

Legislative Analysis



EARMARK PORTION OF SALES TAX FOR MICHIGAN TRANSPORTATION FUND

Mary Ann Cleary, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 6 (S-1)

Sponsor: Sen. John Proos

Senate Committee: Infrastructure Modernization

House Committee: Tax Policy

Complete to 6-12-14

SUMMARY OF SENATE BILL 6 AS PASSED BY THE SENATE 6-5-14

Senate Bill 6 (S-1) 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 direct an amount equal to 18% of the tax collected at 4% from the sale of motor fuel from the state General Fund to the Michigan Transportation Fund (MTF) created in Section 10 of 1951 PA 51 (Act 51).

The bill is similar to Senate Bill 351 of the 2011-2012 Legislative Session, enacted as 2012 PA 225, which redirected sales tax attributable to motor fuel sales for the fiscal year ending September 30, 2013 only. **Senate Bill 6** would redirect this sales tax revenue for FY2014-15 and subsequent fiscal years.

FISCAL IMPACT:

The total impact of the redirection in Senate Bill 6 (S-1) of sales tax attributable to gasoline and diesel motor fuel sales, from the state General Fund to the MTF, would be approximately \$130.0 million in FY 2014-15 (approximately \$108.0 million attributable to gasoline sales and approximately \$22.0 million attributable to diesel motor fuel).

BACKGROUND INFORMATION:

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 motor fuel 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—the amount not otherwise constitutionally or statutorily earmarked—is credited to the state General Fund. This residual amount, the amount which is currently credited to the state General Fund, is effectively 18% of the tax collected at 4%.

The calculation of sales tax attributable to gasoline sales and the constitutional and statutory distribution of revenue shown in the table at the end of this analysis.

DETAILED ANALYSIS:

Senate Bill 6 (S-1) would earmark to the MTF an amount equal to 18% of the revenue from the sales tax imposed at 4% on sales of motor fuel. Revenue from this earmark would be distributed to MTF recipients according to the distribution formula in Act 51 as follows – using our \$130.0 million estimate for FY 2014-15:

\$13.0 million to the CTF for public transportation purposes;
\$45.7 million to the State Trunkline Fund (STF) for state trunkline programs of the Michigan Department of Transportation;
\$45.7 million to the county road commissions;
\$25.5 million to cities and villages

The earmarking proposed by Senate Bill 6 would not affect the current constitutional or statutory earmarks to the School Aid Fund, constitutional revenue sharing, the CTF, or the Michigan Health Initiative Fund.

Note that the estimated revenue impact developed in this analysis is based on Michigan Department of Treasury February 2014 estimates of motor fuel consumption for FY 2014-15 and current pump prices for gasoline and diesel motor fuel. The actual amount of sales tax attributable to motor fuel would depend on two variables: the level of motor fuel consumption, and the price of motor fuel. Consumption of gasoline has declined in Michigan by an average rate of 1.2% per year since a FY 2001-02 peak of 4.942 billion gallons to the FY 2012-13 consumption level of 4.324 billion gallons.

For additional information on the taxing of motor fuels, see:

Motor Fuel Taxes, Sales Tax on Motor Fuels, and Tax Collection on the House Fiscal Agency website.

<http://www.house.mi.gov/hfa/PDFs/tax%20rates%20and%20collection%202012%20update.pdf>

Fiscal Analyst: William E. Hamilton

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

Calculation of Sales Tax Attributable to Gasoline						
Gasoline tax revenue estimate for FY 2014-15	\$815,000,000	ORTA estimate, 2/5/14				
at 19 cents per gallon	0.19					
Taxable gallons	4,289,473,684					
Taxable base price per gallon	3.500					
Taxable base	\$15,013,157,895					Gas at \$3.90 per gallon
Sales tax @6%	0.06				3.316	wholesale price
Sales tax revenue on gasoline sales	\$900,789,474				0.184	federal excise tax
					3.500	Base for sales tax
Distribution:					0.210	Sales tax
School Aid Fund (100% of tax at 2%)	\$300,263,158	Constitutional			3.710	Subtotal
School Aid Fund (60% of 4%)	360,315,789	Constitutional			0.190	state excise tax
Local revenue sharing (15% of 4%)	90,078,947	Constitutional			3.900	Pump price
CTF (27.9% of 25% of 4%)	41,886,711	Statutory				
Subtotal	\$792,544,605					
General Fund (balance)	108,244,868					
Total Distribution	\$900,789,474					