

Legislative Analysis



EXCLUDE SALES TAX FROM GASOLINE WHEN PRICE AT PUMP EXCEEDS \$2.30

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House Bill 5211

Sponsor: Rep. Robert Gosselin

Committee: Tax Policy

Complete to 10-4-05

A SUMMARY OF HOUSE BILL 5211 AS INTRODUCED 9-22-05

The bill would amend the General Sales Tax Act (MCL 205.54a) to exempt from taxation, the amount of the sales price of a gallon of gasoline that exceeds \$1.99 per gallon. (This would effectively cap the amount of sales tax collected at 12 cents per gallon.)

Currently, the federal government imposes an excise tax of 18.4 cents per gallon of gasoline, and the state imposes an excise tax of 19 cents per gallon. The sales tax is imposed on sales of gasoline, including the federal gas tax, but excluding the state gas tax. The "sales price" of \$1.99 per gallon referenced in the bill, then, would be the pre-tax price for a gallon (\$1.806) and the federal gas tax. Added to that cost would be 12 cents in sales tax and the 19 cents for the state gas tax. The bill, then, would apply to gasoline with a retail selling price ("price at the pump") exceeding \$2.30 per gallon, as follows:

$$\$2.30 = \$0.19 \text{ [State Gas Tax]} + \$0.184 \text{ [Federal Gas Tax]} + \$0.12 \text{ [Sales Tax]} + \$1.806 \text{ [Pre-Tax Price]}$$

FISCAL IMPACT:

The fiscal impact cannot be determined with any certainty because the future price of gasoline (and thus, the amount that would be exempt from the sales tax) is not known. However, if the price of gasoline averaged \$3.00 per gallon for an entire year (which would reduce sales tax revenues by \$0.04 per gallon), the reduction in sales tax revenue would likely exceed \$190 million. This would represent a loss of more than \$140 million to the School Aid fund, and almost \$20 million to Constitutional revenue sharing. The remaining \$30 million reduction would come from the General Fund.

In general, for each \$0.16 to \$0.17 increase in the price of gasoline, sales tax revenue would be reduced by one cent. Because of the recent significant and frequent fluctuation in gas prices, it would be extremely difficult to determine whether or not HB5211 would actually result in lower gasoline prices

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