

Legislative Analysis



AMENDMENTS TO MOTOR FUEL TAX ACT

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

House Bill 5477

Sponsor: Rep. Rob VerHuelen

Committee: Transportation and Infrastructure

Complete to 4-29-13

SUMMARY OF HOUSE BILL 5477 AS INTRODUCED 4-23-14

House Bill 5477 would amend the Motor Fuel Tax Act to change the current fixed tax rates of 19 cents per gallon for gasoline and 15 cents per gallon for diesel fuel to a single tax rate for both gasoline and diesel fuel equal to 6% of the [average] *wholesale price* of unleaded regular gasoline – i.e. the price of gasoline excluding other federal and state taxes and regulatory fees – as calculated by the Michigan Department of Treasury. This change would be effective beginning October 1, 2014.

Note that the tax rate, even though computed as a percentage of the wholesale price of unleaded regular gasoline at a given point in time, would still be an excise tax assessed on a per gallon basis. The Michigan Department of Treasury would convert the percentage to a rate per gallon tax. The tax rate would change only under specific conditions described in the bill.

The bill allows the Michigan Department of Treasury to adjust the calculated tax rate under certain conditions established in the bill. Specifically, the department could *decrease* the rate to limit an increase in revenue from the gasoline and diesel motor fuel taxes from one fiscal year to the next to 5% or the rate of inflation – whichever was less. The department could also *increase* the calculated tax rate to ensure that revenue generated from the taxes on gasoline and diesel motor fuels in a fiscal year was not less than *base year revenue* – defined as revenue from motor fuel taxes collected in the fiscal year ending September 30, 2014.

Except for the decreases or increases in the tax rates described above, which are discretionary with respect to the Michigan Department of Treasury, it does not appear that the bill provides for an on-going adjustments of the initial tax rates established on October 1, 2014. The rate established for the period beginning October 1, 2014 would be the tax rate for both gasoline and diesel motor fuel going forward indefinitely.

The proposed method of calculating the motor fuel tax rates would be revenue neutral with respect to gasoline at current retail pump price for unleaded regular gasoline of \$3.75 per gallon; at a current pump price of \$3.75 per gallon, the *wholesale price* (the price excluding state and federal excise taxes and state sales tax) would be roughly \$3.175 per gallon. A motor fuel tax calculated by applying 6% to a wholesale price of \$3.175 would equate to approximately 19 cents per gallon – equal to the current motor fuel tax on gasoline.

Under provisions of the bill, the motor fuel tax rate on diesel motor fuel would be the same as the computed rate for gasoline. In our above example, that computed tax rate would be approximately 19 cents per gallon – four cents more than the current 15 cent per gallon motor fuel tax on diesel.

It is our understanding that a change in the motor fuel tax on diesel would have to be mirrored in the Motor Carrier Fuel Tax Act (1980 PA 119), the act which establishes a tax on diesel motor fuel used in Michigan by interstate motor carriers.

The bill would also amend Section 152 which currently imposes a motor fuel tax on liquefied petroleum gas when used as a motor fuel. The bill would change the tax rate to the same rate determined for gasoline and diesel motor fuel; 6% of the wholesale price of gasoline.

House Bill 5477 would strike language that had established differential tax rates for alternative fuels.

DEFINITIONS

"Wholesale price" is defined in the bill as "the price per gallon of unleaded regular gasoline charged by a licensed supplier to a purchaser at the time of removal from a terminal across the rack, as determined by the department." Under the bill's definition, other state and federal motor fuel taxes, sales taxes, and regulatory fees would be excluded from the wholesale price tax base.

"Average wholesale price" is defined in the bill as "the statewide average wholesale price as determined by the department based on a 12-month rolling average of the wholesale price." The bill indicates that the 12-month rolling average period ends on the last day of the month that is 3 months prior to the month as determined by the department under Section 8(1)(c); i.e. October 1, 2014.

BACKGROUND INFORMATION:

The Motor Fuel Tax Act imposes a tax on motor fuels used in motor vehicles on the public roads and highways of the state. The current tax rate is 19 cents per gallon for gasoline and 15 cents per gallon for diesel motor fuel and liquefied petroleum gas used to propel motor vehicles. The tax rate for gasoline was last increased in 1997 when 1997 PA 83 increased the rate from 15 cents per gallon. The current 15 cent per gallon tax rate for diesel motor fuel and liquefied petroleum gas used to propel motor vehicles has been in effect since 1984.

The intent of the Motor Fuel Tax Act is *"to require persons who operate a motor vehicle on the public roads or highways of this state to pay for the privilege of using those roads and highways."* Revenue from the taxes imposed by the act is dedicated for transportation purposes in Article IX, Section 9 of the 1963 Michigan Constitution.

FISCAL IMPACT:

The current 19 cent per gallon gasoline excise tax is estimated to generate \$812.5 million in FY 2013-14; the 15-cent per gallon diesel motor fuel tax rate is expected to generate \$130.0 million.

House Bill 5477 would likely generate additional state restricted transportation revenue, primarily by increasing the tax rate on diesel motor fuel.

The amount of revenue generated from changing the current fixed 19 cent per gallon tax on gasoline to a tax rate calculated as 6% of the *wholesale price* would depend on two variables: consumption and the "wholesale price" of gasoline at the time the rate was calculated. Consumption of gasoline in Michigan peaked in 2002 and has been in decline each year since 2002. The price of gasoline is relatively volatile – from January 2009 through March 2014, the retail price of gasoline ranged from a high of \$4.04 per gallon to a low of \$1.91 per gallon. The statewide average pump price of regular unleaded gasoline for March 2014 was \$3.72 cents per gallon.

At a pump price of \$3.75 per gallon, the wholesale price as defined in the bill would be \$3.175 per gallon and the calculated tax rate at 6% of the wholesale price would be approximately 19 cents per gallon – the same as the current tax on gasoline.

House Bill 5477 would establish the same tax rate for diesel motor fuel as the calculated rate for gasoline. If the calculated rate were 19 cents per gallon, as in the above example, the tax rate for diesel would effectively increase by four cents per gallon. That would equate to an increase in revenue of approximately \$35 million – assuming that the Motor Carrier Tax Act were also amended to mirror the 19 cent per gallon tax rate.

Under current law, revenue from the Motor Fuel Tax Act and Motor Carrier Fuel Tax Act is credited to the Michigan Transportation Fund (MTF). MTF revenue is then distributed in accordance with the provisions of Public Act 51 of 1951 to other state transportation funds and program accounts and to local road agencies (county road commissions, cities and villages).

For a description of how motor fuel taxes are collected in Michigan, please see [Motor Fuel Taxes, Sales Tax on Motor Fuels, and Tax Collection](#) [25K] February 6, 2012, Prepared by William E. Hamilton. This memo provides background information on taxes imposed on motor fuels in Michigan.

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.