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NO SALES TAX ON TOP OF FEDERAL GAS TAX

House Bill 5571 as introduced First Analysis (4-19-00)

Sponsor: Rep. Clark Bisbee
Committee: Tax Policy

THE APPARENT PROBLEM:

When Michigan motorists buy gasoline at the pump, they are charged the six percent state sales tax not just on the product but also on top of the 18.3 percent federal gasoline tax. Some people believe this "tax on a tax" is unwarranted and particularly irksome when gas prices are high. Legislation has been proposed taking the federal tax out of the sales tax base.

THE CONTENT OF THE BILL:

The bill would amend the General Sales Tax Act so that the state's sales tax would not be applied to any federal gasoline tax paid on gasoline at the time of purchase. Each year the state treasurer would have to estimate the amount of sales tax not collected as a result of the exemption and that amount would be transferred from the General Fund to the State School Aid Fund.

MCL 205.51

FISCAL IMPLICATIONS:

The House Fiscal Agency estimates that there would be a \$55 million reduction in sales tax revenue as a result of the bill in fiscal year 2000-2001. This would reduce the amount available for local revenue sharing by \$13 million. Ordinarily such a reduction would mean \$40 million lost to the State School Aid Fund. However, the bill would require that the state treasurer estimate the amount of sales tax not collected because of the exemption for the federal gasoline tax and transfer that to the State School Aid Fund. As the HFA points out, this will mean school funds will be increased, since if the sales tax had been collected, not all of the revenue would have gone to the schools. (HFA fiscal note dated 4-12-00)

ARGUMENTS:

For:

State motorists now pay more than \$50 million each year in sales taxes attributable to the fact that the state sales tax is charged on top of federal gasoline taxes. The bill would ease the motorist's tax burden by taking the federal tax out of the sales tax base, potentially giving a boost to the state economy. It is not good public policy to pay taxes on top of taxes. Fuel taxes are already high, a fact that is more noticeable when the price of the product itself is in the news. At the same time, the bill will hold the state's schools harmless by making up any reduction in State School Aid fund revenue by transferring revenue from the General Fund.

Response:

Some people have questioned why the schools should be protected from revenue reductions but not local units of government, which stand to lose revenue sharing funds as a result of the bill. Also, it has been suggested that the bill be extended to apply to diesel fuel, and that special tax consideration be given to ethanol, fuel made from a renewable resource, unlike petroleum products.

Against:

A number of concerns have been expressed about the bill. For one thing, it represents a \$55 million reduction in revenues to the state. This comes on top of a recent series of tax cuts. If taxes are to be reduced again, perhaps all the possible options should be looked at comprehensively. Second, administration officials say that when the state gasoline tax was increased in 1997, the alternative of raising the gas tax for roads and at the same time reducing the sales tax on gasoline to lower the motorist's tax burden was rejected. Other state taxes were reduced instead. Also, this bill does not address an isolated case. Other federal taxes are

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directly part of the sales tax base (alcohol and tobacco, for example), and products sold at retail and subject to the sales tax are priced so as to cover the cost of taxes imposed on the producers (such as the single business tax). Although not directly relevant, it should be noted that the state income tax does not allow the deduction of federal Social Security taxes from the tax base. Some critics have questioned whether the reduction in the cost of gasoline will be noticed (or whether the cost reduction will even be passed on at the pump). In any case, this is not the way to address the issue of gasoline prices, which is a national issue.

POSITIONS:

The Michigan Petroleum Association testified in support of the bill. (4-18-00)

The Department of Treasury is opposed to the bill. (4-18-00)

The Michigan Municipal League is opposed to the bill. (4-18-00)

Analyst: C. Couch

■ 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.