

Legislative Analysis



EARMARK PORTION OF SALES TAX FOR SCHOOL AID FUND

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House Bill 4677 (H-4, as passed by the House)
Sponsor: Rep. Phil Potvin
Committee: Transportation and Infrastructure

Complete to 12-10-13

SUMMARY OF HOUSE BILL 4677 (H-4) AS PASSED BY THE HOUSE 12-5-13

House Bill 4677 (H-4), as passed the House, would amend Section 25 of the General Sales Tax Act (1933 PA 167) to change the current distribution of sales tax revenue. The bill would earmark \$17.0 million of the sales tax collected at 4% to the School Aid Fund. This amount otherwise would be directed to the state General Fund.

The bill indicates that this redirection of sales tax revenue would begin with the fiscal year ending September 30, 2014.

FISCAL IMPACT:

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:

- Fifteen percent (15%) of the tax at 4% for local revenue sharing (Section 25, Subsection 2).
- One hundred percent (100%) of the tax at 2%, and sixty percent (60%) of the tax at 4% to the School Aid Fund (Section 25, Subsection 3).

In addition to these constitutional earmarks, Section 25 of the Sales Tax Act establishes additional statutory earmarks. Specifically, Section 25, Subsection 4 earmarks a portion of the sales tax on motor fuel and other automotive products to the 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."

Subsection 25, Subsection 7 provides an earmark, 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 in accordance with both Section 25, Subsection 1, and Section 25, Subsection 8.

House Bill 4677 would add a new Subsection 9 to Section 25 to earmark \$17.0 million from the sales tax collected at 4% and after the allocations and distributions in Subsections 2, 3, and 4, to the School Aid Fund. This additional earmark of sales tax revenue would otherwise, under current law, be credited to the state General Fund.

The bill indicates that the new distributions would be effective beginning with the fiscal year ending September 30, 2014.

The bill is tie-barred to House Bill 4572, a bill which would amend the Sales Tax Act to exempt the sale of aviation gasoline and aviation jet fuel from the additional 2% state sales tax established in 1994. House Bill 4677 would, effectively, replace revenue lost to the School Aid Fund caused by House Bill 4572. Below is a table showing the fiscal impact of the three bills working together.

Impact of House Bills 4571, 4572, and 4677

Gross Taxable Gallons	264,672,726 (5-year average through FY 2011-12)
Assume wholesale tax base of \$3.00	\$794,018,178
Sales tax at 2%	\$15,880,364
Minimum "wholesale" tax at 6 cents	\$15,880,364
 Impact on State Aeronautics Fund	
Eliminate 3 Cent Aviation Fuel Tax (House Bill 4571)	(\$5,400,000) (5- year average through FY 2011-12)
Minimum "wholesale" tax at 6 cents	<u>\$15,880,364</u>
Difference	\$10,480,364 (increase in State Aeronautics Fund revenue)
 Breakdown of Sales Tax Impact	
Eliminate 2% Sales Tax, (House Bill 4572)	(\$15,880,364) (Constitutional)
Redirect State GF/GP (House Bill 4677)	<u>\$17,000,000</u>
Net School Aid Fund	\$1,119,636
 Summary	
Net Increase in State Aeronautics Revenue	\$10,480,364
Net Increase in School Aid Fund revenue	\$1,119,636
Reduction in State GF/GP revenue	<u>(\$17,000,000)</u>
Gross State Revenue Loss	(\$5,400,000)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.