Legislative Analysis

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ROAD FUNDING PACKAGE

House Bill 4180 as introduced
Sponsor: Rep. Donni Steele

House Bill 4181 as introduced
Sponsor: Rep. Steve Frisbie

House Bill 4182 as introduced
Sponsor: Rep. Bradley Slagh

House Bill 4183 (proposed H-1 substitute)
Sponsor: Rep. Tom Kunse

House Bill 4184 as introduced
Sponsor: Rep. Jamie Thompson

House Bill 4185 as introduced
Sponsor: Rep. Rylee Linting

House Bill 4186 as introduced
Sponsor: Rep. Steve Carra

House Bill 4187 as introduced
Sponsor: Rep. Pat Outman

Committee: Transportation and Infrastructure
Complete to 3-11-25

SUMMARY:

House Bill 4183 would amend the Motor Fuel Tax Act to increase the taxes levied on motor fuel beginning October 1, 2025.

Currently, the taxes on gasoline and diesel fuel under the act are $0.31 per gallon. These taxes are adjusted annually for inflation effective January 1.[1]

The bill would increase each tax to $0.51 per gallon effective October 1, 2025. This amount also would be adjusted for inflation on January 1, 2026, but the adjustment increment would be based on the average of the tax rates in effect during 2025.

The Department of Treasury would have to publish a notice of the increased rate established by the bill by September 1, 2025.

MCL 207.1008

House Bill 4180 would amend the General Sales Tax Act to provide that, beginning October 1, 2025, the retail sale of any fuel subject to the tax levied under the Motor Fuel Tax Act is exempt from the sales tax.

In addition, beginning October 1, 2025, the retail sale of ***aviation fuel*** would be exempt from sales tax.

> ***Aviation fuel*** would mean any gasoline, distillate, benzine, naphtha, benzol, or other volatile and inflammable liquid produced, compounded, and used for propelling aircraft.

[1] https://www.michigan.gov/taxes/business-taxes/motor-fuel/current-tax-rates-for-motor-fuel-and-alternative-fuel

The bill also would make complementary changes providing that various provisions relating the payment of sales tax on certain fuels exempted by the bill would sunset (expire) after September 30, 2025.

MCL 205.56a and 205.56c and proposed MCL 205.54gg and 205.54hh

House Bill 4182 would amend the Use Tax Act to exempt from the use tax the purchase or use of the same fuels that would be exempt from sales tax under House Bill 4180.

In addition, the act currently requires the Department of Treasury to distribute revenue based on the amount collected under the 2% of the use tax approved by electors in 1994 on the use, storage, or consumption of aviation fuel in specific proportions between the State Aeronautics Fund and the Qualified Airport Fund.[2] The department is also required to reconcile the amounts distributed under this requirement each fiscal year and make any necessary adjustments to the next distribution.

The bill would sunset these provisions beginning October 1, 2025, and would allow the department to transfer money between funds, delay and adjust a distribution currently required by the act, or take any other necessary action to reconcile the distributed amounts described above for the fiscal year ending September 30, 2025.

MCL 205.96c and 205.111 and proposed MCL 205.94gg and 205.94hh

House Bill 4185 would amend the General Sales Tax Act to modify the distribution of revenue under the act.

Currently, similar to the Use Tax Act provisions described above, the act requires the Department of Treasury to distribute revenue based on the amount collected under the 2% of the use tax approved by voters in 1994 on the sale of aviation fuel in specific proportions between the State Aeronautics Fund and the Qualified Airport Fund. The department also must reconcile the amounts distributed under this requirement each fiscal year and make any necessary adjustments to the next distribution.

The bill would sunset these provisions beginning October 1, 2025, and would allow the department to transfer money between funds, delay and adjust a distribution currently required by the act, or take any other necessary action to reconcile the distributed amounts described above for the fiscal year ending September 30, 2025.

The bill would also add that, in addition to other deposits into the School Aid Fund already required by the act, an additional $755.0 million would be deposited into the fund from the revenue collected under the 4% sales tax imposed by the act for each fiscal year ending on or after September 30, 2026

MCL 205.75

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[2] Section 8 of Article IX the state constitution allows the legislature to impose a sales and use tax of up to 4%. The constitution was amended in 1994, as part of Proposal A's reform of school funding, to allow an additional 2% sales and use tax. The additional 2% is constitutionally dedicated to the School Aid Fund.
See: https://www.legislature.mi.gov/Laws/MCL?objectName=mcl-Article-IX-8

House Bill 4181 would amend the Streamlined Sales and Use Tax Act Revenue Equalization Act to eliminate, beginning October 1, 2025, the 6% specific tax levied on interstate motor carriers that use motor fuel or alternative fuel in Michigan. The bill also would eliminate the credits available against these taxes to offset any sales tax paid on fuel purchased in Michigan.[3]

MCL 205.173 and 205.175

House Bill 4184 would amend the Aeronautics Code to increase the tax imposed on aircraft fuel under the act and alter the distribution of money collected from that tax.

Currently, the act imposes a privilege tax of three cents per gallon on all fuel sold or used in producing or generating power for propelling aircraft using aeronautical facilities in Michigan (whether on land or water). All money collected from this tax and various other revenues are required to be deposited into the state treasury and credited to the State Aeronautics Fund.

Under the bill, the tax rate would increase to eight cents per gallon, and the additional five-cent tax added by the bill would be distributed as follows:

- 35% into the State Aeronautics Fund.
- 65% into the Qualified Airport Fund.

MCL 259.34 and 259.203

House Bill 4186 would amend the Michigan Business Tax Act to make various changes.

The Michigan business tax was eliminated in 2011 as part of the overhaul that created the current corporate income tax (CIT).[4] However, certain business that had outstanding approved or assigned credits (called "legacy credits") were allowed to continue filing until the credit is used up.

The bill would increase the tax rate for those businesses that still file under the act from 4.95% to 30% for all business activity occurring on or after January 1, 2025.

The bill would allow taxpayers that previously elected to continue filing under the act (to use a legacy credit) to elect, for any tax year beginning with the 2025 tax year, to file a return under the Income Tax Act and pay the CIT rather than the Michigan Business Tax. Any taxpayer that made this election would forgo the ability to claim any remaining legacy credits.

MCL 208.1201 and 208.1500

House Bill 4187 would amend Part 2 of the Income Tax Act, which includes the CIT and various other business taxes, to modify the distribution of revenue under that part.

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[3] The Streamlined Sales and Use Tax Agreement is an agreement by 24 states and other governmental bodies to simplify and make more uniform the sales and use tax collection and administration for retailers and states. The agreement's purpose is to reduce the burden of tax compliance on businesses operating in more than one state by creating uniformity in tax bases and definitions between states; simplifying exemptions, returns, and remittances; and requiring uniformity between state and local tax bases with collections being administered at the state level. Michigan joined the agreement in 2004.

[4] https://www.legislature.mi.gov/Bills/Bill?ObjectName=2011-HB-4361

Currently, through the 2024-25 fiscal year, revenue under the part is distributed as follows. First, up to $1.2 billion must initially be deposited into the general fund. After this amount, deposits must be made in the following order:

- Up to $50.0 million to the Michigan Housing and Community Development Fund.
- Up to $50.0 million to the Revitalization and Placemaking Fund (see below).
- Up to $500.0 million to the Strategic Outreach and Attraction Reserve (SOAR) Fund.
- Any remaining balance to the general fund.

For each fiscal year beginning with fiscal year (FY) 2025-26, $50.0 million of the revenue collected under Part 2 will be deposited in the Michigan Housing and Community Development Fund. The remaining revenue will be deposited in the general fund.

The bill would end the currently scheduled distributions with the fiscal year ending October 1, 2024. Instead, beginning with the 2025-26 fiscal year, and in all subsequent fiscal years, revenue would be distributed as follows:

- Up to $2.2 billion distributed among the following:
    - 50% to the Michigan Department of Transportation (MDOT) for county road commissions, distributed in accordance with section 12 of 1951 PA 51.[5]
    - 40% to MDOT for cities and villages, distributed in accordance with section 13 of 1951 PA 51.[6]
    - 10% to the State Trunk Line Fund.
- Any additional revenue after this amount to the general fund.

It also appears that, under the bill, all revenue under Part 2 for the current (2024-25) fiscal year would be deposited into the general fund.

MCL 206.623 and 206.695

FISCAL IMPACT:

Generally, the bills would provide the following net fiscal impact. The bills would increase transportation revenue by just under $3.2 billion beginning in FY 2025-26. When compared to current law estimates, general fund revenues would increase $600.0 million in FY 2024-25 and decrease $3.1 billion in FY 2025-26, $2.5 billion in FY 2026-27, $2.7 billion in FY 2027-28 through FY 2030-31, and $3.1 billion in subsequent years. The School Aid Fund would realize increased revenues of approximately $55.0 million beginning in FY 2025-26 using calendar year (CY) 2024 estimates of motor fuel taxes. Using the same motor fuel tax estimates, constitutional revenue sharing would realize a reduction of approximately $95.5 million annually. Lastly, the combined distribution to the State Aeronautics Fund and Qualified Airport Fund would realize increased revenues of approximately $3.0 to $7.0 million depending on aviation fuel gallons sold. The fiscal impact of each bill in the package is explained in more detail below.

<u>House Bills 4180 and 4182</u> would reduce sales and use tax revenue on motor fuels (gas and diesel) by approximately $925.0 million based on the most recent year of data (CY 2024). It

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[5] https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-662

[6] https://www.legislature.mi.gov/Laws/MCL?objectName=mcl-247-663

should be noted that the impact from year to year will vary depending on fuel prices. The exemption of aviation fuel would reduce revenue by an additional $30.0 million to $35.0 million.

Approximately 73% of sales tax revenue is constitutionally earmarked to the School Aid Fund, 10% is constitutionally earmarked to revenue sharing, and the remainder is allocated to the general fund. With respect to use tax revenue, after accounting for the Local Community Stabilization Authority share for personal property tax reimbursements, approximately 57% is deposited in the general fund and approximately 43% is deposited in the School Aid Fund.

With respect to the sales and use tax on aviation, the bill would eliminate the requirement that an amount equal to two percentage points of the sales and use tax collections on aviation fuel be deposited in the State Aeronautics Fund (35% of collections at the 2% rate on aviation fuel) and Qualified Airport Fund (65% of collections at the 2% rate on aviation fuel).

House Bill 4183 would amend the Motor Fuel Tax Act to increase the motor fuel rate to $0.51 per gallon, effective October 1, 2025. This tax is imposed on motor fuel imported into or sold, delivered, or used in this state, including gasoline and diesel used as motor fuel. Through reference, the tax rate is also applied to equivalent gallons of *alternative fuel*, as defined in the act.

The motor fuel tax rate is currently $0.31 per gallon. As a result, the bill would increase the motor fuel tax rate by $0.20 per gallon, a 64.5% increase. On an annualized basis, this increase would increase state restricted revenue as follows:

Motor Fuel:	**FY 2025-26 estimate (ORTA)**	**Estimated impact of 20-cent increase**
Gasoline	$1,341.0	$865.2
Diesel*	286.0	184.5
Alternative	2.4	1.5
TOTAL	**$1,629.4**	**$1,051.2**

*Note: The estimate for diesel motor fuel assumes the enactment of a bill to amend the Motor Carrier Fuel Tax Act so that the new rate would also be imposed on interstate or cross-border motor carriers.

As noted, the estimated impact of a 20-cent increase in the motor fuel tax rates shown above is on an annualized basis. However, the new rate of $0.51 cents per gallon would only be in effect for three months, until December 31, 2025. Under the act, the motor fuel tax rate is adjusted annually for inflation, effective January 1 of each year. The amount of the annual increase is limited to 5% of the previous fuel tax rate base. As a result, the rate would be adjusted again, effective January 1, 2026. Under the bill, this adjustment increment would be based on an average of the rates in effect in 2025. Based on current inflation forecasts, it is assumed that the inflation adjustment will increase the motor fuel tax on January 1, 2026, to 51.9 cents.

Revenue from the motor fuel tax is constitutionally dedicated to transportation and directed by section 143 of the Motor Fuel Tax Act to the Michigan Transportation Fund (MTF), a state restricted transportation fund established in 1951 PA 51. As a result, except as noted below, additional revenue from the bill's increase in the motor fuel tax rate would be credited to the MTF and distributed in accordance with the provisions of section 10 of 1951 PA 51.

Although revenue from the motor fuel tax is constitutionally dedicated to transportation, and directed by statute to the MTF, 2% of revenue from the motor fuel tax on gasoline is credited to the Recreation Improvement Account in the Michigan Conservation and Recreation Legacy Fund. There is a presumption in current law that 2% of revenue from the motor fuel tax on gasoline is used for watercraft, snowmobiles, and off-road vehicles. As a result, section 40 of Article IX of the state constitution dedicates 2% of all tax revenue derived from the sale of gasoline for consumption in internal combustion engines to the Recreation Improvement Account. This constitutional dedication is reflected in Part 711 of the Natural Resources and Environmental Protection Act. The revenue figures shown above for gasoline are gross figures, prior to the 2% earmark for the Recreation Improvement Account.

House Bill 4184 would increase the aviation fuel tax by five cents, which would increase revenue from the aviation fuel tax by approximately $13.0 to $17.0 million on a full-fiscal-year basis and is a function of gallons sold within a given year. From the amount collected from the five cents, 35% (approximately $5.3 million) would be deposited in the State Aeronautics Fund and 65% (approximately $9.8 million) would be deposited in the Qualified Airport Fund.

House Bill 4185 would increase annual School Aid Fund revenues and correspondingly decrease annual general fund revenues by $755.0 million beginning in FY 2025-26 by adding a specific School Aid Fund earmark to the sales tax.

House Bill 4186 would increase the Michigan Business Tax (MBT) rate from 4.95% on the business income tax base to 30.0% beginning with business activity occurring on or after January 1, 2025. While individual taxpayer information is not known, it is assumed that most, if not all, taxpayers filing under the MBT to claim previously awarded certificated credits would transition to the corporate income tax, assuming that is the tax they would pay if not filing under the MBT.

If it is assumed that all taxpayers discontinue filing under the MBT due to the tax rate increase under the bill, it is estimated that general fund revenues from net business taxes will increase initially by approximately $530.0 to $540.0 million in FY 2026-27 and by about $350.0 to $390.0 million in FYs 2027-28 through 2030-31 based on the most recent MEGA and Other Certificated Credits Annual Report (2024). There is generally a lag between the year in which the business activity that qualifies for the credit will occur and the fiscal year in which the credits are filed and refunds are paid. The timing of decisions around tax filing and the claiming of credits could alter the estimates of fiscal year impacts on revenues.

House Bill 4187 would eliminate existing $600.0 million of corporate income tax earmarks for the current fiscal year, FY 2024-25, and redirect the $600.0 million to the general fund. The Strategic Outreach Attraction Reserve Fund earmark ($550.0 million) and Revitalization and Placemaking Fund earmark ($50.0 million) were set to expire after FY 2024-25, so the bill would remove one year of revenue to those funds. Under current law, the $50.0 million earmark to the Michigan Housing and Community Development Fund continued in perpetuity. The bill would eliminate the earmark after FY 2023-24.

Beginning in FY 2025-26, the bill would earmark the first $2.2 billion of corporate income tax revenue as follows: 50% to MDOT for distribution to county road associations, 40% to MDOT for distribution to cities and villages, and 10% to the State Trunkline Fund. The balance of any revenue from the CIT would be deposited in the general fund.

Based on January 2025 CREC estimates, the bill would reduce general fund revenues by $2.2 billion in FY 2025-26 and FY 2026-27 as CIT estimates in both years slightly exceed the $2.2 billion level. The CIT estimates for FY 2025-26 and FY 2026-27 are $2,225.5 million and $2,284.7 million, respectively. The impact on general fund revenues in years beyond FY 2026-27 would depend on actual CIT collections. However, the impact would be capped at $2.2 billion as the earmark for transportation-related purposes would remain at that amount.

Legislative Analyst: Alex Stegbauer
Fiscal Analysts: Ben Gielczyk
William E. Hamilton