

# Legislative Analysis

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## SALES TAX EXEMPTION: GASOLINE

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**House Bill 4204**

**Sponsor: Rep. Robert Gosselin**

**Committee: Tax Policy**

**Complete to 3-21-05**

## A SUMMARY OF HOUSE BILL 4204 AS INTRODUCED 2-3-05

The bill would amend the General Sales Tax Act (MCL 205.54a) to exempt from taxation the amount of the price of a gallon of gasoline that exceeds \$1.20 per gallon. [An amendment or substitute is expected to increase this threshold to \$2.30 per gallon.]

Currently, the federal government imposes an excise tax of 18.4 cents per gallon, and the state imposes an excise tax of 19 cents per gallon. The six percent state sales tax is imposed on sales of gasoline, including the federal gas tax, but excluding the state gas tax. If the retail price of a gallon of gasoline is \$2.30, the sales tax constitutes 11.6 cents of that price. The price of a gallon prior to the imposition of state and federal taxes is \$1.81 per gallon.

[It should be noted that the bill, at present, does not define "the price of a gallon of gasoline," so it is unclear whether that is the retail price, the price subject to the sales tax, or the price of a gallon before the application of the state and federal gas taxes and the sales tax.]

## FISCAL IMPACT:

For each one cent that the retail price of gasoline rises above the threshold, sales tax revenue would decline by approximately \$2.95 million on an annual basis. If the retail price remained at five cents above the threshold for a period of one week, sales tax revenue would decline by almost \$285,000. It should be noted that this holds whether the threshold is \$1.20 per gallon or \$2.30 per gallon, and presumes the "price of a gallon" to be the retail price.

The most significant impact resulting from the reduction in sales tax revenue would fall on the School Aid Fund, which receives almost 73 percent of sales tax revenue. In addition, constitutional revenue sharing, which receives 10 percent of all sales tax revenue, would also decline.

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