

Legislative Analysis



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House Bill 5570 (H-2)
Sponsor: Rep. Steven Johnson
Committee: Tax Policy
Complete to 3-9-22

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 5570 would amend the Motor Fuel Tax Act to eliminate the motor fuel tax on motor fuel imported into or sold, delivered, or used in this state beginning April 1, 2022, through September 30, 2022. The elimination of the motor fuel tax during this period would be applicable to gasoline, diesel, and alternative fuels. Currently, the motor fuel tax rate on all types of fuel is 27.2 cents per gallon.

The bill would prohibit a person other than an end user from enriching themselves from a reduction in the motor fuel tax rate and require them to pass the reduction on to the end user. Further, the bill includes a provision stating that it is the intent of the act that end users receive the benefit of the reduction in taxes.

The annual motor fuel tax rate inflation calculation would not be affected by the provisions of the bill.

MCL 207.1008 and 207.1152

FISCAL IMPACT:

The bill would reduce overall motor fuel tax collections by approximately \$725.0 million in FY 2021-22. Motor fuel taxes are deposited into the Michigan Transportation Fund and subject to distribution through section 10 of 1951 PA 51 ("Act 51").

Many of the distribution earmarks in section 10 of Act 51 are fixed amounts and would not be affected by a reduction in gross MTF revenue. The funds or recipients of MTF revenue distributions that would be directly affected by a reduction in MTF revenue are the Comprehensive Transportation Fund (CTF), the State Trunkline Fund (STF), and local road agencies (county road commissions and cities/villages). A \$725.0 million reduction in MTF revenue would reduce distributions to those recipients as follows:

- Comprehensive Transportation Fund: \$72.5 million
- State Trunkline Fund: \$255.1 million
- County Road Commissions: \$255.1 million
- Cities and Villages: \$142.2 million

In addition, the elimination of the motor fuel tax on gasoline would affect two section 10 earmarks of gasoline tax revenue: revenue from one half cent of the motor fuel tax on

gasoline is earmarked to the STF for the repair of state trunkline bridges, and similarly, revenue from one half cent of the motor fuel tax on gasoline is earmarked for the local bridge program. These two earmarks each equate to \$22.7 million (FY 2021-22 estimate).¹

Further information on the distribution of MTF revenue is described in detail in the following House Fiscal Agency publication:

- [Fiscal Brief: MTF Distribution Formula to Local Road Agencies - Update](#) March 3, 2021. Prepared by William E. Hamilton, Senior Fiscal Analyst. This updated publication describes the factors that govern the distribution of Michigan Transportation Fund (MTF) revenue to local road agencies (county road commissions and cities/villages).

The bill contains language prohibiting anyone other than an end user from being enriched by a suspension of the motor fuel tax, although in practice it is unknown how this provision would be identified or enforced. Given the historic volatility of motor fuel prices in response to external events, there is no way to know if the consumer is actually receiving all or any part of the benefit.

The bill would also have implications for the federal State Fiscal Recovery Fund (SFRF) distributions received by the state. Pursuant to the American Rescue Plan Act and its associated rules, when evaluating tax reductions, actual tax revenue in any given year must exceed baseline tax revenue, which is defined in ARP and ARP rules as 2019 tax revenue adjusted annually for inflation, through December 31, 2024. Any amount below baseline tax revenue must be “paid for” or an equivalent amount of SFRF is subject to recoupment under the act. To “pay for” the reduction in tax revenues, the state can use alternative revenue increases or spending reductions as an alternative to having SFRF funds recouped.

While estimates of tax revenue reductions noted above would not result in actual tax revenues falling below baseline revenues in FY 2021-22 based on current estimates, the reduction in tax revenues would lower the estimated gap between actual and baseline tax revenues in FY 2021-22 by \$725.0 million.

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

¹ Section 10(1)(f) of 1951 PA 51: One-half of the revenue from 1 cent of the tax levied under section 8(1)(a) of the motor fuel tax act, 2000 PA 403, MCL 207.1008, to the state trunk line fund for the repair of state bridges under section 11, and 1/2 of the revenue from 1 cent of the tax levied under section 8(1)(a) of the motor fuel tax act, 2000 PA 403, MCL 207.1008, to the local bridge fund created in subsection (4) for distribution only to cities, villages, and county road commissions.