

Legislative Analysis



AVIATION FUEL TAXES – AMENDMENTS TO STATE AERONAUTICS CODE AND GENERAL SALES TAX ACT

Mary Ann Cleary, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bills 4571 & 4572

Sponsor: Rep. Wayne Schmidt

Committee: Transportation

Complete to 4-17-13

SUMMARY OF HOUSE BILLS 4571 & 4572 AS INTRODUCED 4-16-13

House Bill 4571 would amend the State Aeronautics Code (1945 PA 327) to change the current tax rate on aviation fuel from 3 cents per gallon to an "ad valorem" tax of 4% of the "wholesale price." The bill would also eliminate the 1 1/2 cent per gallon tax credit currently provided to airline operators who provide proof of scheduled interstate operations.

The bill does not define "wholesale price." The bill would not change provisions of current law that direct that the tax on aviation fuel be collected and remitted in the same manner and method and at the same time as the gasoline tax under the Motor Fuel Tax Act. Under provisions of the Motor Fuel Tax Act, the tax on gasoline is paid by the fuel "supplier" as defined in the act – most typically, when fuel is delivered to a fuel wholesaler across a fuel rack at the supplier's terminal or refinery.

House Bill 4572 would amend the General Sales Tax Act (1933 PA 167) to exempt the sale of aviation turbine fuel and aviation gasoline from the sales tax.

FISCAL IMPACT:

House Bill 4571

Section 203 of the State Aeronautics Code currently imposes a 3-cent tax on aviation fuel. The tax generated \$5.0 million in FY 2011-12 and estimated/budgeted revenue for FYs 2012-13 and 2013-14 is \$5.7 million and \$5.3million, respectively.

Revenue from "specific taxes" on aviation fuel is dedicated for transportation purposes in Article IX, Section 9 of the 1963 Michigan Constitution. Section 34 of the State Aeronautics Code dedicates revenue from the tax to the State Aeronautics Fund – a state restricted fund used to support state and local aeronautics programs. Specifically, State Aeronautics Fund revenue is used to provide matching funds for the federal Airport Improvement Program, a program of capital assistance to eligible local airports. The State Aeronautics Fund also supports administrative, regulatory, and engineering functions of the Michigan Department of Transportation's Office of Aeronautics.

In addition to revenue from the tax on aviation fuel, the State Aeronautics Fund receives revenue from aircraft registration fees, and an earmark of the Airport Parking Tax revenue.

We are unable to estimate the revenue impact of the change proposed in House Bill 4572. We do not currently know the quantity of aviation fuel purchased in Michigan, we do not currently have a reasonable estimate of the wholesale price of aviation fuels, and we do not know how much of the fuel purchased in Michigan is purchased by airline operators, which are currently provided with a 1 1/2 cent tax credit.

House Bill 4572

Exempting sales of aviation fuel from the state sales tax would reduce state revenue by an indeterminate amount. The actual amount would depend on the quantity of aviation fuel purchased in Michigan, and the price of aviation fuel subject to the sales tax. The House Fiscal Agency does not have an independent estimate of the sales tax collections related to the sale of aviation fuel or aviation products in Michigan.

The distribution of Michigan sales tax revenue is earmarked, in part, in Article IX of the 1963 Constitution. Section 25 of the General Sales Tax Act reflects those constitutional earmarks: One hundred percent (100%) of the tax at 2%, and sixty percent (60%) of the tax at 4% is dedicated by the State Constitution to the School Aid Fund. Fifteen percent (15%) of the tax at 4% is constitutionally earmarked for local revenue sharing.

The balance of sales tax revenue, i.e. the amount not otherwise constitutionally or statutorily earmarked, is credited to the state General Fund.

Fiscal Analysts: William E. Hamilton
Jim Stansell

■ 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.