# Legislative Analysis

HOUSE FISCAL AGENCY
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## EARMARK PORTION OF SALES TAX FOR STATE AND LOCAL ROAD PROGRAMS

**House Bill 4521 (Substitute H-3)**
**Sponsor: Rep. Dave Agema**
**Committee: Transportation**

**Complete to 6-7-11**

## SUMMARY OF HOUSE BILL 4521 (H-3) AS REPORTED 6-22-11

**House Bill 4521 (H-3)** would amend Section 25 of the General Sales Tax Act (1933 PA 167) to change the current distribution of sales tax revenue. The bill would effectively direct an amount equal to 18% of the tax collected at 4% from the sale of motor fuels from the state General Fund to state and local road programs – specifically 39.1% of the revenue to the state trunkline fund, 39.1% to county road commissions, and 21.8% to cities and villages – that is, using the same distribution formula provided in Section 10(1)j of 1951 PA 51.

The H-3 substitute is different from the bill as introduced in that it clarifies the language making the distribution and includes county road commission in the distribution; the bill as introduced earmarked funds only to the state trunkline fund. In addition, the H-1 substitute would redirect a portion of the sales tax from the sale of *motor fuels*; the bill as introduced only referenced *gasoline* sales.

The bill indicates that this redirection of sales tax revenue would begin with the fiscal year ending September 30, 2013

## 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.

The distribution of revenue from the Michigan sales tax is earmarked, in part, in Article IX of the 1963 Constitution. Section 25 of the General Sales Tax Act reflects those constitutional earmarks as well as two additional statutory earmarks: 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 General Sales Tax Act, 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 (H-3) would earmark an amount equal to 18% of the revenue from the sales tax imposed at 4% from the sale of motor fuel to state and local road programs – specifically 39.1% of the revenue to the state trunkline fund, 39.1% to county road commissions, and 21.8% to cities and villages – that is, using the same distribution formula provided in Section 10(1)j of 1951 PA 51.

The earmarking proposed by House Bill 4521 (H-3) would not affect the current constitutional or statutory earmarks to the School Aid Fund, constitutional revenue sharing, the Comprehensive Transportation Fund, or the Michigan Health Initiative Fund. The bill would redirect to state and local road programs the sales tax attributable to motor fuel sales that would otherwise go to the state General Fund, i.e. 18% of the tax collected at 4% is effectively the amount of sales tax revenue credited to the General Fund after current constitutional and statutory earmarks.

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.]

Based on the assumptions noted above, we estimate that the House Bill 4521 (H-3) would redirect to state and local road programs an amount of sales tax revenue related to *gasoline* sales in a range from $83.1 million (at $3.00 per gallon) to $112.7 million (at $4.00 per gallon). This is revenue that would otherwise be credited to the state General Fund.

We did not estimate sales tax related to the sales of diesel motor fuel. There are many fewer gallons of diesel motor fuel sold than gasoline (approximately 770 million gallons as compared to 4.3 billion gallons). In addition, a large share of diesel consumption is taxed under the Use Tax Act and not the General Sales Tax Act.

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