

Legislative Analysis



MODIFY MOTOR FUEL TAXES

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House Bill 4615 (reported from committee as H-1)
Sponsor: Rep. Rob VerHeulen

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

House Bill 4616 (reported as H-1)
Sponsor: Rep. Michael D. McCready

House Bill 4614 (reported as H-1)
Sponsor: Rep. Andrea LaFontaine

Committee: Roads and Economic Development
Complete to 6-8-15

SUMMARY:

House Bill 4615 would amend the Motor Fuel Tax Act (2000 PA 403) to increase the tax on diesel fuel from 15 cents per gallon to 19 cents per gallon, beginning October 1, 2015. The rate for diesel fuel would then be the same as the motor fuel tax on gasoline.

The definition of "alternative fuels" would be expanded and those fuels would be taxed at the same rate as motor fuels (based on gallon equivalents).

Further, the bill would direct the Department of Treasury to annually adjust the cents-per-gallon rates for motor fuels based on inflation or 5%, whichever is less, and rounded up to the nearest one-tenth of a cent. The department would use the U.S. consumer price index for all urban consumers, and make the adjustment by comparing the two most recent July 1 through June 30 periods. This would begin October 1, 2016. The adjustment could not reduce the tax rate.

House Bill 4616 would amend the Motor Carrier Fuel Tax Act to make the tax rates for motor fuel (gasoline and diesel) and alternative fuel in that act consistent with the rates established in House Bill 4615 for the Motor Fuel Tax Act.

House Bill 4614 would make complementary amendments to the Streamlined Sales and Use Tax Revenue Equalization Act. Sections of this act that currently only apply to diesel fuel used by qualified commercial motor vehicles would now apply to "motor fuel" (meaning diesel fuel and gasoline) and alternative fuel.

The three bills are tie-barred, meaning none can take effect unless all are enacted.

Alternative Fuels

The Motor Fuel Tax Act currently recognizes only one motor fuel, other than gasoline and diesel motor fuel—liquefied petroleum gas (LPG). Section 152 currently imposes a 15-cent-per-gallon motor fuel tax on LPG when used as a motor fuel. Over the last eight fiscal years, this tax has generated between \$350,000 and \$415,000 in revenue for credit to the MTF.

House Bill 4615 would amend Section 151 to define *alternative fuels* to mean "a gas, liquid, or other fuel that, with or without adjustment or manipulation such as adjustment or manipulation of pressure or temperature, is capable of being used for the generation of power

to propel a motor vehicle, including but not limited to, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, hydrogen compressed natural gas, or hythane."

The bill would amend Section 152 to establish a tax rate for *alternative fuels* equal to the tax on motor fuel. The bill would specify the basis for measuring alternative fuels for taxation ("gallon equivalents"), the method of collection, and exemptions from the motor fuel tax on alternative fuels. For example, there are exemptions for alternative fuel sold directly to the federal government, state government, or local government for use in their motor vehicles; and alternative fuel sold directly to a nonprofit, private, parochial, or denominational school, college, or university and used in a school bus.

Application and License Fee for Alternative Fuel Dealers & Commercial Users

The bill would impose a fee of \$500 for a license as an alternative fuel dealer. The license fee for an alternative fuel commercial user would be \$50. (Currently, there is a \$50 license fee for LPG dealers.)

Penalties for Using Dyed Diesel Fuel in Motor Vehicles –

In addition to its use as a fuel to propel motor vehicles, diesel fuel has other uses, including as a fuel for farm equipment and construction equipment. The Motor Fuel Tax Act provides for the untaxed use of diesel fuel for those uses. However, untaxed diesel fuel is dyed, and the Motor Fuel Tax Act provides penalties for the use of dyed (untaxed) diesel fuel in motor vehicles. House Bill 4615 would amend Section 122 to increase the civil penalty for first-time violations from \$200 to \$1,000. The penalty for second and subsequent violations would be \$5,000. (Currently, the penalty is \$200 for the first two violations in a 12-month period and \$5,000 for a third violation in a 12-month period and each subsequent violation.)

FISCAL IMPACT:

Diesel tax revenue is estimated to be \$137.0 million in FY 2015-16 at the existing \$0.15 per gallon rate. If consumption remained at the forecasted level, increasing the rate by four cents per gallon would increase total diesel tax revenue by about \$36.5 million.

The impact of the indexing provisions would increase total fuel tax revenue by an estimated \$26.5 million in FY 2016-17, \$52.5 million in FY 2017-18, and \$78.8 million in FY 2018-19.

Michigan's motor fuel taxes and vehicle registration taxes are dedicated to transportation purposes in Article IX, Section 9 of the 1963 Michigan Constitution. Revenue from these taxes is credited to the Michigan Transportation Fund (MTF) created in Section 10 of Public Act 51 of 1951, and distributed to various state and local transportation programs. Specifically, after deductions for certain collection and administrative costs, and for certain categorical or targeted transportation programs, Section 10 of Act 51 distributes 10% of MTF revenue to the Comprehensive Transportation Fund (CTF) for public transportation purposes, and then of net MTF revenue, 39.1% to the State Trunkline Fund (STF), 39.1% to county road commissions, and 21.8% to city and villages.

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■ 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.