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**BILL ANALYSIS**

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Senate Bill 399 (as enrolled)
Sponsor: Senator Bob Emerson
Senate Committee: Appropriations
House Committee: Appropriations

PUBLIC ACT 139 of 2003

Date Completed: 9-3-03

CONTENT

The bill amended the General Sales Tax Act to reduce the percentage of the revenue from the 4% sales tax that is deposited in the Comprehensive Transportation Fund (CTF). Section 25 of the Act provides for the distribution of sales tax revenue collected at the 4% rate. (The revenue from one-third of the 6% sales tax rate, is constitutionally earmarked to the School Aid Fund, pursuant to Article IX, Section 8.)

The Act provides that the tax collected on the sale of motor fuels, motor vehicles, and parts and accessories for motor vehicles by new and used car businesses, used car businesses, accessory dealer businesses, and gasoline station businesses must be distributed as follows: 60% to the School Aid Fund; 15% to cities, villages, and townships pursuant to the State Revenue Sharing Act; not less than 27.9% of the remaining 25% (7%) to the CTF; and the balance (18%) to the General Fund.

Under the bill, the amount of the sales tax revenue going to the CTF is reduced. Beginning with the fiscal year (FY) ending September 30, 2004, and through the fiscal year ending September 30, 2005, sales tax collected on motor fuels, motor vehicles, and parts and accessories for motor vehicles will be distributed as follows: 60% to the School Aid Fund; 15% to cities, villages, and townships pursuant to the State Revenue Sharing Act; not less than 24% of the remaining 25% (6%) to the CTF; and the balance (19%) to the General Fund. In the fiscal year ending September 30, 2006, the amount of sales tax to the CTF will return to the FY 2002-03 level.

MCL 205.75

FISCAL IMPACT

Beginning in fiscal year 2003-04, the bill decreases the amount of sales tax revenue

dedicated to the CTF and increases, by the same amount, the sales tax revenue dedicated to the General Fund. According to data from the May 2003 Consensus Revenue Estimating Conference, total auto-related sales tax revenue at the 4% rate for FY 2003-04 is estimated at \$1,111,100,000. Based on the current distribution formula in the General Sales Tax Act, the CTF would receive \$77,500,000 of the auto-related sales tax in FY 2003-04.

Under the bill, the CTF will receive not less than 24% of 25% (or 6%) of the sales tax revenue at the 4% rate on auto-related sales. Using the FY 2003-04 revenue estimates, this will decrease total auto-related sales tax revenue deposited in the CTF to \$66,700,000, a reduction of \$10,800,000. The same amount will be directed to the General Fund. The actual FY 2003-04 reduction to the CTF, and accompanying increase to the General Fund, is contingent upon the total amount of auto-related sales in that year.

The reduction will occur for two fiscal years only, FY 2003-04 and FY 2004-05. Beginning in FY 2005-06, the percentage of the sales tax revenue at the 4% rate on auto-related sales deposited in the CTF will increase from 24% of 25% (or 6%) to 27.9% of 25% (or 7%). At the same time, the amount of sales tax revenue deposited in the General Fund will decrease.

The FY 2003-04 budget for the Department of Transportation (Public Act 162 of 2003) assumed that the percentage of the sales tax revenue at the 4% rate directed to the CTF would be reduced from 7% to 6%. Therefore, appropriations from the CTF in the budget reflect the reduced funding availability.

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