. Sales of food and prescription drugs used for human consumption, except food prepared for immediate consumption and alcoholic beverages, and sales of food to bona fide enrolled students.

7. Sales performed in a non-commercial manner. For a sale to be made in a commercial manner the item sold must be sold at retail, and priced to generate a profit. For example, library photocopy sales made to students, if priced on a break-even basis, are not taxable. See the Office of the General Counsel or the University Tax Department for assistance in determining if your sales meet this requirement.

Units must secure and retain, all properly executed exemption certificates from the purchaser, as required by the sales and use tax law to support any sales tax exemption. (Appendix A)

II. Procedure

RESPONSIBILITY	ACTION
Selling or Renting Unit	1. Determine whether the transaction is subject to Michigan sales or use tax; if so, collect tax by: a. Direct collection from customer, or b. Showing the tax on the invoice, form 5078.
	2. At month end, prepare Michigan sales and use tax report, and forward to the Financial Operations by the 8th calendar day, of the following month, Appendix B.
	3. Maintain supporting sales records on all taxable and exempt sales for a period of six full years.
Financial Operations	4. Consolidate reports from all units, complete Michigan sales and use tax return, calculate appropriate penalties and interest for late reports, remit tax, and charge each unit its respective portion of tax payments.
Selling or Renting Unit	5. The Michigan sales tax regulations give the following brackets for determining the amount of sales tax to be collected:

Sales of $	0.01	to	0.10 -	none
	0.11	to	0.24 -	1 cent
	0.25	to	0.41 -	2 cents
	0.42	to	0.58 -	3 cents
	0.59	to	0.74 -	4 cents
	0.75	to	0.91 -	5 cents
	0.92	to	1.08 -	6 cents

Add $0.01 sales tax for each additional $0.1667.

6. Questions concerning procedures should be directed to the Financial Operations or the University Tax Department.

III. Regulations

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A. Food

Sales of food intended for immediate consumption (including coffee and snack items) are subject to sales tax except in the following situations:

1. Students buying meals from University facilities need not pay sales tax if they display a valid student ID. (See Section G for Sales to Student Organizations.)

2. Meals purchased with the funds of the University of Michigan (Section F, G, H), an exempt institution or a governmental agency, (Section I).

3. Food sales for the purpose of resale (Section N), for industrial processing, (Section N), for agricultural production (Section O) or to a consumer outside the State of Michigan (Section P).

4. Meals furnished to patients of the University Hospital.

5. Sales of food to be used for human consumption other than food prepared for immediate consumption and alcoholic beverages. Thus, sales in a restaurant-type atmosphere would be taxable.

Any meal sold to a University of Michigan employee must be taxed on the amount paid by the employee.

If an employee or guest is provided a meal without charge either to the employee, guest or University account, tax should be paid by the food serving establishment by calculating it upon the established selling price of the food, or on a tax base of $0.45 per meal where cost records are not feasible.

B. Lodging

Overnight lodging provided by any University facility to the general public, in a commercial manner (for example: the Michigan League and the Oxford Conference Center) is subject to use tax with the following exceptions:

1. Where lodging is furnished directly to a tax-exempt organization (Section I) the rent is not taxable. To support this relationship, the lodging unit should:

   a. List the room on the registration form as being in the name of the exempt organization, and

   b. Obtain an executed tax exemption certificate from the guest in each case. See Appendix A, Certificate B.

2. If the lodger rents for a continuous period of more than one month, use tax is not required.

3. Where the cost of lodging cannot be distinguished from other fees, it may not be taxable (See Section C).

Lodging at the dormitories or married student housing, for any period of time, is not subject to use taxation.

Rooms or accommodations furnished by the University Hospital to patients under medical supervision are not subject to use tax.

Rooms or accommodations furnished by the University to Summer Camps are not subject to use tax.

Lodging at conference centers, for example Rooms provided at the Executive Education residency for The Executive Development Program participants, is not subject to use tax because the accommodations are not available to the general public.

C. Conferences

Meal, lodging and supply charges to individual conferees should be taxed under the guidelines outlined in Sections A, B, J & K except in the special situations where a conference fee is established as a package deal in which the individual otherwise taxable items are not shown separately. This means that the University has not made a computation of the exact individual costs thereof, because it is selling the conference as a package and would find it difficult to divide it into separate charges for each of its parts, and is also unaware of any cost allocation being made in connection with any reimbursement of a sponsoring organization by individual conferees.

Since, in most cases the meal and lodging charges are readily available from the food and lodging establishment involved, the "package deal" argument for not taxing meals and lodging may seldom be applicable. It may be appropriate for books and supplies, however.

Where University serving establishments provide meals and/or lodging for conferees, the unit must collect sales tax on all non-student meals and lodging. If the sponsoring organization provides the University Unit with a properly executed exemption certificate the sales is not taxable (see Appendix A, Certificates A and B). Sales to University accounts are discussed in Section F; sales to Student Organizations are discussed in Section G.

Often, continuing education centers will hold their conferences at non-University establishments, purchasing the meals and lodging for their conferees through University accounts and then passing on these charges as a part of the conference fee. Although the initial purchase by the University is not taxable, the resale of meals and lodging to the conferee is taxable. The continuing education unit must see that tax is paid at some point. Because the University passes on the cost of meals and lodging, it is possible that bookkeeping could be simplified if these units paid the sales tax on the initial purchase. This added cost should be included in the course fee. Course fee price quotations should state "Price includes applicable state sales tax."

D. Rental of Meeting Rooms

The rental of meeting rooms, classrooms, ballrooms and other such facilities not used for overnight lodging, is free from use taxation. University units that offer overnight accommodation to the general public in a commercial manner, must also collect use tax on any meeting room rental fees.

E. Pharmaceutical Sales

Sales of non-prescription drugs are taxable except when furnished to patients.

Prescription sales are not taxable.

F. Sales or Rentals to University Accounts

The University of Michigan is exempt from sales and use taxation. However, persons and organizations that are not part of the University and therefore may not use the University's exemption, do make use of University accounts. Examples are student organizations (Section G) or the use of special sponsoring organizations to accumulate fees for conference meals from individual conferees. In any situation that could appear questionable, the selling or renting unit should secure appropriate signed exemption certificates for its files in order to support the non-taxable status of the transaction. (See Appendix A).

See Section G for recommended procedures to follow when dealing with student organizations.

Certificate C (Appendix A) should be obtained for all meals sold to University accounts.

G. Sales or Rentals to Student Organizations

Student organizations, other than student governments, are generally subject to sales and use tax. The Office of Student Organizational Service will indicate on requisitions flowing through their office whether the requesting organization is exempt. Where formal requisitions are not required, the selling or renting unit should consult with the Office of Student Organizational Services to determine whether sales and use tax should be imposed.

If the organization claims to have established its own exempt status separate from the University, an executed exemption certificate must be obtained and kept on file (Appendix A, Certificate A); tax should not be charged.

Where the transaction involves the sale of meals by a University food establishment to an otherwise taxable organization, the meals to be consumed by non-students are taxable and the meals to be consumed by students are not taxable. A properly completed Certificate C, Appendix A, must be obtained and retained.

H. Sales or Rentals to University Affiliates

University-affiliated organizations, such as Mathematical Reviews, student organizations, and professional organizations, are not necessarily exempt from tax. For each University Affiliate, that is not a part of the University (controlled by the Regents through funding or otherwise), claiming to be tax exempt, a properly executed exemption certificate must be secured and retained by the selling or renting unit, for the transaction to be non-taxable. (Appendix A)

Faculty, staff and students are always subject to tax as individuals except for food sales to students. (See Section A)

I. Sales or Rentals to Exempt Organizations and Governmental Agencies

Sales or rentals to qualified non-profit health, welfare, education, charitable and benevolent institutions, religious organizations, and hospitals are not subject to sales and use tax. Also sales or rentals to the federal government, its agencies and instrumentalities, to the State or its departments, institutions or political subdivisions, or to the American Red Cross are exempt from sales and use tax. Certificate A (Appendix A) should be obtained by the University selling or renting unit for each such organization. Note that affiliates of exempt organizations may not be exempt themselves. Such organizations and their affiliates should be considered taxable unless the University Unit obtains such a certificate.

J. Sales or Rentals of Manuals, Books, Pamphlets, Computer Data Cards, Equipment, etc.

All sales of tangible personal property are taxable to individuals or organizations not otherwise exempt from tax--see sections F, I, N, O, and P. This includes meals, (See section A), snacks, coffee, supplies, books, manuals or other printed materials for example: data cards.

The rental of equipment (audio visual, etc.), printed material or any other personal property is also subject to tax.

Services, are not subject to tax. Situations will arise where the selling/renting/service unit will have to determine the nature of the transaction in order to determine its taxability. See sections K, L, and M for examples. Contact the Office of the General Counsel or the University Tax Department for additional information.

K. Photocopied Materials

Where faculty or students bring in books or other items to be photocopied for which they are charged a service fee, the fee charged is not subject to sales tax. It does not matter whether the materials are photocopied for educational or personal purposes. If photocopying services are performed in a non-commercial manner, that is the activity is not engaged in with the objective of gain, benefit, or advantage, either direct or indirect, the service is not taxable.

L. Printers, Lithographers, Photostaters, and Blueprinters

Sales of tangible personal property by printers, lithographers, photostaters and blueprinters are taxable except when such sales are for resale purposes or used in "industrial processing". See Section N.

Labor charges involved in producing the property for sale cannot be deducted from the selling price regardless of whether or not the charge is billed separately on the sales invoice. The labor cost is considered as part of the "gross proceeds" derived from the sale.

Postal charges are not considered part of the taxable amount.

If a customer furnishes her/his own printing stock, (i.e. acquired from another source), and the printer only imprints information on the provided stock, the printer is providing a service and the transaction is not taxable.

M. Sales or Rentals of Audio and Video Tape Recordings

The sale or rental of audio and video tape recordings is subject to sales or use tax (see section I; re: tax exempt institutions).

An exception to this rule is the sale or rental of copyrighted motion picture films which are not subject to tax.

Where a blank tape is sold or rented, the transaction represents the sale or rental of tangible personal property subject to tax.

On the other hand, where the customer furnishes her/his own tape acquired from another source and the University Unit provides only a service of placing sound or video on the tape, the transaction will not be taxable because services are not subject to tax.

The sale of card indexes and rental of equipment is subject to tax.

N. Sales or rentals for Industrial Processing and Sales for Resale

Sales and rentals for industrial processing and sales for resale are not subject to sales and use tax because the tax will be collected at the point of final sale. Since the customer will determine whether or not the goods are actually used in industrial processing or whether or not they are resold, Certificate D (Appendix A) should be obtained by the University selling or renting unit for each type of transaction with the customer.

O. Sales or Rentals for Agricultural Production

Sales and rentals for agricultural production are not subject to sales and use tax provided Certificate E (Appendix A) is obtained.

P. Sales and Rentals Outside the State of Michigan

Sales or rentals to customers outside the State of Michigan may or may not be taxable. Rule 41 of the General Sales and Use Tax Law reads in part as follows:

"Where tangible personal property is located within the state at the time of sale and is delivered within the state it is taxable. It is immaterial that the purchaser may, subsequent to the sale, transport the property out of the state or use it in interstate commerce".

"A sale taking place within the state is taxable as an intrastate transaction. For example: Tax would apply when a customer in Michigan purchases tangible personal property from a Michigan retailer, pays the seller the required sales price together with insurance or postage or freight regardless of the destination of the property purchased; tax would not apply on sales where the seller is obligated to make delivery to the purchaser at an out of state delivery point when the property will not be returned to Michigan for storage use or consumption."

"When making a valid sale in interstate commerce, it is necessary for the seller to retain documentary evidence of shipment outside the state for the purpose of substantiating a deduction on the tax return. If the shipment of the property is diverted in transit or if for any reason it does not arrive at the indicated destination outside the state, or is reshipped into the state, the sale is taxable."

A. CERTIFICATE TO BE EXECUTED WHEN TAX EXEMPT SALE OR RENTAL IS MADE TO AN EXEMPT INSTITUTION OR AGENCY

The undersigned hereby certifies that the item or items purchased or rented from the University of Michigan is or are to be used or consumed in connection with the operation of the exempt institution or agency named in the space provided below and that the consideration for this purchase moves from the funds of the designated institution or agency. In the event this claim is disallowed, the transferee promises to reimburse the seller-lessor for the amount of tax involved.

_____
Name of Exempt Institution or Agency

_____
Signature and Title of Person making Certification

Date_____

(This information may be included as part of a purchase order.)

B. TAX EXEMPTION CERTIFICATE FOR LODGING FURNISHED TO TAX EXEMPT ORGANIZATION

The undersigned hereby certifies that lodging provided by (lodging unit) is being furnished to him/her as a representative of the tax exempt organization named below, in connection with the operation of the exempt institution or agency named in the space provided below and that the consideration for this lodging moves from the funds of the designated organization. In the event that this claim is disallowed, the transferee promise to reimburse (lodging unit) for the amount of tax involved.

_____
Name of Exempt Organization

Date_____

_____
Signature and Title of Person Making Certification

C. STATEMENT OF MEALS SOLD TO UNIVERSITY ACCOUNTS AND STUDENT ORGANIZATIONS

The undersigned hereby certifies that payment for the following function(s):

(1) Moves from the tax-exempt funds of the University of Michigan and was not and will not be collected from non exempt individuals or organizations. $_____

(2) Is from fees collected from bona fide enrolled students. $_____

_____
Name of University Account or Student Organization

Date of Function_____ _____
Name of Function

Date Signed_____ _____
Signature and Title of Person Making Certification.

D. (This information may be included as part of a purchase order)

STATEMENT OF PURCHASE FOR RESALE OR INDUSTRIAL PROCESSING

The undersigned hereby certifies that the item or items purchased or rented from the University of Michigan is or are to be used for resale or industrial processing as determined by Michigan Sales and Use Tax Law. In the event this claim is disallowed, the transferee promises to reimburse the seller/lessor for the amount of tax involved.

_____
Name of Purchaser/Renter

_____
Signature and Title of Person Making Certification

Date_____

E. CERTIFICATE UNDER AGRICULTURAL PRODUCING EXEMPTION

The undersigned hereby certifies that all items, except as indicated herein, are purchased or rented for use of consumption in connection with the production of horticultural or agricultural products as a business enterprise as determined by the Michigan Sales and Use Tax Law and agrees to reimburse the seller/lessor for the sales or use tax if the items are used or consumed otherwise.

_____
Name of Purchaser/Renter

_____
Signature and Title of Person Making Certification

APPENDIX B

THE UNIVERSITY OF MICHIGAN
WORKSHEET OF
MICHIGAN SALES & USE TAX LIABILITY

Reporting Unit _____ Period _____

	Description of Sales/Rentals (Products sold/rented e.g. Books, Clothing)		Column A Sales	Column B Rentals
1.	Gross Sales	$		
	Rentals of Tangible Property			
	Rentals of Accommodations			
2.	TOTAL SALES/RENTALS	$		
	DEDUCTIONS ALLOWABLE:			
3.	Sales for Resale			
4.	Sales/Rentals to Industrial Processors or Agricultural Producers			
5.	Sales/Rentals in Interstate Commerce			
6.	Sales/Rentals to Federal or State Governmental or Political Subdivisions			
7.	Sales/Rentals to Schools, Hospitals, and other qualified Nonprofit Organizations			
8.	Income from Nontaxable Labor or Nontaxable services (if included above in sales)			
9.	Returned Goods			
10.	Other			
11.	TOTAL ALLOWABLE DEDUCTIONS	$		
12.	SALES/RENTALS AFTER DEDUCTIONS	$		
13.	TAXABLE SALES/RENTALS*	$		

***ChartField Combination* credited with tax collection:**

Fund (5)	Organization (6)	SubClass (5)	Account (6)	Bus. Yr. (4)	Program (5)	Project / Grant

_____ _____ _____
Authorized Representative of the Reporting Unit | Date | Phone

*If Total Sales (line 2, column A exclude amounts recorded for sales tax, then record the Sales After Deductions amount (line 12,column A) on the Taxable Sales line (line 13, column A).

If Total Rentals (line 2, column B) exclude use tax, and use tax is disclosed separately to customers, or includes amounts recorded for use tax and use tax is not disclosed separately, then record the Rentals After Deductions amount (line 12, column B) on the Taxable Rentals line (line 13, column B).

If Total Sales include sales tax, divide Sales after Deductions by 106% and record that amount on the Taxable Sales line.

If Total Rentals includes use tax and use tax is disclosed separately to customers divide Total Rentals after Deductions by 106% and record the answer on the Taxable Rentals line.

Forward the signed report to Joyce Roberts, *Financial Operations, 6051 Wolverine Tower 1287 or Fax to 647-3804*, on or before the 8th of the month following the month being reported.