Legislative Analysis

MOTOR FUEL TAXATION

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House Bill 4180 (S-3) as passed by the Senate
Sponsor: Rep. Donni Steele

House Bill 4181 (S-2) as passed by the Senate
Sponsor: Rep. Steve Frisbie

House Bill 4182 (S-2) as passed by the Senate
Sponsor: Rep. Bradley Slagh

House Bill 4183 (S-4) as passed by the Senate
Sponsor: Rep. Tom Kunse

House Committee: Transportation and Infrastructure
Senate Committee: Appropriations [Discharged]
Complete to 10-3-25

SUMMARY:

House Bill 4183 would amend the Motor Fuel Tax Act to increase the tax levied on motor fuel beginning January 1, 2026.

Currently, the tax on gasoline and diesel fuel under the act is 31 cents per gallon.[1] This rate is adjusted annually effective January 1 by the ***inflation rate*** or 5%, whichever is less, and rounded up to the nearest tenth of a cent.[2]

> ***Inflation rate*** means the annual percentage change in the Consumer Price Index (CPI), as determined by the Department of Treasury, comparing the two immediately preceding October 1 through September 30 periods. If the annual percentage change is negative, the inflation rate is zero.

Under the bill, beginning January 1, 2026, the motor fuel tax rate would be 51 cents per gallon as adjusted by the lesser of the inflation rate or 5%, rounded up to the nearest tenth of a cent.

Beginning January 1, 2027, this rate would then be adjusted annually effective January 1 by the ***inflation rate*** or 5%, whichever is less, and rounded up to the nearest tenth of a cent.

Transition provisions
The tax on motor fuel would be imposed at a rate that equals the difference between the current 31-cent rate and the rate effective January 1, 2026, on all of the following:

- Motor fuel in excess of 3,000 gallons held in storage by an end user as of 11:59 p.m. on December 31, 2025, or held for sale at the close of business on December 31, 2025

[1] The motor fuel tax rate is also applied to the per-gallon equivalent of *alternative fuel* (defined as shown above).
[2] https://www.michigan.gov/taxes/business-taxes/motor-fuel/current-tax-rates-for-motor-fuel-and-alternative-fuel

that is in excess of dead storage, for which the tax at the current 31-cent rate has been previously paid or has been accrued by either of the following:
    - A licensed supplier at the time of removal from a terminal.
    - A licensed importer, if all of the applicable conditions in sections 76, 82, and 104 of the act concerning the lawful importation of motor fuel by the importer have been met.
- All nonexempt motor fuel held by a person outside of the bulk transfer/terminal system in the state as of 11:59 p.m. on December 31, 2025, in excess of 3,000 gallons, for which the tax at the current 31-cent rate has *not* been previously paid or has *not* been accrued by either of the following:
    - A licensed supplier at the time of removal from a terminal.
    - A licensed importer, if all of the applicable conditions in sections 76, 82, and 104 of the act concerning the lawful importation of motor fuel by the importer have been met.

A person that possesses motor fuel subject to tax as described above would have to determine the number of gallons subject to the tax and report them to the Department of Treasury, together with payment of the tax due, by February 20, 2026.

MCL 207.1008

House Bills 4180 and 4182 would respectively amend the General Sales Tax Act and the Use Tax Act to exempt, beginning January 1, 2026, the sale of ***eligible fuel*** from the sales tax and the storage, use, or consumption of eligible fuel from the use tax. The bills would require an annual deposit in the School Aid Fund of sales tax revenue equal to the amount of revenue lost to the School Aid Fund as a result of the exemptions.

Eligible fuel would mean ***motor fuel***, ***alternative fuel***, and ***leaded racing fuel***, but would *not* include any of the following:

- Motor fuel sold for use in aircraft if the purchaser paid the privilege tax under section 203 of the Aeronautics Code[3] and is registered (if required to be) under section 94 of the Motor Fuel Tax Act.[4]
- Aviation fuel on which the privilege tax under section 203 of the Aeronautics Code is due.
- Motor fuel on which the privilege tax under section 203 of the Aeronautics Code has been paid and that is sold as aviation fuel and identified on the shipping paper or invoice as aviation fuel.
- Motor fuel or alternative fuel sold for residential, commercial, or industrial use for heating, cooling, or ventilation purposes (such as in utility systems, furnaces, boilers, space heaters, water heaters, dryers and similar appliances, and heat pumps), including motor fuel or alternative fuel that is exempt from the sales tax at the additional 2% rate under section 4n of the applicable act.[5]
- ***Liquefied petroleum gas***, unless it is "used" or for "use" as defined in the Motor Fuel Tax Act.[6]

[3] https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-259-203
[4] https://www.legislature.mi.gov/Laws/MCL?objectName=mcl-207-1094
[5] https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-205-54N
[6] See subdivision (j): https://www.legislature.mi.gov/Laws/MCL?objectName=mcl-207-1151

Motor fuel would mean gasoline, diesel fuel, or kerosene (as those terms are defined in the Motor Fuel Tax Act), a mixture of any of those fuels, or a mixture of any of those fuels and another substance, but it would not include leaded racing fuel.

Alternative fuel would mean a gas, liquid, or other fuel that can be used to generate power to propel a motor vehicle, such as natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, hydrogen compressed natural gas, or hythane. The term would not include motor fuel, electricity, leaded racing fuel, or an *excluded liquid* as defined in 26 CFR 48.4081-1.[7]

Leaded racing fuel would mean a fuel other than diesel fuel that is leaded, at least 100 octane, and used in vehicles on a racetrack.

Liquefied petroleum gas would mean gases derived from petroleum or natural gases that are in the gaseous state at normal atmospheric temperature and pressure, but may be maintained in the liquid state at normal atmospheric temperature by suitable pressure. The term includes products predominantly composed of propane, propylene, butylene, butane, and similar products. The term would not include compressed natural gas, liquefied natural gas, hydrogen, or hythane.

House Bill 4180 also would provide for the expiration on December 31, 2025, of various current provisions that now relate to the prepayment of sales tax on certain fuels that would be exempted by the bill, as well as eliminating several obsolete provisions.

Finally, House Bill 4180 would require that an amount equal to the revenue lost to the School Aid Fund as a result of the exemptions under both bills be deposited in the School Aid Fund from revenues from the collection of the sales tax imposed at a rate of 4%.

MCL 205.56a and proposed MCL 205.54gg (HB 4180)
MCL 205.111 and proposed MCL 205.94gg (HB 4182)

House Bill 4181 would amend the Streamlined Sales and Use Tax Revenue Equalization Act to eliminate, beginning January 1, 2026, the 6% specific tax levied on interstate motor carriers that use motor fuel or alternative fuel in Michigan. The bill also would eliminate the credits available against these taxes to offset any sales tax paid on fuel purchased in Michigan.[8]

MCL 205.173 and 205.175

None of the four bills can take effect unless all four bills and Senate Bill 578 are enacted into law. Among other things, Senate Bill 578 would create the Neighborhood Roads Fund and provide for its distribution.

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[7] *Excluded liquid* means any liquid that contains less than 4% normal paraffins or that has a distillation range of 125° F or less, a sulfur content of 10 ppm or less, and minimum color of + 27 Saybolt. https://www.ecfr.gov/current/title-26/chapter-I/subchapter-D/part-48/subpart-H/subject-group-ECFRfec64af5287e9f1/section-48.4081-1

[8] The Streamlined Sales and Use Tax Agreement is an agreement by 24 states and other governmental bodies to simplify the collection and administration of sales and use tax for retailers and states. The agreement is intended to ease tax compliance for businesses operating in more than one state by creating uniformity in state tax bases and definitions; simplifying exemptions, returns, and remittances; and requiring uniformity between state and local tax bases, with collections administered at the state level. Michigan joined the agreement in 2004.

FISCAL IMPACT:

House Bill 4183 would increase the motor fuel tax rate by 20 cents per gallon beginning January 1, 2026, which would generate approximately $698.7 million for the Michigan Transportation Fund (MTF) in fiscal year 2025-26. This represents 2/3 of the fiscal year. On a full-fiscal-year basis, the 20-cent increase would generate approximately $1.05 billion. This is expected to grow to approximately $1.09 billion in FY 2026-27. In subsequent fiscal years, the fuel tax rate would continue to be adjusted for inflation, and overall revenues would depend on gallons sold.

The increase in MTF revenue would be distributed in accordance with the provisions of 1951 PA 51 to the Comprehensive Transportation Fund (CTF), county road commissions, cities and villages, and the State Trunkline Fund (STF).

When taken together with the estimated $420.0 million of revenue from the wholesale tax on marijuana under House Bill 4951[9] and the expanded corporate income tax (CIT) earmark (the amount that exceeds the $600.0 million replacement of the income tax earmark for transportation purposes) of $88.0 million in FY 2025-26, growing to $440.0 million in FY 2029-30, under House Bill 4961,[10] the bills would generate approximately $1.10 billion in new road funding in FY 2025-26 (motor fuel tax and marijuana wholesale tax reflect a partial fiscal year due to the January 1, 2026, effective date), growing to over $2.0 billion by FY 2029-30 once the expanded CIT earmark is fully phased in.

A detailed HFA description of the impacts on transportation funds and programs is in process.

House Bills 4180 and 4182 would exempt eligible motor fuels (defined above) from the sales and use tax, which would reduce sales and use tax revenue by $695.8 million in fiscal year 2025-26 (represents 3/4 of the fiscal year). On a full-fiscal-year basis, the exemption would reduce sales and use tax revenue by approximately $927.7 million. It should be noted that the impact from year to year will vary depending on fuel prices and gallons sold.

Approximately 73% of sales tax revenue is constitutionally earmarked to the School Aid Fund, 10% is constitutionally earmarked to revenue sharing, and the remainder is allocated to the general fund. With respect to use tax revenue, after accounting for the Local Community Stabilization Authority share for personal property tax reimbursements, approximately 57% is deposited in the general fund and approximately 43% is deposited in the School Aid Fund.

The School Aid Fund would be held harmless from the exemption of eligible motor fuels from the sales and use tax. This would result in a corresponding general fund revenue reduction of approximately $510.0 million in FY 2025-26 (represents 3/4 of the fiscal year) and $680.0 million in subsequent fiscal years.

The following table summarizes the revenue effects of the bills for fiscal years 2025-26 and 2026-27.

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[9] See https://www.legislature.mi.gov/Bills/Bill?ObjectName=2025-HB-4951

[10] See https://www.legislature.mi.gov/Bills/Bill?ObjectName=2025-HB-4961

Summary: Revenue Effects of HBs 4180/4182 and HB 4183 (As Passed the Senate)
ESTIMATES
Millions of Dollars

	FY 2025-26*	FY 2026-27
Revenue Changes		
HB 4180 and HB 4182 - Exempts Motor Fuels from Sales/Use tax		
School Aid Fund (held harmless by General Fund deposit under HB 4180)	$0.0	$0.0
Constitutional Revenue Sharing	(69.6)	(92.8)
Comprehensive Transportation Fund #	(32.4)	(43.1)
General Fund (includes impact of SAF hold harmless - $680M for full year)	(593.8)	(791.8)
TOTAL	($695.8)	($927.7)
HB 4183 - Increases Motor Fuel Tax		
Michigan Transportation Fund (MTF) #	$698.7	$1,086.7
TOTAL	$698.7	$1,086.7

** Represents 3/4 of a fiscal year; 8 months for Motor Fuel Tax.*
 # The reduction in CTF revenue is due to the loss of the fuel tax component of the "auto-related sales tax" earmark. This loss would be offset by an increase in CTF revenue from the increase in MTF revenue. The CTF's 10% share of MTF revenue under 1951 PA 51 would total $69.9 million. As a result, the net impact of these changes on CTF revenue is a net increase of $37.5 million in FY 2025-26. The full-year impact in FY 2026-27 would be a net increase of $65.6 million—the $43.1 million loss of "auto-related sales tax" would be offset by a $108.7 million increase from the CTF's 10% share of increased MTF revenue.

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