



Senate Fiscal Agency  
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## BILL ANALYSIS



Telephone: (517) 373-5383  
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House Bill 4571 (Substitute S-5 as reported)  
House Bill 4572 (Substitute S-2 as reported)  
House Bill 4677 (Substitute S-3 as reported)  
Sponsor: Representative Wayne A. Schmidt (H.B. 4571 & 4572)  
Representative Phil Potvin (H.B. 4677)  
House Committee: Transportation and Infrastructure  
Senate Committee: Finance

**CONTENT**

House Bill 4571 (S-5) would amend the Aeronautics Code to do the following:

- Change the tax rate on the sale of aviation fuel from three cents per gallon to 4.0% of the average wholesale price of aviation jet fuel, subject to a minimum of 12 cents per gallon.
- Impose the tax on aviation jet fuel, aviation gasoline, and other aviation fuel.
- Require the Department of Treasury to set the tax rate each calendar quarter, and describe how it would have to be calculated.
- Provide that a determination by the Department of the rate, wholesale price, or average wholesale price would be presumed correct and would not be set aside unless an administrative tribunal or a court found the determination to be clearly erroneous.
- Delete a provision for a refund of 1.5 cents per gallon to airline operators that are operating interstate on scheduled operations.

The bill would define "wholesale price" as the price per gallon of aviation jet fuel charged by a licensed supplier to a purchaser at the time of removal from a terminal across the rack, as determined by the Department. The term would not include the tax imposed by the Aeronautics Code, the Federal excise tax imposed under Section 4081 of the Internal Revenue Code, any other Federal tax on fuel, or an environmental regulatory protection fee imposed under Section 21508 of the Natural Resources and Environmental Protection Act.

House Bill 4572 (S-2) would amend the General Sales Tax Act to exempt the sale of aviation gasoline, aviation jet fuel, and other aviation fuel from taxation under the Act.

House Bill 4677 (S-3) would amend the General Sales Tax Act to require that the following amounts from collections of the tax imposed at the rate of 4.0%, after other allocations and distributions, be deposited each fiscal year, beginning in fiscal year 2013-14:

- \$57.0 million into the State School Aid Fund.
- \$8.0 million into the General Fund for distribution to cities, townships, and villages.

House Bills 4571 (S-5) and 4572 (S-2) are tie-barred to each other. House Bill 4677 (S-3) is tie-barred to House Bill 4572.

MCL 259.203 (H.B. 4571)  
Proposed MCL 205.54ee (H.B. 4572)  
MCL 205.75 (H.B. 4677)

Legislative Analyst: Suzanne Lowe

## **FISCAL IMPACT**

The bills would reduce sales tax revenue by between \$59.1 million and \$77.2 million per year, and increase aviation fuel tax revenue to the Aeronautics Fund by approximately \$31.6 million to \$41.7 million per year. The net impact would reduce total State and local tax revenue by between \$22.3 million and \$30.4 million per year, with a \$74.8 million to \$77.9 million reduction in General Fund revenue.

The changes in House Bill 4571 (S-5) would eliminate a tax structure that currently provides approximately \$5.1 million per year in revenue to the Aeronautics Fund. The bill also would create a new tax structure that would generate an estimated \$36.7 million to \$46.8 million in revenue for the Aeronautics Fund. As a result, the net impact of the bill would be to increase revenue to the Aeronautics Fund by between \$31.6 million and \$41.7 million per year.

Sales tax revenue from the sale of aviation fuel is distributed to several funds. The State Constitution requires 60.0% of the revenue collected at a rate of 4.0%, and 100% of the revenue collected at a rate of 2.0%, to be deposited into the School Aid Fund. The State Constitution also requires that 15.0% of collections at a rate of 4.0% be distributed to cities, villages, and townships on a per-person basis. The remainder of sales tax revenue is directed to the General Fund, although an earmark of 21.3% of the collections at a rate of 4.0% is part of the Glenn Steil Revenue Sharing Act. While that earmark is to fund statutory revenue sharing distributions, such distributions are subject to appropriation.

As a result, House Bill 4572 (S-2) would reduce SAF revenue by between \$43.3 million and \$56.6 million per year. However, House Bill 4677 (S-3) would statutorily earmark \$57.0 million of additional sales tax revenue (from sales taxes collected on goods and services other than aviation fuel) to the SAF. The net impact of the two bills would be to increase SAF revenue by between \$0.4 million and \$13.7 million per year.

Similarly, House Bill 4572 (S-2) would reduce constitutional revenue sharing (and thus local unit revenue) by between \$5.9 million and \$7.7 million per year. House Bill 4677 (S-3) would provide an earmark of \$8.0 million of sales taxes collected on goods and services other than aviation fuel to be distributed through statutory provisions that mirror the constitutional per-person distribution. Any distribution under House Bill 4677 (S-3) would need to be appropriated each year by the Legislature. If an appropriation were made, and for the full amount indicated in House Bill 4677 (S-3), the net impact on local units would be to increase local unit revenue by between \$0.3 million and \$2.1 million.

The combined effect of House Bill 4572 (S-2) and House Bill 4677 (S-3) would lower General Fund revenue by between \$74.8 million and \$77.9 million per year.

The actual changes would depend on the number of gallons of fuel consumed and the wholesale and retail prices of affected aviation fuels. To the extent that actual consumption is greater than estimated, or that prices are higher, both the revenue loss and the replacement revenue estimates would be greater. Conversely, if consumption and/or prices are lower than estimated, both the revenue loss and the replacement revenue would be lower.

Date Completed: 5-14-14

Fiscal Analyst: David Zin

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