Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 5734 (Substitute H-1 as reported without amendment)
House Bill 5735 (Substitute S-1 as reported)
House Bill 5736 (Substitute H-4 as reported without amendment)
Sponsor: Representative Keith Stallworth (H.B. 5734)
Representative Doug Hart (H.B. 5735)
Representative Larry Julian (H.B. 5736)
House Committee: Transportation
Senate Committee: Transportation and Tourism

CONTENT

House Bills 5734 (H-1), 5735 (S-1), and 5736 (H-1) would amend the Motor Carrier Fuel Tax Act, the Motor Fuel Tax Act, and the Use Tax Act, respectively, to revise the system for diesel fuel tax collection, delete the required licensure of retail diesel dealers, and prescribe the calculation of the use tax on diesel fuel used by interstate motor carriers. The bills are tie-barred to each other.

House Bill 5734 (H-1) would eliminate a provision in the Motor Carrier Fuel Tax Act that allows a motor carrier to claim a six-cent per gallon credit on the 21-cent per gallon tax on motor fuel, and would reduce the motor fuel tax from 21 cents to 15 cents per gallon of fuel consumed on public roads or highways within Michigan.

The bill would define "motor carrier" as a person who operates or causes to be operated a qualified commercial motor vehicle on a public road or highway in this State and at least one other state or Canadian province, or a person who operates or causes to be operated a qualified commercial motor vehicle on a public road or highway in this State and who is licensed under the International Fuel Tax Agreement. (The term currently refers to a person who operates or causes to be operated a qualified commercial motor vehicle on a public road or highway in the State.) The bill also specifies that "qualified commercial motor vehicle" would not include a road tractor, truck, or truck tractor used exclusively in this State.

House Bill 5735 (S-1) would amend the Motor Fuel Tax Act to eliminate the current two-tiered system for collecting the diesel tax but retain the 15-cent per gallon tax. The bill would repeal Sections 90 and 91, which define "industrial process reseller" and "fuel vendor" and mandate that people falling under these definitions be licensed. The bill also would delete the licensure requirement for retail diesel dealers, but would require the licensure of retail marine diesel dealers.

Currently, the diesel fuel tax of 15 cents per gallon is collected as follows:

-- Nine cents per gallon from any person who sells or delivers diesel fuel to a licensed supplier, licensed importer, licensed fuel vendor, licensed retail diesel dealer, or licensed marine retail dealer; or any person who delivers the fuel into the bulk storage tank of a motor carrier licensed under the Motor Carrier Fuel Tax Act, or into the fuel supply tank of a qualified commercial motor vehicle issued a decal under that Act.
-- An additional six cents per gallon from any person who collected or paid the nine cents per gallon of tax on diesel fuel and uses the fuel in a motor vehicle that is not issued a decal

under the Motor Carrier Fuel Tax Act; sells or delivers diesel fuel into the fuel supply tank of a motor vehicle that is not licensed under that Act; or delivers undyed diesel fuel into a storage tank of a person who is not licensed under the Motor Carrier Fuel Tax Act or under the Motor Fuel Tax Act.

-- Fifteen cents per gallon from any person importing, selling, distributing, delivering, or using diesel fuel unless otherwise provided for in either of the preceding categories.

The bill would delete these specifications, but retain the overall current diesel tax rate of 15 cents per gallon. Additionally, the bill would delete a provision that motor fuel is exempt from the tax if it is sold by a supplier to a licensed industrial process reseller for resale to an industrial end user who uses the fuel for an exempt purpose.

Currently, a person may not deliver diesel fuel into the fuel tank of an end user's vehicle or make a bulk delivery of fuel to an unlicensed end user unless the person is licensed as a retail diesel dealer under the Act. The bill would refer, instead, to a "retail marine diesel dealer", who would be subject to the current $50 license fee. A "retail marine diesel dealer" would be a person who sells or distributes diesel fuel to an end user in this State for use in boats or other marine vessels. Currently, a retail diesel dealer must report information necessary for the Department of Treasury to determine the amount of diesel fuel tax due. The bill would apply this requirement to a retail marine diesel dealer, and require the dealer to report the amount of dyed diesel fuel sold for a taxable purpose.

The Act prohibits a person from operating or maintaining a motor vehicle on Michigan public highways with dyed diesel fuel in the fuel supply tank, but makes several exceptions to the prohibition. The bill also would make exception for a passenger vehicle with a capacity of 10 or more that operates over regularly traveled routes expressly provided for in a certificate of authority issued by the Department of Transportation, a municipal franchise, a municipal license, a municipal permit, a municipal agreement, or a municipal grant.

House Bill 5736 (H-1) would amend the Use Tax Act to provide for the calculation of the use tax on the price of diesel fuel used by interstate motor carriers in a qualified commercial motor vehicle, and require this tax to be collected under the International Fuel Tax Agreement. An interstate motor carrier could claim a credit for 6% of the price of diesel fuel purchased in Michigan and used in a qualified commercial motor vehicle, in lieu of the use tax exclusion for property on which the sales tax was paid. The credit would have to be claimed on the returns filed under the International Fuel Tax Agreement. Also, exclusions from the use tax for property that is brought into Michigan under certain circumstances, would not apply to diesel tax used, stored, or consumed in Michigan by interstate motor carriers in qualified commercial vehicles.

MCL 207.111 et al. (H.B. 5734) Legislative Analyst: Julie Koval
MCL 207.1002 et al. (H.B. 5735)
MCL 205.92 et al. (H.B. 5736)

FISCAL IMPACT

House Bill 5734 (H-1): The impact on the Michigan Transportation Fund from the elimination of the six-cent per gallon credit for sales tax paid on diesel fuel purchased by motor carriers and the reduction of the motor carrier fuel tax, from 21 cents to 15 cents per gallon on motor fuel consumed on public roads in Michigan, would be a net loss of $1.7 million. Based on the distribution formula contained in Public Act 51 of 1951, the net loss would have the following impact:

Comprehensive Transportation Fund	$(170,000)

Balance:	
State Trunkline Fund	(598,250)
County Road Commissions	(598,250)
Cities and Villages	(333,500)

According to the Office of Revenue and Tax Analysis, this reduction would be more than offset by reducing the collection points for the motor carrier fuel tax (pursuant to House Bill 5735).

House Bill 5734 (H-1) also would reduce paperwork for collection of the motor carrier fuel tax. Intrastate motor carriers no longer would be required to file quarterly motor carrier fuel tax returns because that total tax would be paid at the pump.

House Bill 5735 (S-1): According to the Office of Revenue and Tax Analysis, reducing the collection points for the diesel tax would enhance Department of Treasury's ability to assess, audit, and collect the tax. The benefits of simplifying the tax collection also would be enhanced by a new computerized system that was included in the FY 2002-03 budget.

The Office of Revenue and Tax Analysis estimates Michigan Transportation Fund revenue increases of $3.9 million in the first year, $19.1 million in the second year, and $29.5 million in the third year. Funding would be allocated pursuant to the formula contained in Public Act 51 of 1951.

Comprehensive Transportation Fund	10%
Balance:	
State Trunkline Fund	39.1%
County Road Commissions	39.1%
Cities and Villages	21.8%

House Bill 5736 (H-4): This bill would increase use tax revenue by an estimated $4.5 million for a full fiscal year. Based on the current distribution of use tax revenue, $3.0 million would go to the General Fund, and $1.5 million would go to the School Aid Fund.

Date Completed: 12-11-02

Fiscal Analyst: Bill Bowerman
Jay Wortley

Floor\hb5734