



**House  
Legislative  
Analysis  
Section**

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## USE TAX DISTRIBUTIONS

### House Bill 5558 as introduced First Analysis (4-19-00)

**Sponsor: Rep. Judith Scranton**  
**Committee: Tax Policy**

#### ***THE APPARENT PROBLEM:***

A portion of revenues from the state's sales tax on automobile sales, motor fuel, and some other automobile-related sales goes into the Comprehensive Transportation Fund and is used for planning and developing public transportation systems and funding bus and rail services. However, in recent years there has been a substantial increase in automobile leasing arrangements at the expense of automobile sales. The CTF receives no revenue from automobile leasing, which is subject to the use tax and not the sales tax. Based on the argument that the intent of the sales tax earmarking was that some portion of the tax on automobile transactions should go towards public transportation funding, legislation has been introduced that would distribute use tax revenues in the same manner as sales tax revenues. This would also provide additional revenue to the State School Aid Fund. Such legislation would restore funding to public transportation that the legislature originally intended decades ago, before automobile leasing was widespread.

#### ***THE CONTENT OF THE BILL:***

The bill would amend the Use Tax Act to specify that the first four percent of the tax levied directly or indirectly on the sale of motor vehicles, on the lease of motor vehicles, and on the sale of the parts and accessories of motor vehicles by new and used car businesses, used car businesses, accessory dealer businesses, and gasoline station businesses would be deposited as follows:

- a) 60 percent of the total collections would be deposited in the State School Aid Fund.
- b) At least 27.9 percent of 25 percent of the total collections would be deposited in the Comprehensive Transportation Fund.

c) The remainder would be deposited in the state's General Fund.

MCL 205.111

#### ***BACKGROUND INFORMATION:***

The use tax is a companion to the sales tax and is a tax on the privilege of using, storing, or consuming tangible personal property. It is typically levied on purchases made out of state of property to be used in the state (so-called remote sales), but also on certain in-state sales and services, such as lease arrangements, including automobile leases, materials used in certain repair services, the transfer of motor vehicles between private parties, and telephone services.

The state levies a use tax of six percent. Currently, revenue from the first four percent is deposited in the state's General Fund. Revenue from the remaining two percent (added in 1994) is deposited in the State School Aid Fund. Sales tax revenue, however, is distributed differently. Revenue from the two cents added in 1994 all goes to the State School Aid Fund. But of the first four cents of the sales tax, 15 percent goes to local revenue sharing and 60 percent to the State School Aid Fund. The remaining 25 percent goes to the General Fund, except that at least 27.9 percent of the remaining 25 percent of the first four cents imposed on motor fuel, motor vehicle sales, and the sale of the parts and accessories of motor vehicles is distributed to the Comprehensive Transportation Fund.

#### ***FISCAL IMPLICATIONS:***

The House Fiscal Agency estimates that the bill would in fiscal year 2000-2001 increase the State School Aid Fund by \$198 million and increase the Comprehensive Transportation Fund by \$23 million. General Fund/general purpose revenue would decrease accordingly by \$221 million. (HFA fiscal note dated 4-17-00)

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**ARGUMENTS:****For:**

The popularity of vehicle leasing is frustrating the legislature's original intent that some portion of the revenue from vehicle sales go toward the funding of public transportation. While some sales tax revenue is earmarked for the Comprehensive Transportation Fund, no use tax revenue is. Sales tax is charged on automobile sales but the use tax is levied on automobile lease arrangements. The bill would distribute use tax revenue in the same manner as sales tax revenue and direct vehicle-related revenue from use tax collections to the Comprehensive Transportation Fund. The same rationale that underlies using proceeds from automobile sales for transportation purposes applies to proceeds from automobile leasing. In recent years, automobile leasing has become a popular alternative to purchasing automobiles in proportions not imaginable back when the legislature developed the sales tax distribution formula. Public transportation funding is getting shortchanged because of the increased popularity of vehicle leasing. The bill would also distribute the same proportion of use tax collections from vehicle-related transactions to the State School Aid Fund as that fund receives from the sales tax, based on the same rationale.

**Against:**

Typically, a proposal to increase the flow of revenue to a particular program is coupled with some systemic change in the program or is attached to specific enhancements of the system, and is tied to accountability measures. This does not appear to be the case with this proposal. It is not immediately clear to what uses the additional public transportation monies or school funds will be put. The bill will result in a substantial loss of revenue to the state's General Fund and thus require spending reductions in other areas of the state budget. It should be noted that Governor Engler's fiscal year 2000 supplemental budget recommendation contains \$29.1 million for local transit agencies for bus capital purchases, and that the fiscal year 2001 budget recommendation also includes increases for public transportation.

**Against:**

The earmarking of state revenue decreases the flexibility of the legislature (or of future legislatures) to address the pressing problems of the day by reducing the funds available for discretionary spending. Is it wise to tie the legislature's (or a future legislature's) hands in this way?

**Response:**

The legislature is always free to alter earmarking legislation, just as it is to decide that a given program needs a relatively protected source of funding. After all, earmarking in statute can only occur at the discretion of the legislature.

**POSITIONS:**

The Michigan Public Transit Association supports the bill. (4-18-00)

SMART (Suburban Mobility Authority for Regional Transportation) supports the bill. (4-18-00)

The Michigan Education Association has indicated its support for the bill. (4-18-00)

The Department of Management and Budget opposes the bill. (4-18-00)

Analyst: C. Couch

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■ 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.