

## EARMARK PORTION OF SALES TAX FOR SCHOOL AID FUND

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**House Bill 4677 (H-3, as reported from committee)**  
**Sponsor: Rep. Phil Potvin**  
**Committee: Transportation and Infrastructure**

**Complete to 12-4-13**

### SUMMARY OF HOUSE BILL 4677 (H-3) AS REPORTED 5-21-13

**House Bill 4677 (H-3)**, as reported, 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 \$55.0 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 H-3 substitute strikes an earmark to the Comprehensive Transportation Fund (CTF) made in the bill as introduced, and also strikes a reference to the sales tax attributable to gasoline. The proposed \$55.0 million earmark is simply a new earmark of sales tax revenue and is unrelated to the sales tax attributable to gasoline.

The H-3 substitute also adds a new subsection (10) which earmarks \$7.5 million of sales tax revenue to the state General Fund for distribution according to Section 10, Article IX of the Michigan Constitution, i.e. Constitutional revenue sharing. This earmark would be subject to appropriation.

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 \$55.0 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 also adds a new Subsection 10 to earmark \$7.5 million of sales tax collected at 4%, and after the allocations and distributions in Subsections 2, 3, and 4, to the state General Fund for distribution according to Section 10, Article IX of the Michigan Constitution, i.e. Constitutional revenue sharing. This earmark would be subject to appropriation. 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 exempt from the state sales tax. House Bill 4677 would, effectively, replace revenue lost to the School Aid Fund and Constitutional revenue sharing caused by the exemption of aviation gasoline and aviation jet fuel from the state sales tax.

Our analysis of House Bill 4572 concluded that bill could reduce total state sales tax revenue by between \$45.6 million and \$55.6 million with the impact on state General Fund ranging from \$7.9 million to \$9.3 million. As a result, the total impact on the state General Fund, considering the revenue reduction effected in House Bill 4572 and the redirection of General Fund revenue in House Bill 4677, would range from \$70.4 million to \$71.8 million.

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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.