

MOTOR FUEL INVENTORY FOR TAX RATE INCREASE

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Senate Bill 674 as passed by the Senate

Sponsor: Sen. Aric Nesbitt

House Committee: Transportation

Senate Committee: Transportation and Infrastructure

Revised 11-9-21

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

SUMMARY:

Senate Bill 674 would repeal section 10 of the Motor Fuel Tax Act, which prescribes requirements and procedures concerning motor fuel held in storage when the motor fuel tax established under the act is increased. Specifically, the section requires holders of the motor fuel to take an inventory to determine the gallons of motor fuel in storage at the close of business on the last day before the tax increase takes effect for the purpose of reporting and remitting the amount of tax due, because of the increase in the tax rate, on specified nonexempt quantities of motor fuel held in storage. Note that the tax under the act will be increased on January 1, 2022.

MCL 207.1010 (repealed)

FISCAL IMPACT:

Section 8 of the Motor Fuel Tax Act establishes a tax on “the sale and use of certain types of fuel in motor vehicles on the public roads or highways of this state and on certain other types of gas...”

The tax rate under section 8 is currently 26.3 cents per gallon. This rate was established under 2015 PA 176, one of the bills in the November 2015 Road Funding Package. 2015 PA 176 also provided for inflation indexing of the motor fuel tax, starting January 1, 2022.

Beginning with the rate effective on January 1, 2022 and January 1 of each year thereafter, the Department of Treasury must determine a cents-per-gallon motor fuel tax rate based on the cents-per-gallon rate in effect during the immediately preceding calendar year multiplied by 1 times the inflation rate, or 1.05, whichever is less. (“Inflation rate” is a defined term in section 3 of the Motor Fuel Tax Act.)

In other words, regardless of the inflation increase, the motor fuel tax increase cannot exceed 5% each year as compared to prior year motor fuel tax rate. The maximum January 1, 2022 increase in the motor fuel tax rate, assuming a maximum increase of 5%, would be 1.3 cents per gallon.

Section 10 of the Motor Fuel Tax Act, which Senate Bill 674 would repeal, currently prescribes the tax treatment of motor fuel held in storage when the motor fuel tax established in section 8 of the Motor Fuel Tax Act is increased. Section 10 effectively applies the increase to motor fuel held in storage when in excess of 3,000 gallons is held in storage.

Senate Bill 674 could result in some decrease in restricted transportation revenue in years in which the motor fuel tax rate is increased. However, the potential loss would appear to be relatively minor in relation to total motor fuel tax revenue: the potential loss would only apply to motor fuel in excess of 3,000 gallons held in storage—and only for the marginal difference between the original rate of taxation and the amount of the motor fuel tax increase.

Legislative Analyst: E. Best
Fiscal Analyst: William E. Hamilton

■ 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.