

Legislative Analysis



EXEMPT MOTOR FUEL SALES FROM SALES TAX

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House Bill 4539

Sponsor: Rep. Wayne Schmidt

House Committee: Transportation

Complete to 4-15-13

SUMMARY OF HOUSE BILL 4539 AS INTRODUCED 4-11-13

House Bill 4539 would in effect exempt gasoline and diesel fuel sales from the sales tax.

Specifically, the bill would amend the General Sales Tax Act (1933 PA 167) to allow a person subject to the sales tax to exclude from the gross proceeds used for the computation of the tax the sale of gasoline and diesel fuel, beginning on the effective date of the bill.

BACKGROUND INFORMATION:

Michigan is one of several states to impose a sales tax on motor fuel sales, in addition to motor fuel excise taxes. Sales of motor fuels are subject to the state's 6% sales tax on retail sales, established in the General Sales Tax Act (1933 PA 167). The tax base for the sales tax on motor fuels sales is the motor fuel retail price, including the federal excise tax, but not including the state motor fuel excise tax.

The distribution of revenue from the Michigan sales tax is earmarked, in part, in Article IX of the 1963 Constitution. Section 25 of the General Sales Tax Act reflects those constitutional earmarks as well as two additional statutory earmarks: One hundred percent (100%) of the tax at 2%, and sixty percent (60%) of the tax at 4% is dedicated by the State Constitution to the School Aid Fund. Fifteen percent (15%) of the tax at 4% is constitutionally earmarked for local revenue sharing. In addition, a portion of the sales tax on motor fuel and other automotive products is statutorily earmarked, in Section 25, Subsection (4) of the General Sales Tax Act, to the Comprehensive Transportation Fund (CTF), a state fund established in Section 10b of 1951 PA 51 for public transportation programs. This earmark is sometimes described as the "auto-related sales tax." There is also an earmark in the General Sales Tax Act, effectively \$9.0 million, to the Michigan Health Initiative Fund. The balance of sales tax revenue, i.e. the amount not otherwise constitutionally or statutorily earmarked, is credited to the state General Fund.

FISCAL IMPACT:

As written, a full fiscal year impact of House Bill 4539 would reduce sales tax revenue by an estimated \$1.0 billion, which translates to about 15% of total sales tax revenue. Of this amount, Constitutional revenue sharing would decrease by roughly \$100 million and School Aid Fund revenue would decline by approximately \$750 million. This would

require either reducing the foundation allowance to local schools or replacing the lost revenue to maintain existing funding levels.

It is our understanding that the bill is related to House Bills 4358 and 4359, bills that would amend the Motor Carrier Fuel Tax Act and the Motor Fuel Tax Act, respectively. However, House Bill 4539 is not tie barred to House Bill 4358 or 4359.

For additional information on the taxing of motor fuels, see *Motor Fuel Taxes, Sales Tax on Motor Fuels, and Tax Collection* on the House Fiscal Agency website at.

<http://www.house.mi.gov/hfa/PDFs/tax%20rates%20and%20collection%202012%20update.pdf>

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