

EARMARK PORTION OF SALES TAX FOR STATE AND LOCAL ROAD PROGRAMS

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House Bill 5459

Sponsor: Rep. Peter Pettalia
House Committee: Tax Policy

Complete to 4-25-14

SUMMARY OF HOUSE BILL 5459 AS INTRODUCED 4-17-14

House Bill 5459 would amend Section 25 of the General Sales Tax Act (1933 PA 167) to change the current distribution of sales tax revenue. Specifically, the bill would earmark certain sales tax revenue to state and local road programs; the earmarked revenue would be directed to the State Trunkline Fund (STF), to county road commissions, and to cities and villages, using the existing distribution formula in Public Act 51 of 1951.

It is estimated that the bill would redirect approximately \$130 million in FY2014-15, \$135 million in FY2015-16, \$139 million in FY2016-17, and \$143 million in FY2017-18 from sales taxes on the sale of gasoline from the state's General Fund to state and local road programs.

[The bill as drafted does not include diesel fuel; it is anticipated that a substitute will be adopted to include diesel, and the fiscal estimates in this summary assume that sales taxes on diesel fuel will included in the legislation.]

New Sales Tax Earmark

House Bill 5459 would amend Section 25 of the General Sales Tax Act to direct a portion of sales tax collections imposed at a rate of 4%, directly or indirectly, on gasoline, to the State Trunkline Fund (STF), to county road commissions, and to cities and villages in the same percentages described in Section 10(1)(j) of 1951 PA 51 and for the purposes described in 1951 PA 51. This proposed new distribution of sales tax revenue would be made from the balance after the allocations and distributions made under subsections (2), (3) and (4), as described below. The term "gasoline" is defined as found in the Motor Fuel Tax Act.

Distribution of Revenues

Section 10(1)(j) of 1951 PA 51 provides for the distribution of Michigan Transportation Fund (MTF) revenue. The distribution of the proposed new sales tax earmark under House Bill 5459's would follow the Public Act 51 statutory formula and provide 39.1% to the STF, 39.1% to county road commissions, and 21.8% to cities and villages. With regard to the purposes for which the revenue may be used, the bill references 1951 PA 51 in its entirety – Section 1 (MCL 247.651) through Section 25 (MCL 247.675); it is assumed that the bill anticipates use of this revenue for road and street programs.

Current Earmarks of Sales Tax Revenue

The references to subsections (2), (3), and (4) of Section 25 are to the current earmarks of sales tax revenue: subsection (2) earmarks 15% of the tax collected at 4% for local revenue sharing; subsection (3) earmarks 60% of the tax collected at 4% to the School Aid Fund; and subsection (4) earmarks not less than 27.9% of 25% of the sales tax collected at 4% on the motor fuels and motor vehicles and motor vehicle parts to the Comprehensive Transportation Fund (CTF). In effect, the new earmark of sales tax revenue would be made after these current three earmarks. The bill would have no impact on the distribution of the additional tax collected at 2% which is constitutionally dedicated to the School Aid Fund.

The bill indicates that the proposed redirection of sales tax revenue would begin with the fiscal year ending September 30, 2014, and would continue each fiscal year thereafter.

FISCAL IMPACT:

The total impact of the redirection in House Bill 5459 of sales tax attributable to gasoline (and diesel) fuel sales, from the state General Fund to the STF and local road agencies, would be approximately \$130 million in FY2014-15, \$135 million in FY2015-16, \$139 million in FY2016-17, and \$143 million in FY2017-18. These estimates are based on consensus estimates for sales tax revenue under the assumption that roughly 14.2% of total sales tax collections come from fuel purchases (based on averages over the past three years).

BACKGROUND INFORMATION:

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. The tax base for the sales tax on motor fuel 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: One hundred percent (100%) of the tax at 2%, and sixty percent (60%) of the tax at 4% is dedicated by the State Constitution to the School Aid Fund. Fifteen percent (15%) of the tax at 4% is constitutionally earmarked for local revenue sharing. In addition, a portion of the sales tax on motor fuel and other automotive products is statutorily earmarked, in Section 25, Subsection (4) of the General Sales Tax Act, 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—the amount not otherwise constitutionally or statutorily earmarked—is credited to the state General Fund.

House Bill 5459 would earmark the balance of sales tax collections, after the allocations and distributions made pursuant to subsections (2), (3) and (4), imposed at a rate of 4%,

directly or indirectly on *gasoline*, as the term "gasoline" is defined in the Motor Fuel Tax Act, to the STF, to county road commissions, and to cities and villages in the same percentages described in Section 10(1)(j) of 1951 PA 51 and for the purposes described in 1951 PA 51.

The earmarking proposed by House Bill 5459 would not affect the current constitutional or statutory earmarks to the School Aid Fund, constitutional revenue sharing, the CTF, or the Michigan Health Initiative Fund. The bill would redirect to the STF and local road agencies the sales tax attributable to gasoline motor fuel sales that would otherwise go to the state General Fund.

Note that the estimates used in this analysis are broad estimates. The actual amount of sales tax attributable to sales of gasoline and diesel motor fuel, and the amount redirected to the STF and local road agencies, under House Bill 5459 would depend on two variables: the level of motor fuel consumption and the price of motor fuel. Consumption of gasoline has declined in Michigan since a FY 2000-01 peak of 4.942 billion gallons; estimated consumption for FY 2013-14 is 4.305 billion gallons.

The price of motor fuels is variable. Over the last 15 years, the average statewide price of regular gasoline, as reported by AAA, has ranged from a low of \$1.14 per gallon in 2002 to a high of \$4.11 in 2008. The most recent statewide average price (March 2014) was \$3.72.

For additional information on the taxation 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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■ 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.