

# Legislative Analysis



## AVIATION FUEL TAX EXEMPTION

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**Senate Bill 415 (Substitute H-1)**

**Sponsor: Sen. Jack Brandenburg**

**House Committee: Transportation and Infrastructure**

**Senate Committee: Finance**

**Complete to 3-26-14**

## A REVISED SUMMARY OF SENATE BILL 415 AS REPORTED FROM HOUSE COMMITTEE

Senate Bill 415 would amend the Use Tax Act (MCL 205.94bb) to exempt aviation fuel from the 2% of the portion of the use tax that was added in 1994 and is dedicated to the School Aid Fund.

(Specifically, the bill refers to aviation gasoline, aviation jet fuel, and fuel, as those terms are defined in the Aeronautics Code.)

Senate Bill 415 is tie-barred to House Bill 4572, which would provide the same exemption in the General Sales Tax Act. (MCL 205.54ee). House Bill 4572 has passed the House (as substitute H-3, with amendments) and is in the Senate Finance Committee.

(The rate of both the use tax and the sales tax was increased from 4% to 6% as part of Proposal A, the school finance reform package approved by the voters in March 1994. Proceeds of the additional tax are dedicated to the State School Aid Fund.)

Two years after the sales and use tax exemptions take effect, the Department of Treasury would have to prepare a report to the Legislature estimating any revenue forgone and any decreased in funds to the School Aid Act.

Senate Bill 415 is also tie-barred to two other bills:

House Bill 4677, which would amend General Sales Tax Act to change the current distribution of sales tax revenue by earmarking \$17 million of the sales tax collected at 4% to the School Aid Fund. This amount otherwise would be directed to the state General Fund. This bill has passed the House (as substitute H-4) and is in the Senate Finance Committee.

House Bill 4571, which would amend Section 203 of the State Aeronautics Code (1945 PA 327) to change the current excise tax on aviation fuels from the current rate of 3 cents per gallon to a tax of "2% of the average wholesale price on each gallon of aviation jet fuel, aviation gasoline, and fuel sold or used in producing power for propelling aircraft." This bill has passed the House (as substitute H-3) and is in the Senate Finance Committee.

Further information of House Bills 4571 and 4572 can be found at:  
[http://www.legislature.mi.gov/\(S\(4ew3xauon0nptvu4ehhoca45\)\)/mileg.aspx?page=getObject&objectname=2013-HB-4572](http://www.legislature.mi.gov/(S(4ew3xauon0nptvu4ehhoca45))/mileg.aspx?page=getObject&objectname=2013-HB-4572)

Further information of House Bill 4677 can be found at:  
[http://www.legislature.mi.gov/\(S\(4ew3xauon0nptvu4ehhoca45\)\)/mileg.aspx?page=getObject&objectName=2013-HB-4677](http://www.legislature.mi.gov/(S(4ew3xauon0nptvu4ehhoca45))/mileg.aspx?page=getObject&objectName=2013-HB-4677)

## **FISCAL IMPACT:**

Senate Bill 415, as written and in conjunction with House Bill 4572, could reduce School Aid Fund (SAF) revenue by \$16.5 million on a calendar year basis. This estimate is based on 2012 aviation fuel tax information from the Michigan Department of Treasury. Prices in the energy sector are notoriously volatile. The bills' actual impact on the SAF could change by as much as 20% relative to this estimate, depending on world oil market conditions and the gradual increase in oil prices over time.

This bill is tie-bared to House Bills 4571, 4572, and 4677. The net fiscal impact on state revenues of these bills and Senate Bill 415 is estimated to be a loss of \$6 million in a full calendar year. This is the overall impact on state revenues; different funds will be affected differently by this package.

The fiscal impact of House Bill 4571 is positive for the State Aeronautics Fund, which would see an estimated \$10.5 million in additional revenues. House Bill 4677 would transfer \$17 million per year to the School Aid Fund from the sales tax revenues deposited in the General Fund, resulting in a loss to the General Fund. This would largely hold the SAF harmless, or increase its funding by an estimated \$500,000 in proximate years. The amount of this transfer is static, and will not change according to the actual loss to the SAF in future years. House Bill 4572 is the sales tax companion to Senate Bill 415. This is a technical necessity for the exemption of aviation fuel from the additional 2% of the sales tax rate to occur in practice.

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