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BILL ANALYSIS

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House Bill 4539 (Substitute H-1 as passed by the House)
Sponsor: Representative Wayne Schmidt
House Committee: Transportation and Infrastructure

Date Completed: 12-11-14

CONTENT

The bill would amend the General Sales Tax Act to eliminate, over a six-year period, the sales tax imposed on eligible fuels. Eligible fuels would be any fuel subject to the tax levied under the Motor Fuel Tax Act. The phased-in exemption would begin January 1, 2016, and would continue unless one of the following occurred at any time between January 1, 2016, and December 31, 2020:

1) Total State appropriations in the school aid budget were less than in the immediately preceding year
2) Total State appropriations to cities, villages, townships and counties under: a) constitutional revenue sharing, b) statutory revenue sharing under the Glenn Steil State Revenue Sharing Act, c) an Economic Vitality Incentive Program (or successor program), and d) Sections 1 through 25 of Public Act 51 of 1951 (which deal with the State Trunkline Highway System) were less than in the immediately preceding year.

If either condition were met at any time between January 1, 2016, and December 31, 2020, eligible fuels would be subject to the sales tax as they are under current law. The bill would end the tax rate changes and any phase-out of the sales tax on motor fuel if either condition were met. The bill also would immediately exempt eligible fuels from the sales tax if any part of the section providing for the phase-out or the appropriation conditions were ruled unconstitutional or unenforceable, unless the conditions to end the phase-out had already been met.

The proposed exemption would first reduce the portion of the sales tax that existed before the approval of Proposal A on March 15, 1994. That portion of the sales tax is a 4% tax rate, and the rate would decline by one percentage point beginning each January 1. If the rate reductions continued, only the 2% rate established under Proposal A would remain, beginning January 1, 2019. Beginning January 1, 2020, eligible fuel would be exempt from the 2% rate under Proposal A, and a 1% tax rate would be applied. After January 1, 2021, eligible fuel would be exempt from the sales tax.

MCL 205.52 et.al.

FISCAL IMPACT

The bill would reduce State and local revenue in FY 2015-16 by approximately $116.6 million, and the revenue losses would become greater in future fiscal years. By FY 2021-22, when the exemption would be fully phased-in, the bill would reduce State and local revenue by approximately $1.1 billion. The revenue impact of the bill across funds is summarized in Table 1.

Table 1

Impact of H.B. 4539 (H-1) (dollars in millions)					
Fiscal Year	**School Aid Fund**	**Constitutional Revenue Sharing**	**Comprehensive Transportation Fund**	**General Fund**	**Total**
2014-15	$0.0	$0.0	$0.0	$0.0	$0.0
2015-16	(70.0)	(17.5)	(8.1)	(21.0)	(116.6)
2016-17	(160.4)	(40.1)	(18.7)	(48.2)	(267.4)
2017-18	(256.7)	(64.2)	(29.8)	(77.1)	(427.8)
2018-19	(359.3)	(89.8)	(41.8)	(107.9)	(598.8)
2019-20	(579.3)	(81.9)	(38.1)	(98.4)	(797.6)
2020-21	(738.7)	(97.8)	(45.5)	(117.5)	(999.4)
2021-22	(789.5)	(107.7)	(50.1)	(129.4)	(1,076.6)

Prepared by the Senate Fiscal Agency

Because of the way the tax rate on gasoline would be phased out, the impact on the General Fund, School Aid Fund, and local revenue would change over time, with different constitutional earmarks to School Aid Fund revenue being affected differently depending on the year. For example, the reduction in the rate for 2016 would affect a portion of the sales tax where 60% of the revenue is earmarked to the School Aid Fund. However, in 2020, the phase-out would change the remaining 2% tax, which is 100% earmarked to the School Aid Fund, to a 1% tax where only 60% of the revenue would be earmarked.

It is unknown whether either of the conditions that would suspend the bill's rate reductions would be triggered. The bill does not define "school aid budget" and this analysis assumes the term means School Aid Fund revenue directed to K-12 education, excluding portions of the Fund directed to expenditures such as community college support, but making it a broader term than appropriations to support the foundation allowance. Similarly, the bill is tie-barred to House Bill 5477, which would increase payments to local units under transportation provisions, thus offsetting revenue reductions under constitutional revenue sharing provisions.

Should provisions of the bill be found unconstitutional or unenforceable before the other triggers were applicable, the bill would reduce State and local revenue by approximately $920.0 million to $1.1 billion per year, depending on when the provisions were determined to be unconstitutional or unenforceable.

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