

Legislative Analysis



MOTOR CARRIER FUEL TAX ACT

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Senate Bill 1362 as passed by the Senate

Sponsor: Sen. Jud Gilbert, II

House Committee: Agriculture (Discharged)

Senate Committee: Technology and Energy (Discharged)

Complete to 8-30-06

A SUMMARY OF SENATE BILL 1362 AS PASSED BY THE SENATE 8-30-06

Senate Bill 1362 would amend the Motor Carrier Fuel Tax Act (Public Act 119 of 1980) to conform to provisions of Senate Bill 1074 (enacted as Public Act 268 of 2006) which amended the Motor Fuel Tax Act to create a lower tax rate for certain alternative motor fuels (ethanol and biodiesel).

BACKGROUND INFORMATION:

Senate Bill 1074 created a 7-cent tax rate differential between gasoline and ethanol (i.e. gasoline containing at least 70 percent ethanol), and a 3-cent tax rate differential between diesel fuel and biodiesel (i.e. diesel fuel containing at least 5 percent biodiesel). Under provisions of the bill, effective September 1, 2006, ethanol and biodiesel will be taxed at 12 cents per gallon, instead of at 19 cents and 15 cents for gasoline and diesel fuel, respectively.

The motor fuel taxes imposed by the Motor Fuel Tax Act are effectively reflected in the pump price of fuel. Motorists who purchase fuel in Michigan effectively pay motor fuel taxes "at the pump." However, interstate motor carriers, who may use Michigan roads but never purchase fuel in Michigan, pay motor fuel taxes through quarterly International Fuel Tax Agreement (IFTA) filings authorized under the Motor Carrier Fuel Tax Act. The Motor Carrier Fuel Tax Act is effectively a tax on miles driven in Michigan; it equates miles driven with diesel fuel used and taxes that fuel at the same rate as the Motor Fuel Tax Act – currently 15 cents per gallon.

The Motor Fuel Tax and the Motor Carrier Fuel Tax Act work together; when a motor carrier files a quarterly IFTA report, he/she claims credit for the fuel tax already paid at the pump (if any).

Senate Bill 1362 would amend the Motor Carrier Fuel Tax Act to conform to the provisions of Senate Bill 1074. It would tax biodiesel used in Michigan by motor carriers subject to the Motor Carrier Fuel Tax Act at 12 cents per gallon instead of at the 15-cent per gallon rate applicable to regular diesel motor fuel. The bill has an effective date of September 1, 2006, to conform to the effective date of Senate Bill 1074.

FISCAL IMPACT:

Senate Bill 1074 indicated that the reduced tax rate for ethanol and biodiesel under the Motor Fuel Tax Act would remain in effect until: 1) 10 years after the bill's effective date or 2) four months after the date on which the Department of Treasury certifies that the amount of revenue "lost" because of the reduced rate is \$2.5 million, whichever is earlier. Senate Bill 1362 has similar provisions which, working together with Senate Bill 1074, would appear to limit the amount of revenue loss to the state to \$2.5 million over 10 years.

Revenue from both the Motor Fuel Tax Act and the Motor Carrier Fuel Tax Act is credited to the Michigan Transportation Fund (MTF) established under Public Act 51 of 1951 for state and local transportation programs. Both Senate Bill 1074 and Senate Bill 1362 would require the legislature to annually appropriate to the MTF (presumably from the state General Fund) the amount of revenue lost because of the reduced rate to the MTF. If the legislature does not do this, the reduced rate would cease beginning the first calendar year after the fiscal year in which the appropriation should have been made.

As noted above, the bills appear to limit the net revenue loss to the state to \$2.5 million over 10 years. However, the bills direct the State Treasurer (or Department of Treasury) to annually certify the amount of the "cumulative rate differential due to the differential rates..." It would appear to be possible that by the time the Treasurer makes an annual certification, the cumulative rate differential may have exceeded \$2.5 million.

The provisions of Senate Bill 1074 and Senate Bill 1362 that require the legislature to make an annual appropriation to the MTF of the amount of the rate differential are in conflict with provisions of Section 10 of Act 51 that identify the revenue sources for credit to the MTF and which prohibit the deposit of other monies from any other source, including the state General Fund, into the MTF.

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