



Senate Fiscal Agency
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Senate Bill 674 (as enacted)
Sponsor: Senator Aric Nesbitt
Senate Committee: Transportation and Infrastructure
House Committee: Transportation

PUBLIC ACT 124 of 2021

Date Completed: 3-31-22

RATIONALE

The Motor Fuel Tax Act prescribes an excise tax of 26.3 cents per gallon of gasoline and diesel fuel, annually adjusted for inflation beginning January 1, 2022. Previously, in the event of a motor fuel tax increase, the Act also required the owner of a certain amount of motor fuel held in bulk storage to remit to the Department of Treasury, based on the amount of fuel held in storage, the difference between the fuel tax paid in the previous year and the increase in the tax rate for that year. Some believed that the process of measuring and reporting fuel in storage to the Department was not worthwhile. Accordingly, it was suggested that the requirement that any increase in the motor fuel tax apply to motor fuel taxed in previous years and held in storage be repealed.

CONTENT

The bill repealed Section 10 of the Motor Fuel Tax Act, which required any increase to the motor fuel tax prescribed by the Act to apply to previously taxed motor fuel in excess of 3,000 gallons held in storage by an end user and to previously taxed motor fuel held for sale that was in excess of dead storage. Section 10 also required a person in possession of fuel subject to the increased tax to issue a report as to the amount of tax due on fuel that was previously taxed.

(The Act defines "dead storage" as the amount of motor fuel that cannot be pumped out of a motor fuel storage tank because the motor fuel is below the mouth of the tank's draw pipe. The Act specifies that the amount of motor fuel in dead storage is 200 gallons for a tank with a capacity of less than 10,000 gallons and 400 gallons for a tank with a capacity of 10,000 gallons or more.)

The bill took effect December 17, 2021.

MCL 207.1010 (repealed)

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

In the event of a motor fuel tax increase, the Act required the increased tax to apply to previously taxed motor fuel held in storage because large increases resulted in significant tax revenue from that fuel in storage. For example, Public Act 176 of 2015 increased the motor fuel tax from 19 cents per gallon of gasoline and 15 cents per gallon of diesel fuel in 2016 to 26.3 cents per gallon of gasoline and diesel fuel in 2017. These increases were much larger than the inflationary increases of 0.9 cents in 2022. According to testimony before the Senate Committee on Transportation and Infrastructure, applying the 2022 inflationary increase to motor fuel in storage produced negligible tax revenue for the State, approximately \$650,000. The Department of

Treasury also had to dedicate full-time employees to audit the reports submitted by owners of motor fuel in storage to determine the accuracy of their measurements and tax remittances. This auditing process was expensive for the Department and further decreased the value of the tax revenue collected. In addition, wholesalers and retailers in the State reported that the process of measuring and reporting motor fuel in storage in the event of a tax increase was cumbersome. Repealing the requirement to apply a motor fuel tax increase to previously taxed motor fuel held in storage removed the administrative burden imposed on small businesses and the Department for the collection of negligible tax revenue.

Legislative Analyst: Tyler VanHuysse

FISCAL IMPACT

The bill likely will have a negative, but minor, fiscal impact on the State and local units of government. The section of the Act the bill repealed was included in the Motor Fuel Tax Act to recover tax revenue from fuel reserves that otherwise would not have been taxed whenever the motor fuel tax rate was increased. When the Act was enacted, there was greater justification for this approach because the motor fuel tax had a history of being raised in large stages, several cents per gallon at a time, and not based upon inflation. With the passage of Public Act 176 of 2015, the tax rate for motor fuel now rises each year incrementally based on inflation and cannot exceed an increase greater than 5.0% per year.

Fiscal Analyst: Michael Siracuse

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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.