

Legislative Analysis



EARMARK PORTION OF SALES TAX FOR STATE TRUNKLINE FUND

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House Bill 4521

Sponsor: Rep. Dave Agema

Committee: Transportation

Complete to 5-20-11

SUMMARY OF HOUSE BILL 4521 AS INTRODUCED 4-12-11

House Bill 4521 would amend Section 25 of the General Sales Tax Act (1933 PA 167) to change the current distribution of sales tax revenue. After the allocations and distributions of sales tax revenue currently provided in Subsection 2 (constitutional revenue sharing) and Subsection 3 (School Aid Fund), the bill would direct revenue from the sales tax imposed at 4% on the retail sale of gasoline to the State Trunkline Fund (STF) created in Section 11 of 1951 PA 51. The bill indicates that this redirection of sales tax revenue would begin with the fiscal year ending September 30, 2011. The bill also indicates that the deposit of sales tax revenue to the STF shall not be less than \$70.0 million. The STF is a state fund restricted for the construction and preservation of the state trunkline highway system and for administration of the Michigan Department of Transportation.

FISCAL IMPACT:

Michigan is one of several states to impose a sales tax on motor fuel sales, in addition to motor fuel excise taxes. Sales of motor fuels are subject to the state's 6% sales tax on retail sales, established in the General Sales Tax Act (1933 PA 167). The tax base for the sales tax on gasoline sales is the motor fuel retail price, including the federal excise tax, but not including the state motor fuel excise tax.

Based on Michigan Department of Treasury estimates, approximately 4.3 billion taxable gallons of gasoline will be consumed in Michigan in 2011. At this level of consumption, and an average pump price of \$3.00 per gallon, the sales tax on retail sales of gasoline will generate approximately \$691.5 million. Assuming the same level of consumption and an average pump price of \$4.00 per gallon, the sales tax will generate approximately \$937.5 million. [An increase in gasoline-related sales tax does not generate a sales tax "windfall." Because households have budget constraints, increases in consumer gasoline purchases are largely offset by reductions in other taxable purchases.]

The distribution of revenue from the Michigan sales tax is earmarked in Section 25 of the General Sales Tax Act: One hundred percent (100%) of the tax at 2%, and sixty percent (60%) of the tax at 4% is dedicated by the state Constitution to the School Aid Fund. Fifteen percent (15%) of the tax at 4% is constitutionally earmarked for local revenue sharing. In addition, a portion of the sales tax on motor fuel and other automotive

products is statutorily earmarked, in Section 25, Subsection (4) of the General Sales Tax Act, to the Comprehensive Transportation Fund (CTF), a state fund established in Section 10b of 1951 PA 51 for public transportation programs. This earmark is sometimes described as the "auto-related sales tax." There is also an earmark in the Subsection 6, effectively \$9.0 million, to the Michigan Health Initiative Fund. The balance of sales tax revenue, i.e. the amount not otherwise constitutionally or statutorily earmarked, is credited to the state General Fund.

House Bill 4521 would, after the allocations and distributions of sales tax revenue currently provided in Subsection 2 (constitutional revenue sharing), and Subsection 3 (School Aid Fund), direct revenue from the sales tax imposed at 4% on the retail sale of gasoline to the STF created in Section 11 of 1951 PA 51. The bill indicates that this redirection of sales tax revenue would begin with the fiscal year ending September 30, 2011. The bill also indicates that the deposit of sales tax revenue from to the STF shall not be less than \$70.0 million. The STF is a state fund restricted for the construction and preservation of the state trunkline highway system and for administration of the Michigan Department of Transportation.

While the bill would make the distribution to the STF *after* the distributions for constitutional revenue sharing in subsection 2, and to the School Aid Fund in subsection 3, the bill does not address the current distribution of "auto-related sales tax," which includes sales of gasoline, to the CTF. It appears that the provisions of the bill, which would earmark sales tax revenue from gasoline sales in new Subsection 5, are in conflict with current Subsection 4 which also earmarks a portion of the sale tax related to gasoline sales.

Under Section 1 of the General Sales Tax Act, sales tax revenue not otherwise earmarked to constitutional revenue sharing, the School Aid Fund, the CTF, and Michigan Health Initiative Fund, is credited to the state General Fund. To the extent that House Bill 4521 creates a new earmark for the STF, and putting aside the potential conflict with the distribution to the CTF, it would effectively be redirecting money from the state General Fund to the restricted STF.

At current levels of gasoline consumption, we estimate that the amount of sales tax revenue related to gasoline sales which is credited to the state General Fund range from \$68.5 million (at \$2.50 per gallon) to \$112.7 million (at \$4.00 per gallon).

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