

# Legislative Analysis



## EARMARK PORTION OF SALES TAX FOR COMPREHENSIVE TRANSPORTATION FUND

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**House Bill 4677**

**Sponsor: Rep. Phil Potvin**

**Committee: Transportation and Infrastructure**

**Complete to 5-7-13**

### SUMMARY OF HOUSE BILL 4677 AS INTRODUCED 5-2-13

**House Bill 4677** 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 direct a portion of the sales tax "imposed at 4% directly or indirectly on gasoline" to the Comprehensive Transportation Fund (CTF).

Specifically, the bill directs to the CTF revenue from the sales tax imposed at 4% on gasoline sales, after the constitutional earmarks to local revenue sharing and the state School Aid Fund, and after the current statutory earmark to the CTF.

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

### FISCAL IMPACT:

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:

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

Section 25, Subsection (4) of the General Sales Tax Act also 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."

[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.

House Bill 4677 would create an additional earmark to the CTF. Specifically, the bill directs to the CTF sales tax collections on gasoline imposed at the rate of 4%, after the constitutional earmarks to local revenue sharing and to the School Aid Fund, and the current statutory earmark to the CTF. The amount of this proposed earmark is effectively the amount that would, under current law, be credited to the state General Fund.

Based on February 2013 Michigan Department of Treasury estimates, approximately 4.276 billion taxable gallons of gasoline will be consumed in Michigan in FY 2013-14. At this level of consumption, and an average pump price of \$3.50 per gallon, the sales tax on retail sales of gasoline will generate approximately \$801.3 million in state revenue. Of this total revenue, the amount that would be credited to the General Fund under current law would be approximately \$96.3 million.

Note that this is a rough estimate based on the gasoline consumption estimates and average fuel price assumptions noted above.

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.

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

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<b>Computation of Sales Tax on Gasoline</b>						
Gasoline tax revenue for FY 2012-13 *	\$812,500,000					
at 19 cents per gallon	0.19					
Taxable gallons	4,276,315,789					
Taxable base price per gallon	3.123					
Taxable base	\$13,354,934,211					
Sales tax @6%	0.06					
Sales tax revenue on gasoline sales	\$801,296,053					
<b>Distribution:</b>						
School Aid Fund (100% of tax at 2%)	\$267,098,684	Constitutional				
School Aid Fund (60% of 4%)	320,518,421	Constitutional				
Local revenue sharing (15% of 4%)	80,129,605	Constitutional				
Comprehensive Transportation Fund (27.9% of 25% of 4%)	37,260,266	Statutory				
Subtotal	\$705,006,977					
General Fund (balance)	96,289,076					
Total Distribution	\$801,296,053					
Tax collected at 4%	\$534,197,368					
<i>GF/GP share of the tax collected at 4%</i>	18.03%					
<b>This is a rough estimate of sales tax on gasoline, and the related distribution, based on estimated consumption at a pump price of \$3.50 per gallon.</b>						
* ORTA estimate 2/7/2013						

<b>Gas at \$3.50 per gallon</b>	
2.939	Base wholesale price
0.184	Federal excise tax
3.123	Base for sales tax
0.187	Sales tax @ 6%
3.310	Subtotal
0.190	State excise tax
3.500	Pump price