

Fiscal Analysis

SALES TAX - APPLICATION TO GASOLINE SALES



Bill/Sponsor **HOUSE BILL 4027 as introduced**, Rep. Clark E. Bisbee

House Committee Tax Policy

Analysis

Summary

The bill would amend Section 1 of the General Sales Tax Act (PA 167 of 1933, MCL 205.51) to exclude the federal gasoline excise tax from the tax base on which the sales tax on gasoline sales is applied. The bill would also add a new Section 11. The new section would require the state treasurer to estimate the amount of sales tax not collected as a result of the exclusion, and would require that that amount be transferred to the School Aid Fund from the state General Fund.

Background - The Michigan motorist pays three separate taxes on gasoline purchased as motor fuel.

Motor Fuel Tax - The state levies a 19-cent per gallon excise tax on gasoline used in motor vehicles. This tax is dedicated by the 1963 Michigan Constitution for transportation purposes. Revenue from the 19-cent per gallon gasoline tax is first credited to the Michigan Transportation Fund (MTF) and is then distributed to other funds and programs according to "Act 51" formula. The 19-cent per gallon gas tax is expected to generate over \$960 million for transportation in FY 2003-04 – approximately 50% of the state-restricted funds in the state transportation budget.

Federal Excise Tax - In addition to Michigan's 19-cent per gallon gasoline excise tax, the federal government levies an 18.4-cent per gallon federal gasoline excise tax. This tax is earmarked for the Federal Highway Trust Fund which is distributed to the states for highway and public transportation programs.

Michigan Sales Tax - In addition to the two excise taxes noted above, Michigan levies a 6% sales tax on retail gasoline sales. The tax base on which the sales tax is applied includes the gasoline retail sales price, including the 18.4 cent per gallon federal excise tax. The state's 19-cent per gallon state excise tax is not included in the sales tax base.

Fiscal Impact

If the federal excise tax were excluded from the base for computation of the sales tax on gasoline used as motor fuel, we estimate that state sales tax revenue would decline by approximately \$56.0 million. The Michigan Sales Tax is subject to earmarking. Sixty percent (60%) of the tax at 4%, and 100% of the tax at 2%, is dedicated to the School Aid Fund. Fifteen percent (15%) of the tax at 4% is constitutionally earmarked for revenue sharing. In addition, a portion of the sales tax on motor fuel and automotive products is

earmarked to the Comprehensive Transportation Fund for public transportation purposes, and a portion of the tax levied at 4% is statutorily earmarked for revenue sharing.

Because the bill would require that an amount equal to the entire \$56 million be transferred to the School Aid Fund from the General Fund, the bill would have the following fiscal impacts:

School Aid Fund - \$15.1 million increase

Revenue Sharing (constitutional earmark) - \$5.6 million decrease

Comprehensive Transportation Fund - \$2.2 million decrease

State General Fund - \$63.3 million decrease

We did not consider how the reduction in General Fund revenue would impact the part of the sales tax revenue dedicated by statute for revenue sharing, which is subject to appropriation.

This estimate was developed from FY 2003-04 motor fuel tax revenue estimates made by the Michigan Department of Treasury Office of Revenue and Tax Analysis in May, 2003.

Analyst(s)

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COMMITTEE ANALYSIS - 10/6/03

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