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Senate Bill 447 (as introduced 6-28-23)
Sponsor: Senator Sam Singh
Committee: Energy and Environment

Date Completed: 3-13-24

CONTENT

The bill would amend the Income Tax Act to establish a refundable tax credit for a business's in-State purchase of sustainable aviation fuel for use in flights departing the State.

The Act provides for the imposition and levy of an income tax in the State and provides for credits against the tax.

The bill would allow a taxpayer engaged in the use of sustainable aviation fuel to claim a credit against the income tax imposed in an amount equal to \$1 per gallon of sustainable aviation fuel purchased in the State during the tax year by a business for use as fuel for flights departing the State. The amount of the credit per gallon allowed would increase by \$0.02 for each additional 1% reduction in carbon dioxide equivalent emissions above 50% but could not exceed \$2 per gallon.

A taxpayer could not claim an aviation fuel credit unless the Office of Climate and Energy within the Department of Environment, Great Lakes, and Energy (EGLE) had issued a certificate to the taxpayer. The taxpayer would have to attach the certificate to the annual return filed under the Act on which the credit was claimed. The certificate would have to state all the following:

- The name, business address, and tax identification number of the taxpayer.
- The total amount of gallons of sustainable aviation fuel that the taxpayer purchased in the State during the tax year for use by the taxpayer as fuel in an aircraft that departed from an airport in the State.
- If applicable, the number of gallons of sustainable aviation fuel for which the percentage reduction in carbon dioxide equivalent emissions was above 50% and that percentage amount.

If the amount of the credit exceeded the taxpayer's tax liability for the tax year, that portion that exceeded the tax liability for the tax year would have to be refunded.

The bill would add the following definitions:

- "Annual carbon intensity standard" would mean the applicable standard established and published by the Office of Climate and Energy within EGLE.
- "Aviation fuel" would mean that term as defined in the Aeronautics Code: any gasoline, distillate, benzene, naphtha, benzol, or other volatile and inflammable liquid produced, compounded, and used for propelling aircraft.
- "Biomass" would mean any organic matter that is available on a renewable or recurring basis, including agricultural crops and trees, wood and wood waste and residues, plants

including aquatic plants, grasses, residues, fibers, animal waste, and the organic portion of solid wastes.

- "Carbon dioxide equivalent" would mean a metric measure used to compare the emissions from various greenhouse gases based upon their global-warming potential.
- "Carbon intensity" would mean the quantity of life-cycle greenhouse gas emission, per unit of fuel energy, expressed in grams of carbon dioxide equivalent per megajoule.

"Sustainable aviation fuel" would mean liquid fuel that satisfies all the following:

- Is derived from biomass.
- Is not derived from palm fatty acid distillates.

In addition to the conditions described above, the fuel would have to achieve at least a 50% life-cycle greenhouse gas emissions reduction in comparison with petroleum-based aviation gasoline, aviation turbine fuel, and jet fuel as determined by a test that shows either of the following:

- That the fuel production pathway achieves at least a 50% life-cycle greenhouse gas emissions reduction in comparison with petroleum-based aviation gasoline, aviation turbine fuel, and jet fuel utilizing the most recent version of Argonne National Laboratory's Greenhouse Gases, Regulated Emissions, and Energy Use in Technologies (GREET) model that accounts for reduced emissions throughout the fuel production process.
- That the fuel production pathway achieves at least a 50% reduction of the aggregate attributional core life-cycle emissions and the positive induced land use change values under the life-cycle methodology for sustainable aviation fuels adopted by the International Civil Aviation Organization with the agreement of the United States.

Proposed MCL 206.677

Legislative Analyst: Nathan Leaman

FISCAL IMPACT

The bill would reduce State General Fund revenue by an unknown amount that would depend on the relative prices of different types of aviation fuel, the amount of fuel consumed that was eligible for the credit, and what credit level taxpayers would be eligible to claim.

The tax rate on aviation fuel depends on whether or not the flight involves scheduled interstate traffic. Consumption for scheduled interstate operations is taxed at a rate of 1.5 cents per gallon, while other aviation fuel is taxed at three cents per gallon. Assuming 75% of aviation fuel is for scheduled interstate operations, and current forecasts for aviation fuel tax revenue, suggests that approximately 272 million gallons of aviation fuel are consumed each year in Michigan.

The portion of aviation fuel consumption that would be eligible for the credit is unknown. If consumption eligible for the bill's credit represented 10% of the fuel sales, then the bill would reduce revenue by between \$27.2 million per year, at the minimum credit level, and \$54.4 million per year, at the maximum credit level. The revenue reduction would be less if a lower percentage of consumption were eligible for the credit, and more if a larger percentage were eligible.

Fiscal Analyst: Bobby Canell
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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.