Legislative Analysis

Phone: (517) 373-8080
http://www.house.mi.gov/hfa

Analysis available at
http://www.legislature.mi.gov

ROAD FUNDING REVENUES
FROM INCOME AND SALES TAXES

House Bill 4605 (reported from committee as H-1)
Sponsor: Rep. Al Pscholka

House Bill 4606 (reported as H-1)
Sponsor: Rep. Phil Potvin

House Bill 4609 (reported w/o amendment)
Sponsor: Rep. Jeff Farrington

Committee: Roads and Economic Development
Complete to 6-5-15

SUMMARY:

House Bill 4605 would amend the Income Tax Act to earmark the following amounts from income tax revenue for distribution under Public Act 51 of 1951 for transportation purposes:

- Fiscal Year 2015-2016: $442 million
- Fiscal Year 2016-2017: $492 million
- Fiscal Year 2017-2018: $617 million
- Fiscal Year 2018-2019: $792 million

After that date, the amount earmarked would be adjusted annually for inflation, based on the United States consumer price index, and rounded up to the nearest $100. The inflation adjustment could not result in a reduction.

House Bill 4609 is tie-barred to House Bill 4605 and would amend the Income Tax Act to eliminate the earned income tax credit (EITC), beginning with the 2015 tax year. Currently, the EITC provides a refundable credit equal to 6% of the amount a taxpayer is allowed to claim under the federal EITC. The federal EITC is a refundable credit for working low income households; the credit is equal to a percentage of the taxpayer's earned income based on the number of children in the household, up to a certain limit.

House Bill 4606 would amend the General Sales Tax Act so that the amount remaining from the collection of the sales tax on motor fuel at 4%, after the current allocation and distributions for revenue sharing to local units, schools, and the Comprehensive Transportation Fund, would be allocated to and distributed under Public Act 51 of 1951 for transportation purposes.

Under both House Bill 4605 and 4606, revenue would deposited in the Michigan Transportation Fund and distributed "as provided in Section 10(1)(k) of PA 51 of 1951."

That subdivision (as reorganized by amendments to PA 51 made in House Bill 4613) would distribute funds as follows:

- 39.1% to the State Trunk Line Fund (for the preservation of the state trunkline system—state highway maintenance, state road and bridge capital construction and reconstruction program, MDOT administration, and debt service.)
- 39.1% to county road commissions.
- 21.8% to cities and villages.

As a result, the bills would bypass the 10% distribution to the Comprehensive Transportation Fund (CTF) currently made in Section 10(1)(f) of PA 51 of 1951, which is restricted for public transportation purposes.

FISCAL IMPACT:

As already noted, HB 4605 would reduce GF/GP revenue beginning in FY 2015-16 by earmarking a portion of individual income tax revenue to the Michigan Transportation Fund (MTF). Similarly, HB 4606 would earmark a portion of sales tax revenue received from sales of motor fuels at 4% to the MTF. Based on quantity and price estimates of motor fuel purchases, HB 4606 would redirect from GF/GP approximately $74.9 million in FY 2015-16, $92.7 million in FY 2016-17, $104.8 million in FY 2017-18, and $116.9 in FY 2018-19.

Finally, HB 4609 would eliminate the earned income tax credit (ETC) for tax years after 2014. Eliminating the EITC would increase individual income tax revenue by an estimated $115.0 million in FY 2015-16, $119.0 in FY 2016-17, $123.0 million in FY 2017-18, and $127.0 million in FY 2018-19. Because the EITC primarily affects refunds, the majority of the revenue increase would accrue to the General Fund as opposed to the School Aid Fund.

Net Impact on GF/GP

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
HB 4605 – Redirect Income Tax Revenue	-$442.0	-$492.0	-$617.0	-$792.0
HB 4606 – Redirect Sales Tax Revenue	-$74.9	-$92.7	-$104.8	-$116.9
HB 4609 – Eliminate EITC	$115.0	$119.0	$123.0	$127.0
Net Impact on GF/GP Revenue	-$401.90	-$465.7	-$598.8	-$781.9

Legislative Analyst: Chris Couch
Fiscal Analyst: Jim Stansell

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