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Motor Fuel Taxes, Sales Tax on Motor Fuels, and Methods of Tax Collection

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Executive Summary

Purchases of gasoline and diesel motor fuel in Michigan are subject to several different taxes. Michigan levies a 19-cent-per-gallon tax on gasoline and a 15-cent-per-gallon tax on diesel motor fuel. These taxes, levied under the authority of the Motor Fuel Tax Act (2000 PA 403), are constitutionally dedicated for transportation purposes. Revenue from these taxes is credited to the Michigan Transportation Fund (MTF) and then distributed to other restricted state transportation funds and programs, and to county road commissions, cities, and villages, in accordance with the provisions of Public Act 51 of 1951 (Act 51).

These motor fuel taxes, described as *specific* taxes, are assessed on gallons of fuel purchased or consumed in Michigan. In addition to these specific motor fuel taxes, sales of gasoline and diesel motor fuel are also subject to Michigan's 6% general sales tax. The sales tax, levied under the authority of the General Sales Tax Act, is an *ad valorem* tax – a tax based on the value of the applicable tax base. The distribution of sales tax revenue is subject to both constitutional and statutory earmarks:

- 73% of gross sales tax revenue is constitutionally earmarked for the state School Aid Fund.
 - 10% of gross sales tax revenue is constitutionally earmarked for local revenue sharing.¹
 - Not less than 27.9% of 25% of the tax collected at 4% of the sales tax attributable to motor fuel and other automobile-related products is statutorily earmarked for the Comprehensive Transportation Fund (CTF).²
- The balance, the portion not constitutionally or statutorily earmarked, is credited to the state General Fund.

In addition to these two taxes, Michigan also imposes a 7/8-cent-per-gallon environmental fee on gasoline and diesel.

Also, in addition to these state taxes and fees, the federal government imposes taxes on motor fuels – 18.4 cents per gallon on gasoline, and 24.4 cents per gallon on diesel motor fuel.

The balance of this report provides additional detailed information on taxes and fees imposed on motor fuels in Michigan. The report will describe the history of these motor fuel taxes and fees, the method of collection, and issues related to the distribution of tax revenue.

¹ The actual constitutional earmarks are 100% of the tax at 2% and 60% of the tax at 4% to the School Aid Fund, and 15% of the tax at 4% to local revenue sharing. These percentages equate to 73% and 10%, respectively, of gross sales tax collections.

² This earmark is generally referred to as "auto-related sales tax." Although Section 25 of the General Sales Tax Act sets a floor for the CTF earmark ("not less than"), in practice the CTF is credited each fiscal year with this floor amount – 27.9% of 25% of the tax collected at 4% on motor vehicle related sales as determined by the Michigan Department of Treasury.

Michigan Motor Fuel Taxes

Michigan Fuel Tax History

The state of Michigan's first motor fuel tax was established under Public Act 2 of 1925. That act imposed a 2-cent-per-gallon tax on *"all gasoline sold or used in this state."*

The act title states that the purpose of the act is *"to prescribe a privilege tax for the use of the public highways by owners and drivers of motor vehicles by imposing a specific tax upon the sale or use, within the state of Michigan, of gasoline as defined herein..."* The body of the act also states: *"It is the intent of this act to impose a tax upon the owners of motor vehicles using a combustible type of engine upon the public roads and highways of this state by requiring them to pay for the privilege thereof, in addition to the general motor vehicle license tax, at the rate of two cents per gallon for all motor vehicle fuel so used..."*

Public Act 2 of 1925 also provided for the distribution of revenue from the motor fuel tax. Specifically, the act indicated that *"all money received and collected by the Secretary of State under provisions of this act shall be deposited in the state treasury to the credit of the state highway fund..."* The act also established a schedule of appropriations from the state highway fund.

Public Act 150 of 1927 repealed Public Act 2 of 1925 to establish a new Motor Fuel Tax Act. Public Act 150 increased the motor fuel tax on gasoline to 3 cents per gallon and also modified the revenue distribution provisions to direct tax revenue to the state highway fund *"after the payment of the necessary expense incurred in the enforcement of this act."*

Public Act 319 of 1947 established a separate specific tax on diesel motor fuel. As a result, for several years there were separate public acts for the motor fuel tax on gasoline and the motor fuel tax on diesel. However, in 1951, Public Act 319 was repealed and its provisions brought into Public Act 150 of 1927 through Public Act 54 of 1951.

Public Act 150 of 1927 remained Michigan's Motor Fuel Tax Act until April 1, 2001 when the act was repealed and recodified by Public Act 403 of 2000.

Gasoline and diesel motor fuel tax rates have been amended several times since originally established.

Michigan's Motor Fuel Tax on Gasoline

The motor fuel tax on gasoline is currently 19 cents per gallon; this rate has been in effect for over seventeen years – since Public Act 83 of 1997 increased the tax rate by four cents, from 15 cents to 19 cents per gallon, effective August 1, 1997.

According to estimates by the Michigan Department of Treasury, Office of Revenue and Tax Analysis (ORTA), the motor fuel tax on gasoline is expected to generate \$815.0 million in FY 2014-15 for credit to the MTF. This represents approximately 42% of MTF revenue. Each penny of the 19-cent-per-gallon tax on gasoline currently generates approximately \$43.0 million.

Michigan's Motor Fuel Tax on Diesel Fuel

Michigan's 15-cent-per-gallon tax on diesel motor fuel is also levied under the authority of the Motor Fuel Tax Act. However, this tax is effectively imposed on interstate motor carriers through the Motor Carrier Fuel Tax Act (1980 PA 119).

The tax on diesel motor fuel under the Motor Fuel Tax Act is effectively a tax on diesel fuel consumed *and* purchased in Michigan; the tax is included in the price paid “at the pump” by diesel-powered passenger cars and trucks. However, because certain large commercial trucks, interstate *motor carriers*, are able to use Michigan roads and highways without purchasing fuel in Michigan, the Motor Carrier Fuel Tax Act established a tax on diesel fuel *consumed* in Michigan. Interstate motor carriers who drive in Michigan but who purchase diesel fuel in other states pay an equated 15-cent-per-gallon tax – the same tax rate as under the Motor Fuel Tax Act – based on a conversion of miles driven in Michigan to diesel fuel consumed in Michigan.

Motor carriers who drive in Michigan and also purchase fuel in Michigan are given credit for taxes effectively paid “at the pump” – they are not penalized for purchasing fuel in Michigan.

Other states and Canadian provinces have similar programs for taxing motor carriers based on miles driven within the state or province. These tax programs are coordinated through the International Fuel Tax Agreement (IFTA), an agreement of 48 contiguous U. S. states and 10 Canadian provinces. IFTA provides for the reciprocal collection of state and provincial diesel motor fuel taxes imposed on interstate and cross-border motor carriers.

The current motor fuel tax rate for diesel, 15 cents per gallon, has been in effect since January, 1984, although between 1996 and 2002 the rate under the Motor Carrier Fuel Tax Act was 21 cents per gallon, with a 6-cent-per-gallon credit given for in-state purchases. Public Act 668 of 2002 repealed the 6 cent credit and made the motor carrier fuel tax rate 15 cents per gallon.

Michigan diesel motor fuel taxes are expected to generate \$131.5 million for credit to the MTF in FY 2014-15. Each penny of the tax on diesel motor fuel generates approximately \$8.7 million.

Earmarking of Motor Fuel Tax Revenue

Both the original 1925 act and the 1927 recodification of the Motor Fuel Tax Act dedicated revenue from the gasoline tax to the state highway fund. These statutory directives were reinforced by a 1938 amendment to the 1908 Michigan Constitution. The amendment directed that revenue from “*all taxes imposed directly or indirectly upon gasoline and like fuels sold or used to propel motor vehicles upon the highways of this state, and on all motor vehicles registered in this state [...] after the payment of the necessary expenses of collection thereof, be used exclusively for highway purposes...*”³

The earmarking of motor fuel and vehicle registration tax revenue was carried over in the 1963 Michigan Constitution under Article IX, Section 9. The original language of this section stated that “*all specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel motor vehicles upon highways and on registered motor vehicles for transportation purposes shall, after payment of necessary collection expense, be used exclusively for highway purposes as defined by law.*” This section was amended in 1976 to broaden the dedication of motor fuel and vehicle registration taxes to “transportation purposes” rather than simply to “highway purposes.”⁴

³ Proposal No. 3, put on the ballot through citizen’s initiative, passed on November 8, 1938, becoming Section 22 of the 1908 Constitution.

⁴ For a detailed discussion of the 1938 Constitutional amendment and the earmarking of motor fuel and vehicle registration taxes generally, see Attorney General Opinion 3250, dated March, 17, 1958. For additional background on the deliberations that resulted in the earmarking of motor fuel and vehicle registration tax revenues in the 1963 Constitution, see the Official Record of the 1961-1962 Constitutional Convention, in particular the debates of February 2, 1962 (pages 775-776), February 5, 1962 (pages 780-785), and April 19, 1962 (pages 2631-2635).

Recreation Improvement Account

The earmarking of motor fuel taxes for highway and transportation purposes is explicitly tied to the use of those motor fuels “to propel motor vehicles upon highways.” However, some portion of gasoline sales are for non-highway uses – for watercraft, off-road vehicles (ORVs), and snowmobiles. Under Section 71103 of the Michigan Natural Resources and Environmental Protection Act (MNREPA) (1994 PA 451), the Legislature determined that 2% of gasoline sales were for watercraft, ORVs, and snowmobiles. As a result, Section 71106 of the MNREPA, directs the Michigan Department of Treasury to credit the Recreation Improvement Account within Conservation and Recreation Legacy Fund with 2% of gasoline tax revenue. In FY 2014-15, this earmark represents approximately \$16.2 million.

Section 81149 of 1994 PA 451 (MCL 324.81149) requires the Department of Natural Resources (DNR) to make a tri-annual survey of estimated *sales tax* related to gasoline sales for non-highway use by ORVs. The section does not reference the Motor Fuel Tax Act; it appears that the reference to the General Sales Tax Act is an error. The intent appears to be that the DNR estimate how much of the *motor fuel tax* is related to gasoline sales for ORVs. This section also appears to be an anachronism; the DNR does not make the tri-annual survey required by Section 81149.

Federal Motor Fuel Taxes

In addition to Michigan’s motor fuel taxes, the federal government levies an 18.4-cent-per-gallon gasoline excise tax, and a 24.4-cent-per-gallon diesel fuel excise tax. These taxes are earmarked for the Federal Highway Trust Fund, the fund that supports federal-aid surface transportation programs. Federal-aid surface transportation programs provide funds to states for certain eligible highway and public transportation program activities.

Federal revenue sources comprise \$1.2 billion, approximately one-third, of the FY 2014-15 state transportation budget.

Michigan Sales Tax

Michigan is one of several states to impose a sales tax on motor fuel sales, in addition to motor fuel excise taxes.⁵ Sales of motor fuels are subject to the state’s 6% general sales tax on retail sales, established in the General Sales Tax Act (1933 PA 167). The tax base for the sales tax on gasoline sales is the motor fuel retail price, including the federal excise tax, but not including the state motor fuel tax.

Keep in mind that there is not a *specific* sales tax on gasoline and diesel motor fuel; sales of gasoline and diesel motor fuel are simply subject to the General Sales Tax Act in the same manner as other non-exempt sales. Motor fuel sales have been subject to the state sales tax since the tax was first instituted in Michigan in 1933. Because the state sales tax is not specific to motor fuels, the amount of sales tax revenue generated from sales of gasoline and diesel motor fuel cannot be readily broken out from other sales tax revenue. The Michigan Department of Treasury and the House Fiscal Agency have to estimate the sales tax attributable to sales of gasoline and diesel motor fuel.

The sales tax attributable to gasoline sales can be estimated by using gasoline motor fuel tax revenue to compute taxable gallons. Taxable gallons can then be extended by an average per-gallon fuel tax base to determine the total gasoline sales base subject to the 6% sales tax. **Tables 1 and 2** on pages 9 and 11 of this report show estimated sales tax attributable to motor fuel sales using this method. **Table 1** also shows the major components of the pump price of gasoline at a selected price point, and the calculation of the taxable base for sales tax at that price point.

⁵ According to an American Petroleum Institute website accessed October 21, 2014, eight other states (California, Connecticut, Florida, Georgia, Hawaii, Illinois, Indiana, New York) levy ad valorem sales or gross receipts taxes on motor fuel sales in addition to per-gallon motor fuel taxes. Some states also allow for local option motor fuel or sales taxes; Michigan does not.

The Michigan Department of Treasury estimates that 4.3 billion taxable gallons of gasoline will be consumed in Michigan in FY 2014-15. At this level of consumption, and an average pump price of \$3.30 per gallon, the sales tax on gasoline sales will generate \$755.0 million in sales tax revenue. The actual sales tax figure will vary from this estimate depending on actual gasoline consumption and actual gasoline prices.

The Michigan sales tax is subject to earmarking:

- 73% of gross sales tax revenue is constitutionally earmarked for the state School Aid Fund.
- 10% of gross sales tax revenue is constitutionally earmarked for local revenue sharing.
- Not less than 27.9% of 25% of the tax collected at 4% of the sales tax attributable to motor fuel and other automobile-related products is statutorily earmarked for the Comprehensive Transportation Fund (CTF).⁶

The balance of sales tax revenue, i.e. the amount not otherwise constitutionally or statutorily earmarked, is credited to the state General Fund.⁷ The sales tax not otherwise constitutionally or statutorily earmarked, i.e., the amount for credit to the state General Fund, equates to 18% of the tax collected at 4%.

Refined Petroleum Fund Regulatory Fee

Most states impose an environmental protection fee on the sale of petroleum products. As provided in Part 215 of the MNREPA, Michigan imposes a 7/8-cent-per-gallon regulatory fee on all petroleum products (not just motor fuels). Revenue from this fee, estimated to generate \$50.3 million in FY 2014-15, is dedicated to the Refined Petroleum Fund for use in state environmental cleanup programs. Refined Petroleum Fund revenue also supports the motor fuel quantity inspection program of the Michigan Department of Agriculture and Rural Development.

How Taxes are Collected – Motor Fuel Taxes

Although the retail price of fuel purchased “at the pump” includes federal and state excise taxes, those taxes are not actually collected from the retailer, (i.e., service station). The state motor fuel excise taxes are actually collected by the Michigan Department of Treasury from fuel suppliers as defined in the Motor Fuel Tax Act. The U.S. Department of Treasury also collects federal motor fuel excise taxes from fuel suppliers, not from retailers.

In most instances, the point of taxation for the Motor Fuel Tax is the point at which fuel is transferred across a terminal loading rack to a fuel wholesaler. The taxpayer, the supplier, is the last owner of motor fuel before it is transferred across the loading rack. Fuel terminals are places where refined fuel is delivered by pipeline or vessel from refineries. This applies to both sales from in-state terminals and sales from out-of-state terminals where Michigan is the destination state.

There are 37 Internal Revenue Service registered refined petroleum product terminals in Michigan. Some fuel delivered by pipeline or vessel to Michigan terminals is refined in other states; some fuel is refined at the single operating oil refinery in Michigan, located in Southwest Detroit.

⁶ See footnotes 1 and 2 for additional detail on these earmarks.

⁷ There is also an earmark, effectively fixed at \$9.0 million, to the Michigan Health Initiative Fund. Since this earmark is, in practice, a fixed amount, and not a percentage, it can be assumed to come out of gross sales tax collections and can be ignored in the discussion of motor fuel sales tax earmarks.

The change in the tax collection point to the supplier was effected for the gasoline tax by Public Act 225 of 1992 – this was considered to be one of the reforms of the first *Build Michigan* program. The change for diesel taxes was made in part by Public Act 225 of 1992, and completed through Public Act 668 of 2002.

Moving the collection point to the fuel supplier was intended to make the collection of these taxes much more efficient. It is relatively easy for the Michigan Department of Treasury to collect from and audit a relatively small number of large fuel suppliers.

Section 14 of the Motor Fuel Tax Act allows suppliers to deduct 1.5% of the gasoline quantity from taxation to allow for “the cost of remitting the tax.” This tax expenditure equates to approximately \$12.4 million per year. The deduction had been 2% of the gasoline quantity prior to the enactment of Public Act 83 of 1997 (the amending act that increased the tax from 15 cents per gallon to 19 cents). Prior to the 1997 amendment, this deduction had been described in the Motor Fuel Tax Act as an “evaporation and loss allowance.”

Section 14 also requires a wholesaler or supplier to pay or credit to the retailer one-third of the deduction on quantities of gasoline sold to the retailer.

How Taxes are Collected – Sales Taxes on Gasoline

With regard to the sales tax, the Michigan Department of Treasury sets a prepaid gasoline sales tax rate. This tax is collected from the gasoline supplier or importer at the time fuel is sold to a wholesaler. As a result, *estimated* sales tax is included in the price paid by the wholesaler and, in turn, the retail service station. The retailer is credited for the amount of prepaid sales tax at the time they prepare a monthly sales tax report. For example, if the retailer had effectively prepaid \$10,000 in sales tax, as included in the price charged by the wholesaler, and the retailer’s actual total tax liability for the month was \$11,000, the retailer would remit only the \$1,000 balance to the Department of Treasury. Conversely, if the retailer’s actual tax liability were less than the amount of pre-payment, the retailer would be entitled to a credit.

The pre-payment provisions of the General Sales Tax Act with regard to the sales tax levied on gasoline sales were first established under 1983 PA 244, which amended the act by adding a new section, Section 6a. The legislative analysis at that time indicated that the amending legislation was intended to make it harder for unscrupulous gasoline retailers to undercut tax-compliant retailers by not charging sales tax.

In 2008, Section 6a of the General Sales Tax Act was amended by Public Act 556 of 2008 (Senate Bill 881). Prior to enactment of Senate Bill 881, the law had required the Department to determine the prepayment rate at least annually, or every six months if the statewide retail price of a gallon of self-serve unleaded regular gasoline had changed by 10.0% or more during the six-month period. Senate Bill 881 required the Department to determine the prepayment rate every *three months* unless it determined that the statewide average retail price for self-serve unleaded regular gasoline had changed less than 10.0% since the establishment of the rate. The increased frequency of adjustments to the gasoline pre-payment sales tax rate were intended to help reduce tax overpayments and underpayments during periods of volatile fuel prices.⁸

⁸ Section 6a was subsequently amended by 2012 PA 509 (House Bill 5817) and 2013 PA 1 (House Bill 4153).

Motor Fuel Tax Issues

The Decline in Motor Fuel Tax Revenue

Motor fuel taxes are consumption taxes; they are assessed on a per-gallon basis. When consumption of motor fuels declines, so does revenue from motor fuel taxes.

Revenue from the motor fuel tax on gasoline peaked in FY 2001-02 at \$938.9 million and has declined every year since. Estimated FY 2014-15 gas tax revenue of \$815.0 million is \$123.9 million less than the FY 2001-02 peak. Because of increased vehicle fuel economy and changes in driving patterns, this decline in consumption and revenue will likely continue.

As shown in **Figure 1**, starting in FY 2006-07, revenue from state vehicle registration taxes makes up a larger share of MTF revenue than does the motor fuel tax on gasoline. In FY 2014-15, registration tax revenue is estimated to exceed gasoline and diesel motor fuel taxes combined.

The Legislature would have to increase the current 19-cent-per-gallon gas tax by 3 cents just to restore revenue to the 2002 level; i.e. to make up for the decline in consumption.

Increasing motor fuel taxes is complicated by the fact that Michigan also levies a sales tax on gasoline and diesel motor fuel purchases.

Sales Tax as a Complicating Factor

In enacting the General Sales Tax Act of 1933, Michigan became one of the first states to impose a statewide general sales tax. It is our understanding that from the time the sales tax was first imposed, gasoline and diesel motor fuel sales were subject to sales tax in the same manner as the sales of any other taxable product. That sales of motor fuels were subject to two distinct taxes was demonstrated in the language of the 1938 constitution amendment that earmarked motor fuel tax revenue for highway purposes but expressly excluded the general sales tax or use tax from the *highway purposes* earmark. This distinction was retained in the language of the 1963 Constitution.

The distinction between *specific* motor fuel taxes and the *general* sales tax on motor fuel sales was also stated explicitly in statute, specifically in amendments to the 1927 Motor Fuel Tax Act (Section 29 of 1970 PA 17, and Section 13 of 1992 PA 225), and in Section 22 of the current Motor Fuel Tax Act (2000 PA 403).

It is not unusual for a single economic transaction to generate more than one tax liability. For example, the sale of a building can generate an income tax liability and a real estate transfer tax. However, the fact that Michigan levies a general sales tax on motor fuel sales, in addition to motor fuel taxes, and that most of the revenue attributable to the sales tax on motor fuel sales is not dedicated to transportation programs, has become a policy issue.⁹

When gasoline prices are relatively low, sales tax makes up a relatively small part of the tax built into the pump price per gallon. For example, during 2002, the pump price for gasoline averaged \$1.38 per gallon, the related sales tax base approximately \$1.12 per gallon, and the equivalent sales tax approximately 6.7 cents per gallon. As fuel prices rose during the late 2000s, sales taxes represented a larger and larger share of the taxes included in the pump price. When the pump price of gasoline hit the \$4.00 per gallon mark – as it did in the summer of 2008, and again in May 2011 – sales taxes represented approximately 21.6 cents of the per gallon pump price.

⁹ The purchase, titling, and registration of motor vehicles also generates multiple state taxes and fees, including both registration taxes constitutionally dedicated to transportation, and state sales taxes with separate constitutional and statutory earmarks. While the sales tax on motor fuels generates considerable policy attention, the sales tax associated with motor vehicle sales has not.

When the pump price of gas is \$3.58 per gallon, the sales tax per gallon is roughly the same as the Michigan motor fuel tax per gallon – 19 cents.

Because the sales tax collected on motor fuel purchases increases as motor fuel prices rise, it is frequently assumed that this provides a windfall of sales tax revenue. However, depending on the degree to which consumers respond to higher prices, any windfall could be very short lived. In the short run, to the extent that consumers don't significantly alter fuel purchases, there could be some net increase in total sales tax collections. However, in the longer run, consumers adapt to higher fuel prices by purchasing less fuel. In addition, budget constraints dictate that if more is spent on motor fuels, less will be spent on other goods. If consumers cut back on non-taxable items (such as food), total sales tax revenues may increase. If the corresponding reduction is for other taxable items, there would be no net change in total sales tax revenue since one taxable good is simply being substituted for another.

The fact that motor fuel sales are subject to Michigan's general sales tax complicates attempts to increase motor fuel taxes. Including the sales tax in cross-state comparisons of state motor fuel taxes rates makes Michigan appear to have one of the highest state gas taxes. An October, 2014 map of state gasoline prices prepared by the American Petroleum Institute showed Michigan with a state gas tax of 39.03 cents per gallon. This figure assumed a state sales tax component of approximately 19 cents per gallon based on a pump price of approximately \$3.58 per gallon – in addition to the 19-cent-per-gallon motor fuel tax and 7/8-cent-per-gallon environmental fee.

However, including the sales tax in cross-state comparisons makes cross-state comparisons somewhat less meaningful to the extent that the sales tax component of state taxes on gasoline isn't constant – it changes daily with the price of the underlying product, the wholesale price of refined petroleum.^{10,11}

Some have suggested exempting motor fuel taxes from the state sales tax. This would allow the Legislature to increase motor fuel taxes by a like amount without necessarily causing an increase in the pump price for consumers.¹² However, eliminating the sales tax on motor fuels would have a significant impact on state revenues available for other uses. Eliminating the sales tax on gasoline and diesel sales would reduce revenue to the School Aid Fund, local revenue sharing, the CTF, and the state General Fund. This impact is illustrated in **Table 1**, which shows estimated FY 2014-15 sales tax revenue attributable to gasoline sales only, and the distribution of that revenue.

As shown in **Table 2**, over the last 3 years, sales tax attributable to motor fuel sales has represented approximately 14% of total sales tax collections.

¹⁰ Three sources of state motor fuel tax rates are the Federal Highway Administration Highway Statistics Series <http://www.fhwa.dot.gov/policyinformation/statistics/2012/index.cfm> the U. S. Energy Information Administration <http://www.eia.gov/todayinenergy/detail.cfm?id=11071#> and the American Petroleum Institute <http://www.api.org/oil-and-natural-gas-overview/industry-economics/fuel-taxes/gasoline-tax>

¹¹ Comparing any single element of dedicated transportation taxes across states can be misleading. States use a mix of transportation taxes including motor fuel taxes, vehicle registration taxes, and tolls. In addition, some states allow for local option registration taxes; Michigan does not.

¹² Bills have been introduced during the 2013-2014 Legislative Session to do just that. House Bill 4539 would amend the General Sales Tax to exempt motor fuel sales from the general sales tax. A companion bill, House Bill 4359, would amend the Motor Fuel Tax Act to make the motor fuel tax on gasoline and diesel a variable tax based on a percentage of the wholesale fuel price.

Table 1
Components of Gasoline Price at a Selected Price Point

Estimate of Sales Tax Attributable to Gasoline Sales

Gasoline Motor Fuel Tax Revenue Estimate for FY 2014-15 at 19 cents per gallon	\$815,000,000	<i>ORTA estimate, 2/5/14</i>
	<u>0.19</u>	
Taxable gallons	4,289,473,684	
Taxable base price per gallon	<u>2.934</u>	
Taxable base	\$12,585,315,789	
Sales tax @ 6%	<u>0.06</u>	
Sales tax revenue on gasoline sales	\$755,118,947	

Distribution:

School Aid Fund (100% of tax at @2%)	\$251,706,316	Constitutional
School Aid Fund (60% of tax @ 4%)	302,047,579	Constitutional
Local Revenue Sharing (15% of tax @ 4%)	75,511,895	Constitutional
Comprehensive Transpt. Fund (27.9% of 25% of tax @ 4%)	<u>35,113,031</u>	Statutory
Subtotal	\$664,378,821	
General Fund (balance)	<u>90,740,127</u>	
Total Distribution	\$755,118,947	

Gas at \$3.30 per gallon	
\$2.750	Wholesale price
<u>0.184</u>	Federal Fuel Tax
2.934	Base for Sales Tax
<u>0.176</u>	Sales tax
\$3.110	Subtotal
<u>0.190</u>	State Fuel Tax
\$3.300	Pump price

This table calculates sales tax attributable to gasoline sales using estimated gasoline consumption for FY 2014-15, and an average pump price of \$3.30 per gallon. The box showing the calculation of the sales tax base at a pump price of \$3.30 per gallon includes only major price and tax components and does not show state environmental regulatory fees or other components of end fuel price.

Figure 1
MTF Revenue History – Detail
Motor Fuel and Vehicle Registration Taxes

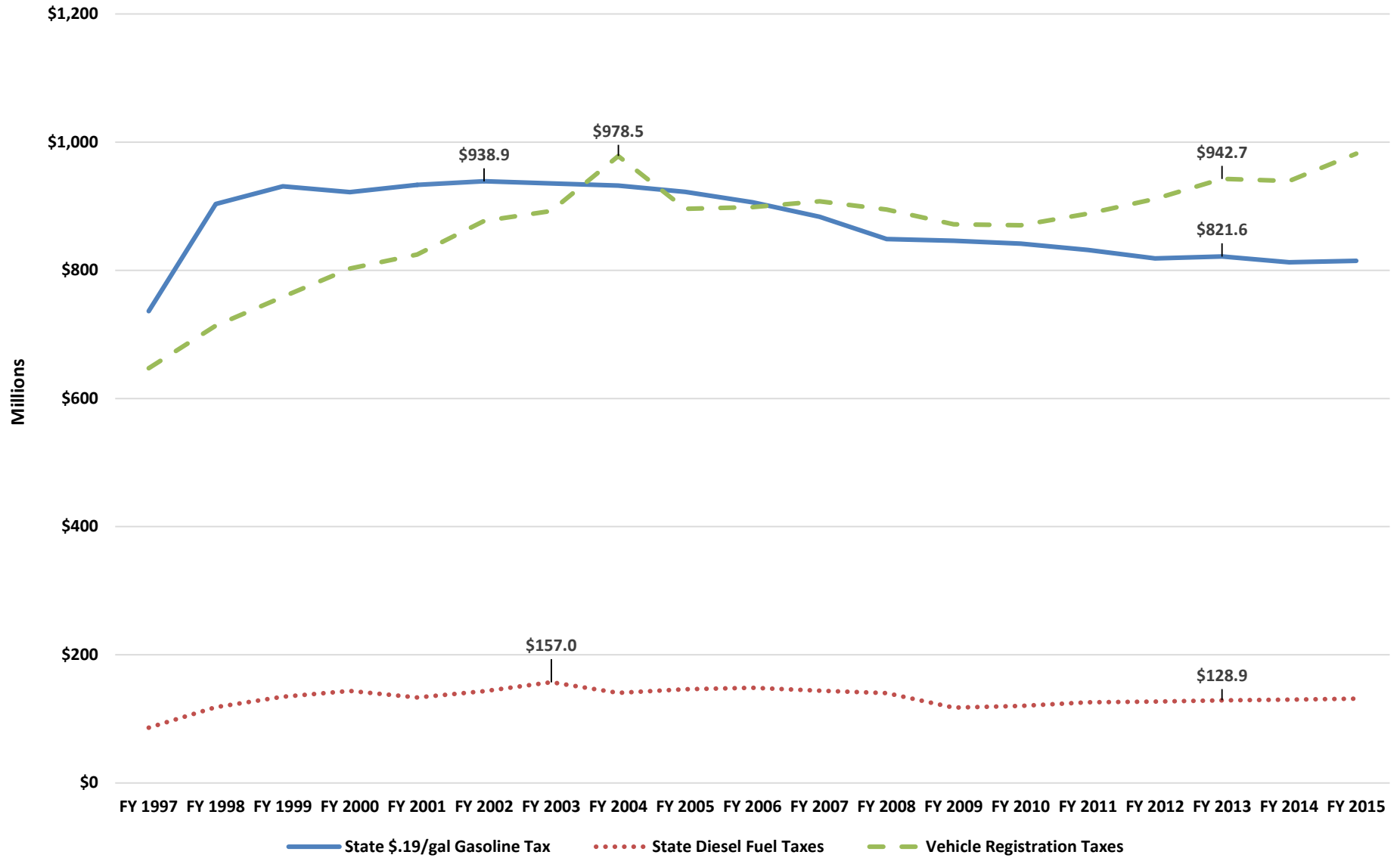


Table 2
Estimated Sales Tax Attributable to Gasoline and Diesel Fuel Sales
Calendar Years 2000 Through 2013

<u>Year</u>	<u>Gas Tax Revenue (Millions)</u>	<u>Gallons Sold (Millions)</u>	<u>Statewide Average Gas Price</u>	<u>Estimated Sales Tax from Gas (Millions)</u>	<u>Diesel Tax Revenue (Millions)</u>	<u>Gallons Sold (Millions)</u>	<u>Statewide Average Diesel Price</u>	<u>Estimated Sales Tax from Diesel (Millions)</u>	<u>Total Estimated Sales Tax from Gas/Diesel (Millions)</u>	<u>Total Sales Tax Collections (Millions)</u>	<u>Estimated Sales Tax from Gas/Diesel as a Percentage of Total Sales Tax</u>
2000	\$928.2	4,885	\$1.568	\$381.2	\$76.1	507	\$1.524	\$40.0	\$421.2	\$6,273.6	6.7%
2001	\$941.5	4,955	\$1.498	\$365.4	\$84.9	566	\$1.469	\$42.5	\$407.9	\$6,479.3	6.3%
2002	\$936.3	4,928	\$1.385	\$334.2	\$110.7	738	\$1.322	\$49.0	\$383.2	\$6,392.7	6.0%
2003	\$940.6	4,951	\$1.583	\$390.8	\$112.6	751	\$1.503	\$56.9	\$447.7	\$6,417.2	7.0%
2004	\$931.7	4,904	\$1.861	\$464.5	\$120.3	802	\$1.797	\$75.5	\$540.0	\$6,478.0	8.3%
2005	\$920.0	4,842	\$2.271	\$572.6	\$117.1	780	\$2.439	\$102.2	\$674.8	\$6,559.9	10.3%
2006	\$896.8	4,720	\$2.555	\$633.7	\$114.5	764	\$2.741	\$112.1	\$745.8	\$6,619.9	11.3%
2007	\$873.7	4,598	\$2.870	\$698.6	\$112.7	751	\$2.952	\$119.8	\$818.4	\$6,674.7	12.3%
2008	\$836.2	4,401	\$3.275	\$771.7	\$102.9	686	\$3.818	\$143.6	\$915.3	\$6,560.5	14.0%
2009	\$847.2	4,459	\$2.359	\$550.0	\$97.6	651	\$2.440	\$85.1	\$635.1	\$6,070.7	10.5%
2010	\$840.3	4,423	\$2.801	\$654.1	\$104.8	699	\$2.964	\$111.5	\$765.6	\$6,306.1	12.1%
2011	\$832.7	4,383	\$3.577	\$838.7	\$106.4	709	\$3.898	\$140.0	\$978.7	\$6,779.7	14.4%
2012	\$812.9	4,278	\$3.689	\$847.5	\$104.9	700	\$4.000	\$152.5	\$1,000.0	\$7,035.7	14.2%
2013	\$838.6	4,414	\$3.589	\$849.0	\$111.2	742	\$4.004	\$161.7	\$1,010.7	\$7,167.7	14.1%

Source: AAA Daily Fuel Gauge Report, Monthly Michigan Financial Reports

This table shows estimated sales tax revenue attributable to sales of gasoline and diesel motor fuel for calendar years 2000 through 2013. It was developed from monthly state financial reports of motor fuel tax collections; the annual totals are the sum of monthly reported collections. Because these reports do not include accruals, and because this table reports on a calendar year basis, this table cannot be reconciled to state annual financial reports.

The statewide average fuel prices used in this table were taken from the Monday AAA fuel gauge report for Michigan; the price used for gasoline represents the average price of unleaded regular grade gasoline.

If citing the data shown in this table, the reader should note that the figures are estimates based on sources described above.

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NOTE: This report was written by William E. Hamilton, Senior Fiscal Analyst. Kathryn Bateson, Administrative Assistant, prepared the report for publication. The House Fiscal Agency is solely responsible for the content of the report.