

DIESEL MOTOR FUEL TAXES



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FISCAL ANALYSIS

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PA 667 of 2002 (HOUSE BILL 5734)

ENACTED ANALYSIS - 4/21/03

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PA 668 of 2002 (HOUSE BILL 5735)

PA 669 of 2002 (HOUSE BILL 5736)

SUMMARY

In December 2002 the Legislature passed three bills which changed the way diesel motor fuel is taxed in Michigan. House Bills 5734 and 5735 amended the two statutes which provide for the taxation of diesel fuel used in motor vehicles: (a) the Motor Carrier Fuel Tax Act, and (b) the Motor Fuel Tax Act. HB 5736 amended the Use Tax Act to make that tax applicable to diesel fuel consumed in Michigan.

At that time, we estimated that the changes proposed in House Bills 5734 and 5735 would result in a decrease in Michigan Transportation Fund (MTF) revenue of \$1.9 million – on a full-year basis, and based on calendar year 2001 fuel sales and usage data provided by the Michigan Department of Treasury.

However, we also noted that this reduction in MTF revenue would be offset to the extent that additional revenue was realized from improved tax collection as a result of simplification and improved collection systems. The Michigan Department of Treasury's Office of Revenue and Tax Analysis (ORTA) estimated that improved collections as a result of diesel tax simplification, coupled with improved computerized monitoring systems, would result in increases of \$3.9 million, \$19.1 million, and \$29.5 million in MTF revenue in the first, second, and third year of implementation, respectively. In addition, ORTA estimated that the increased diesel fuel tax collections would increase Michigan's share of federal highway funds by \$11.8 million in the third year of implementation. The House Fiscal Agency did not independently confirm the ORTA estimates.

At the same time, we estimated that the changes to the Use Tax Act proposed in House Bill 5736 would increase state revenue by \$4.5 million - on a full-year basis and based on diesel fuel priced at \$1.00 per gallon (excluding Michigan motor fuel and sales taxes). This additional revenue would be distributed in accordance with the current constitutional and statutory distribution of Use Tax revenue: 1/3 to the School Aid Fund (\$1.5 million), and 2/3 to the General Fund (\$3.0 million). To the extent that diesel fuel prices were greater than \$1.00 per gallon, the revenue increase would be greater - a total of \$5.7 million with fuel at \$1.25 per gallon, and \$6.8 million with fuel at \$1.50 per gallon.

Note that the above estimates were based on calendar year 2001 diesel fuel purchase and consumption data from the Michigan Department of Treasury. In addition, the estimates were based on full-year tax collections. House Bill 5736 became effective March 31, 2003. House Bills 5734 and 5735 did not become effective until April 1, 2003. As a result, the 2002-03 fiscal year would be only partially affected by these tax changes.

Also note that a more detailed description of the tax system which existed prior to the enactment of these bills is found in the House Fiscal Agency "Committee Analysis" link on the Michigan Legislature website (www.michiganlegislature.org) under HB 5734, 5735, or 5736 of the 2001-2002 House Session.

Summary of Fiscal Impacts

Public Act 668 of 2002 (House Bill 5735) – amended the Motor Fuel Tax Act to eliminate the 6-cent pump-price discount which had been previously available to motor carriers. As a result, effective April 1, 2003, the pump price of diesel fuel would reflect the total tax rate of 15 cents per gallon. Note that the bill did not change the rate of taxation; it remains at the rate of 15 cents per gallon.

Under the prior method of taxation, part of the Motor Fuel Tax on diesel fuel was collected from suppliers, and part of the tax was collected from retailers (truck stops and service stations). PA 668 of 2002 amendments made motor fuel *suppliers* the sole collection point for all diesel fuel taxes imposed under the Motor Fuel Tax Act. As a result, effective April 1, 2003, the Motor Fuel Tax on diesel fuel will be collected in the same way the Motor Fuel Tax on gasoline is collected. Although the 19-cent per gallon gasoline tax is reflected in the pump price, the tax is actually collected by the Michigan Department of Treasury from motor fuel *suppliers*.

Note that Michigan also imposes a 6% sales tax on motor fuel sales. Assuming diesel fuel costs of \$1.00 per gallon, the total effective tax rate on diesel fuel "at the pump" is 21-cents per gallon - 15 cents in Motor Fuel Tax plus 6 cents in Sales Tax. The 15 cents from the Motor Fuel Tax is credited to the Michigan Transportation Fund (MTF), and the 6 cents from the Sales Tax is divided according to constitutional and statutory earmarks - primarily to the School Aid Fund (73%) and local revenue sharing (24%).

PA 667 of 2002 (House Bill 5734) – amended the Motor Carrier Fuel Tax (MCFT) Act, effective April 1, 2003, to change the definition of "motor carrier" subject to the Act. Under PA 667 only *interstate* motor carriers would be subject to the Act. Michigan *intrastate* motor carriers would not be subject to the Act and would no longer have to file quarterly MCFT tax returns. Michigan intrastate motor carriers would effectively pay diesel taxes under the Motor Fuel Tax Act "at the pump."

The PA 667 also lowered the tax rate from the prior tax rate of 21 cents per gallon, to 15 cents per gallon, and eliminated the 6-cent sales tax refund for fuel purchased in Michigan. The effective tax rate would be 15 cents per gallon.

PA 669 of 2002 (House Bill 5736) - amended the Use Tax Act, effective March 31, 2003, to make the tax applicable to diesel fuel consumed in Michigan. Effectively the tax would only apply to interstate motor carriers who drove in Michigan but who purchased fuel outside of Michigan. Interstate motor carriers who purchased fuel in Michigan would be credited for Sales Tax paid.

The application of Use Tax to diesel fuel consumption is a way of equating the tax rates for motor carriers who purchase motor fuel in Michigan with those who purchase motor fuel out-of-state. There would be no disincentive for the purchase of fuel in Michigan based on tax rates. As noted above, those who purchased motor fuel in Michigan - which under PA 667 of 2002 would include all Michigan intrastate motor carriers - would pay 15 cents per gallon in Motor Fuel Tax "at the pump," plus 6% Sales Tax applied to the purchase price. *Interstate* motor carriers who did not purchase motor fuel in Michigan would pay 15 cents per gallon in Motor Carrier Fuel Tax plus 6% Use Tax applied to the statewide average retail price of diesel fuel. All motor carriers would effectively pay the same tax rate: 15 cents per gallon plus 6% Sales Tax or Use Tax.

Use Tax revenue is distributed in accordance with the current constitutional and statutory earmarks: 1/3 to the School Aid Fund and 2/3 to the General Fund.

The following table compares taxation of diesel fuel under prior law with provisions of Public Acts 667, 668, and 669 of 2002

	Law prior to April 1, 2003 (HB's 5734 and 5735 were effective 4/1/2003. HB 5736 became effective 3/31/2003)	PA 667, 668, 669 of 2002 (House Bills 5734, 5734, and 5736)
Diesel Powered Cars & Light Trucks (<u>Not</u> Motor Carriers)	<p>Tax Rates MFT - 15 cents per gallon at the pump MCFT - No tax Net = 15 cents per gallon fuel tax</p> <p>Plus 6% Sales Tax on purchase price</p> <p>MFT Collection Point 9 cents collected from supplier 6 cents collected at retail</p>	<p>Tax Rates MFT - 15 cents per gallon at the pump MCFT - No tax Net = 15 cents per gallon in fuel tax</p> <p>Plus 6% Sales Tax on purchase price</p> <p>MFT Collection Point All 15 cents collected from supplier</p>
Michigan Motor Carriers Fuel Purchased in Mich. Miles Driven in Mich.	<p>Tax Rates MFT - 9 cents per gallon at the pump MCFT - 21 cents per gallon due for Michigan miles, less 9-cent credit for MFT paid, less 6 cent sales tax refund Net = 15 cents per gallon in fuel tax Plus 6% Sales Tax on purchase price</p> <p>MFT/MCFT Collection Point 9 cents collected from supplier 6 cents quarterly on MCFT form</p>	<p>Tax Rates MFT - 15 cents per gallon at the pump MCFT - No tax Net = 15 cents per gallon in fuel tax Plus 6% Sales Tax on purchase price</p> <p>MFT/MCFT Collection Point All 15 cents collected from suppliers.</p> <p>Truckers who operated exclusively in Michigan would no longer be <i>motor carriers</i> and would not file MCFT form.</p>
Motor Carriers (Interstate) Purchased Fuel in Mich. Miles Driven in Mich.	<p>Tax Rates MFT - 9 cents per gallon at the pump MCFT - 21 cents per gallon due for Michigan miles, less 9 cent per gallon credit for MTF paid, less 6 cent sales tax refund Net = 15 cents per gallon in fuel tax Plus 6% Sales Tax on purchase price</p> <p>MFT/MCFT Collection Point 9 cents collected from supplier 12 cents quarterly on IFTA form, less 6 cents refund on supplemental Treasury form.</p>	<p>Tax Rates MFT - 15 cents per gallon at the pump MCFT - 15 cents per gallon due on Michigan miles, less 15 cents per gallon credit for MFT paid Net = 15 cents per gallon in fuel tax Plus 6% Use Tax less credit for 6% Sales Tax paid at the pump.</p> <p>MFT/MCFT Collection Point 15 cents collected from supplier Motor carrier Michigan miles reconciled on quarterly on IFTA forms</p>
Motor Carriers Purchased Fuel Outside Mich. Miles Driven in Mich.	<p>Tax Rates MFT - No tax due. MCFT - 15 cents per gallon for miles driven in Michigan Net = 21 cents per gallon in fuel tax No Sales or Use Tax</p> <p>MFT/MCFT Collection Point Collected on quarterly on IFTA form</p>	<p>Tax Rates MFT - No tax due. MCFT - 15 cents per gallon for miles driven in Michigan Net = 15 cents per gallon in fuel tax 6% Use Tax</p> <p>MFT/MCFT Collection Point Collected on quarterly on IFTA form</p>
<p>MFT = Motor Fuel Tax Act (Applied to Fuel Purchased in Michigan) MCFT = Motor Carrier Fuel Tax Act (Applied to Fuel Consumed in Michigan)</p>		