

Legislative Analysis



EXCLUDE FEDERAL GAS TAX FROM SALES TAX

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House Bill 4841 as introduced
Sponsor: Rep. Robert Gosselin
Committee: Tax Policy
First Analysis (7-5-06)

BRIEF SUMMARY: The bill would exclude from the state sales tax the amount of the federal gasoline tax paid on gasoline at the time of purchase.

FISCAL IMPACT: Based on actual 2004 and estimated 2005 gasoline sales in Michigan, the bill would reduce sales tax revenue by approximately \$49.1 million. Of this, about \$36 million would be earmarked to the School Aid Fund, along with an additional \$4.9 million for constitutional revenue sharing. The remainder would accrue to the General Fund.

THE APPARENT PROBLEM:

When Michigan motorists buy gasoline at the pump, they pay 19 cents per gallon in state gas taxes, 18.4 cents per gallon in federal gas taxes, and the six percent sales tax imposed on the price of gasoline. The state sales tax is not imposed on top of the state gas tax but is imposed on top of the federal gas tax. Given that the federal tax is a fixed per-gallon rate, the imposition of the state sales tax on the federal gas tax adds about one cent per gallon. Critics say that this "tax on a tax" is unwarranted and is particularly irksome when gas prices are high. Legislation has been proposed to take out the federal tax out of the sales tax base.

THE CONTENT OF THE BILL:

The bill would amend the General Sales Tax Act to exclude from the sales tax the amount of the federal gasoline tax paid on gasoline at the time of purchase.

MCL 205.51

ARGUMENTS:

For:

State motorists pay about \$50 million each year in sales taxes attributable to the fact that the state sales tax is charged on top of federal gasoline taxes. The bill would ease motorists' tax burden, by taking out the federal tax from the tax base, potentially giving a boost to the state economy. Moreover, it is simply not good tax policy to pay taxes on other taxes. Fuel taxes are already quite high, and the additional tax only burdens taxpayers further. Note that the law already excludes the state gasoline tax from the tax base of the sales tax; the bill would treat state and federal gas taxes in a like manner.

Response:

This is not an isolated case. Other federal taxes are also directly part of the states sale base (alcohol and tobacco, for example), and products sold at retail and subject to the sales tax are priced so as to cover the cost of taxes imposed on producers. Taxes are, whether directly or indirectly, often subject to taxation.

Against:

Opponents of the bill have noted that the bill would save motorists just one penny per gallon; this is about \$7.50 per year, based on average fuel economy and miles driven. They say that considering the estimated revenue losses, primarily affecting schools and local governments, it does not make sense to enact this bill. For taxpayers, the amount of tax relief is inconsequential; it is likely go unnoticed and not significantly affect consumer spending habits. The financial impact on schools and local units, however, is much more real and significant, and needlessly compounds the budget difficulties they face.

Response:

Businesses also pay this additional tax and, for them, the cost can be substantial. The higher tax burden is reflected in the cost of goods and services charged to consumers or in diminished profits and employee wages. Moreover, the School Aid Fund is \$12 billion; a loss of \$36 million accounts for about one-third of one percent of the SAF. This bill won't break the budget.

Rebuttal:

Likewise, the added tax won't break a household budget. The key question centers on where the bill has a greater affect, on schools and local units or individuals?

Against:

Given the varying price of gasoline, it would be difficult to determine whether the one cent per gallon is actually passed on to consumers through lower prices or simply retained by the oil and gasoline industry. If the price of gasoline jumps by 20 cents in one day, could we tell that were it not for the bill, the price would have increased by 21 cents that day? Critics question whether will result in lower gas prices.

POSITIONS:

The Associated Food and Petroleum Dealers are neutral on the bill. (5-31-06)

The Department of Treasury opposes the bill. (5-31-06)

Public Education Advocates opposes the bill. (5-31-06)

The Michigan Education Association opposes the bill. (5-31-06)

Michigan American Federation of Teachers – Michigan opposes the bill. (5-31-06)

The Michigan Small and Rural Schools Association opposes the bill. (5-31-06)

The Michigan Municipal League opposes the bill. (5-31-06)

The Amalgamated Transit Union opposes the bill. (5-31-06)

The Allegan County ISD opposes the bill. (5-31-06)

The Bay-Arenac ISD opposes the bill. (5-31-06)

The Huron ISD opposes the bill. (5-31-06)

The Kalamazoo RESA opposes the bill. (5-31-06)

The Muskegon Area ISD opposes the bill. (5-31-06)

The Ottawa Area ISD opposes the bill. (5-31-06)

The Traverse City Public Schools opposes the bill. (5-31-06)

The Tuscola ISD opposes the bill. (5-31-06)

The Wayne RESA opposes the bill. (5-31-06)

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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.