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## DIESEL FUEL COLLECTIONS

### House Bill 4356 as introduced First Analysis (3-18-97)

**Sponsor: Rep. Lynn Owen**  
**First Committee: Transportation**  
**Second Committee: Tax Policy**

#### **THE APPARENT PROBLEM:**

Under the motor fuel tax act, according to an industry spokesman, when diesel fuel wholesalers take delivery of the product from the supplier, taxes are included in the cost unless the product is intended for a tax-exempt purpose. (Tax exempt purposes could include sales of motor fuel for school buses and municipal passenger vehicles, as well as sales of home heating oil.) Wholesalers are required to file quarterly reports with the Department of Treasury indicating the number of gallons received or purchased for a tax-exempt purpose and the number of gallons sold for a tax-exempt purpose and pay the tax on the difference. One problem with this process, says the industry, is that diesel fuel wholesalers must then pay tax on diesel fuel purchased for a tax-exempt purpose but remaining in storage. This is particularly a problem in the case of heating oil dealers. Heating oil is exempt under the motor fuel act but is the same as diesel fuel. Wholesalers who purchase diesel fuel to be sold as heating oil must pay tax on the product while it is stored and then wait to receive a refund once it has been sold. This loss of cash flow is said to be a hardship for dealers.

#### **THE CONTENT OF THE BILL:**

The bill would amend the motor fuel tax act (Public Act 150 of 1927) to specify that wholesale distributors of diesel fuel would not have to pay tax to the Department of Treasury on fuel received tax exempt that had not been sold and was being held in the wholesaler's bulk plant.

The term "bulk plant" in the act is defined as "a gasoline or diesel motor fuel storage facility, other than a terminal, which is primarily used for redistribution of gasoline and diesel motor fuel by vehicles with a capacity of 4,200 gallons or less."

MCL 207.112

#### **FISCAL IMPLICATIONS:**

The House Fiscal Agency reports that "while the bill will have no long-run fiscal impact, it will have a negative short-run effect on tax revenues immediately after the bill is passed and implemented. Tax collections will dip temporarily as a result of the initial deferments." The HFA says that because the treasury department does not collect information on bulk plant holdings, an estimate of the short-run impact is not possible. There likely will be additional short-run administrative cost to the department, says the HFA, as they amend reporting forms and data collection procedures. (Fiscal Note dated 3-10-97)

#### **ARGUMENTS:**

##### **For:**

The bill would provide an exemption from the motor fuel tax for diesel fuel that had been purchased for a tax-exempt purpose and was not yet sold but was being stored. (Tax exempt purposes could include sales of motor fuel for school buses and municipal passenger vehicles, as well as sales of home heating oil.) Currently, wholesalers must pay tax on such fuel and wait for a refund once it has been sold for a tax-exempt purpose. This is an unnecessary burden on fuel dealers. If the fuel was ultimately sold for a taxable purpose, the tax would then be due. But dealers should not have to see their cash flows suffer by being required to pay tax on a tax-exempt product and wait for repayment.

##### **Against:**

The collection point for the motor fuel tax (or gasoline tax) was changed with legislation that took effect in 1993. The aim of the legislation, in part, was to improve the enforcement of the tax by reducing the number of collection points and enhancing the tracking of petroleum products. The legislation aimed to close loopholes that allowed numerous taxable transactions to go untaxed. Reportedly, the collections of diesel fuel taxes rose significantly after the 1993 legislation. This bill would weaken that legislation and make enforcement more difficult and tax evasion easier.

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**POSITIONS:**

The Michigan Petroleum Association and the Michigan Association of Convenience Stores supports the bill. (3-14-97)

The Department of Transportation supports the bill. (3-14-97)

The Department of Treasury opposes the bill. (3-12-97)

Analyst: C. Couch

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