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**SFA****BILL ANALYSIS**

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Senate Bill 178 (as introduced 1-28-99)  
Sponsor: Senator George A. McManus, Jr.  
Committee: Transportation and Tourism

Date Completed: 3-4-99

### **CONTENT**

**The bill would amend the motor fuel tax Act to exempt wholesale distributors of diesel motor fuel from having to prepay taxes on diesel fuel received as tax-exempt but not sold for tax-exempt purposes during a reporting period. The bill also specifies that a person engaged in farming operations would not be required to separate taxable and nontaxable diesel motor fuel into separate fuel storage tanks until January 1, 2000.**

The Act requires the Department of Treasury, upon the distributor's request, to issue an exemption certificate to each wholesale distributor who purchases gasoline or diesel motor fuel for an exempt purpose. The certificate is valid until the end of the calendar year in which the request was filed. By the 20th day of the month following the close of the quarterly reporting period, the distributor must file with the Department a report showing the number of gallons of gasoline or diesel motor fuel received from a supplier or purchased from a wholesale distributor for a tax-exempt purpose and the number of gallons of gasoline and motor fuel sold for a tax-exempt purpose.

At the time of filing the report, each wholesaler must pay to the Department the amount of tax payable at the applicable rate per gallon on all gallons received tax-exempt but not sold for tax-exempt purposes during the reporting period. (In other words, a distributor must prepay the tax on this unsold gasoline or diesel fuel, but a distributor also may file for a refund of taxes paid on gasoline or fuel sold during the reporting period for tax-exempt purposes.) Under the bill, this current payment requirement would apply to wholesale distributors of gasoline. The bill would impose the same requirement on wholesaler distributors of diesel motor fuel, but would make an exception for those gallons received tax-exempt that had not been sold and were held in the wholesaler's bulk plant. The bill specifies that this provision would apply notwithstanding the Act's prohibition against importing, selling, using, transporting, or storing in the State gasoline or diesel motor fuel for which the tax imposed by the Act had not been paid to the Department of Treasury (MCL 207.103(1)).

MCL 207.112

Legislative Analyst: L. Arasim

### **FISCAL IMPACT**

This bill would not have an impact on the tax liability of either diesel fuel wholesalers or Michigan farmers.

However, it would end the prepayment of taxes on diesel motor fuel that is eventually sold for tax-exempt purposes, and would delay the payment of taxes for fuel originally claimed as tax-exempt but later sold for nonexempt purposes. This change would result in a loss of revenue to the extent that tax prepayments generate interest earnings for the State. Interest earnings on these prepayments depends on the volume of diesel fuel held by wholesalers and the period of time between the collection of tax receipts and sale of tax-exempt holdings.

Fiscal Analyst: P. Alderfer

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