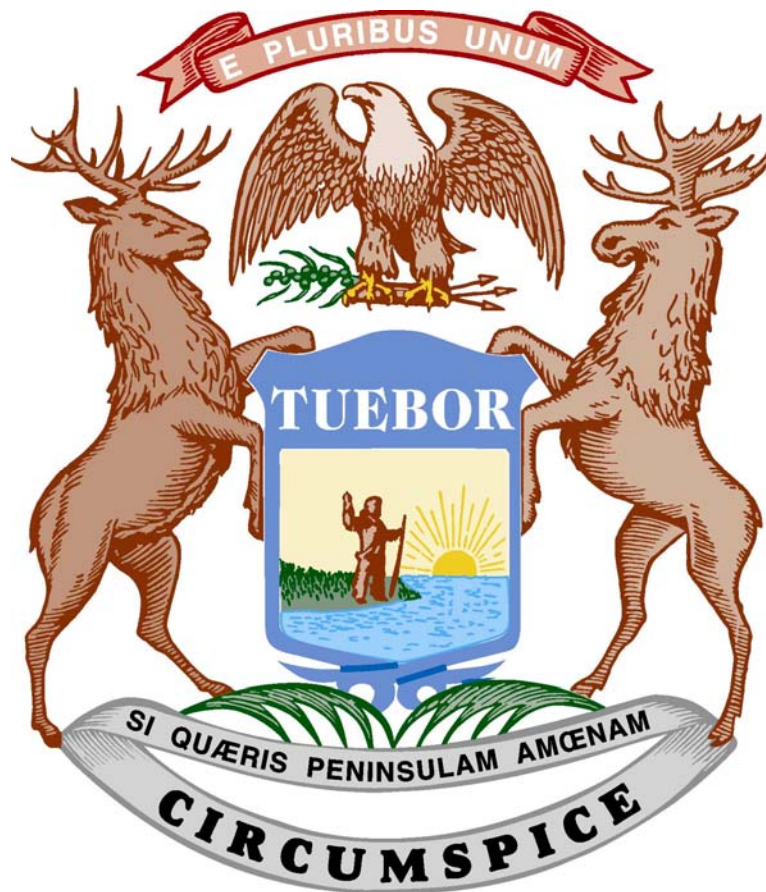
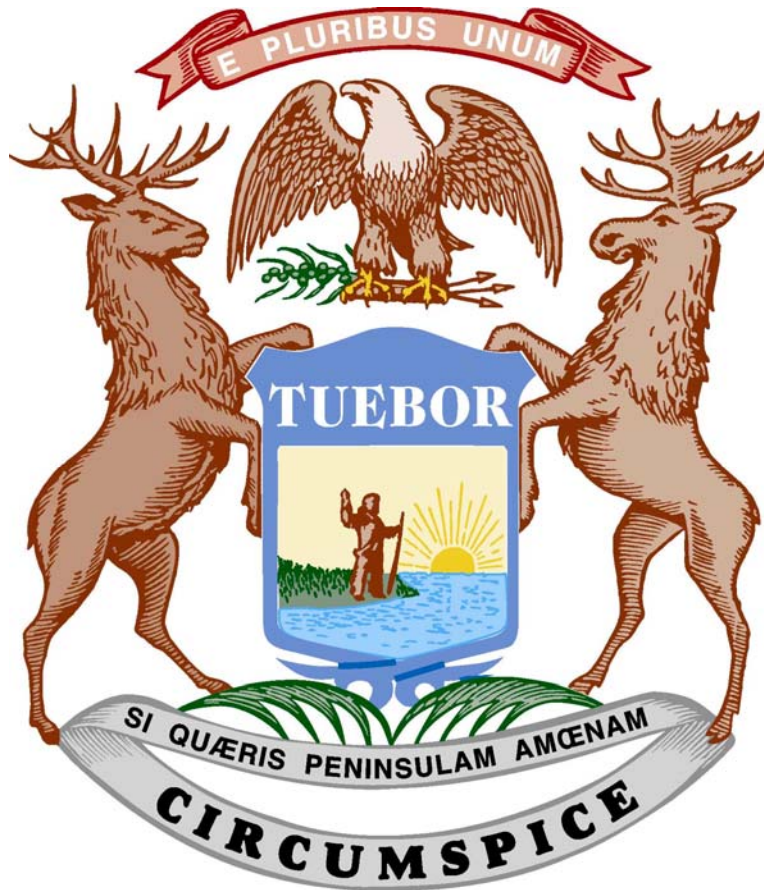


MICHIGAN'S MOTOR FUEL AND REGISTRATION TAXES FY 2001 - 2002



Michigan Department of Treasury
Office of Revenue and Tax Analysis
March 2003

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EXECUTIVE SUMMARY
Michigan's Motor Fuel and Registration Taxes
Fiscal Year 2001-02

Michigan's transportation system receives funding from three major sources: state motor fuel taxes, state motor vehicle registrations and fees, and federal highway fuel taxes. Transportation revenues totaled \$3.2 billion in fiscal year (FY) 2001-02 including proceeds from bond sales.

Gasoline tax collections totaled \$938.9 million in FY 2001-02. With a 19 cents per gallon tax, the yield per 1 cent of tax was \$49.4 million. Gasoline tax revenues were up \$5.4 million from the prior fiscal year.

Diesel tax collections in FY 2001-02 totaled \$143.0 million. Diesel fuel is taxed at 15 cents per gallon. The yield per 1 cent of tax was \$9.5 million.

State motor vehicle registration taxes provided \$827.3 million in FY 2001-02. Other fees and miscellaneous sources of revenue provided an additional \$153.2 million in FY 2001-02.

Federal funds provided \$944.5 million for Michigan's transportation system in FY 2001-02. The federal government provides this revenue on a matching basis, reimbursing usually 80 percent of the cost of certain projects on federal-aid-eligible roads. Federal funds are also allocated to local governments.

In December 2002, the U.S. average combined state and federal gasoline tax was about 38 cents per gallon (rounded to the nearest penny). The federal tax is 18.4 cents per gallon leaving an average state tax of about 19.6 cents per gallon. The combined U.S. tax is considerably lower than other countries. For example, the United Kingdom's tax rate is \$3.41 per gallon and Japan's tax rate is \$1.83 per gallon.

Michigan local governments received over \$1.4 billion of Michigan Department of Transportation expenditures in FY 2001-02, 42.1 percent of the total.

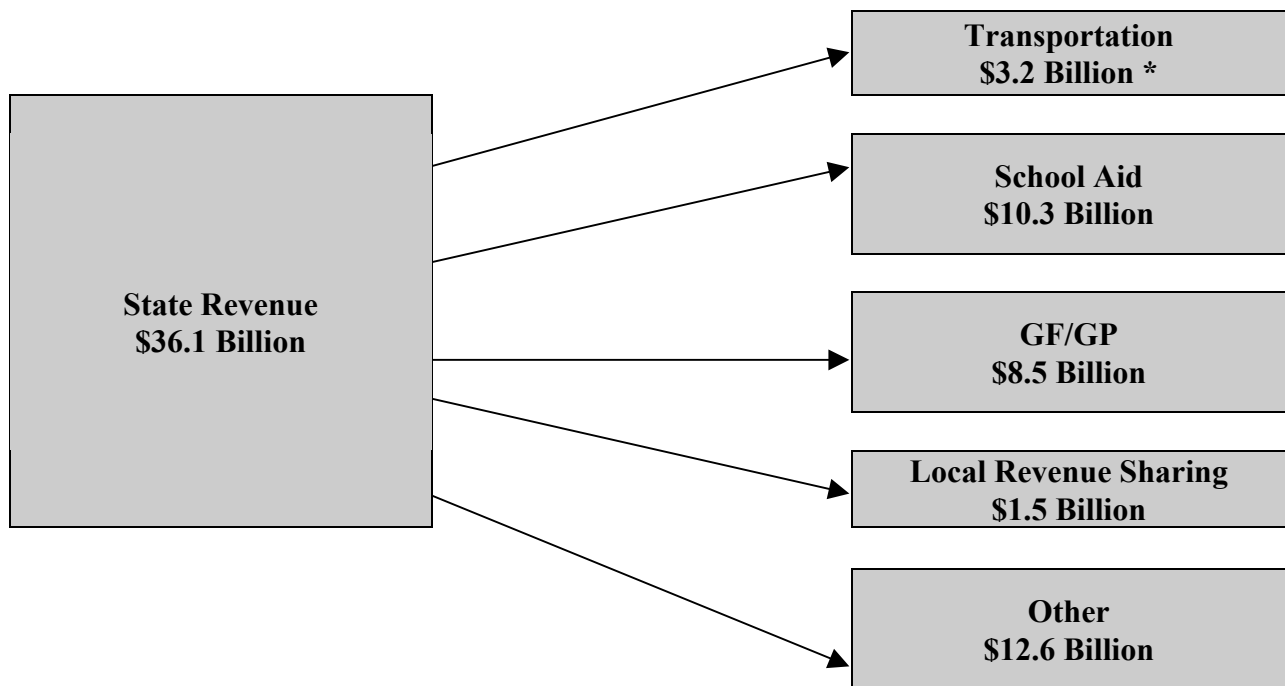
In 2002, local governmental units in 10 states levied a local gasoline tax. No local units in Michigan may levy a gasoline tax. Michigan is one of eight states that impose a sales tax on gasoline. There are no toll roads in Michigan, while 21 other states collect revenue from toll roads. Michigan and seven other states operate crossing facilities (bridges, tunnels, and ferries). Michigan currently operates three toll bridges.

The Motor Fuel Tax Act was recodified by Public Act 403 of 2000 and Public Acts 667 - 669 of 2002 simplified the taxation of diesel tax for motor carriers. Both are discussed in greater detail in Section 7.

1. INTRODUCTION

Transportation taxes and fees are an integral part of the State of Michigan revenue system. In FY 2001-02, transportation revenues were \$3.2 billion or 9.1 percent of total state revenue of \$36.1 billion (see Exhibit 1). Revenues from other major taxes are distributed to the School Aid Fund (\$10.3 billion), General Fund/General Purpose (\$8.5 billion), Local Revenue Sharing (\$1.5 billion) and Other Special Purpose Funds (\$12.6 billion).

**Exhibit 1
Where State Revenue Goes
FY 2001-02**



Source: Michigan Executive Budget FY 2004, Michigan Department of Management and Budget.

Note: * Includes \$50.9 million in bond proceeds not included in the Comprehensive Annual financial Report figures.

Transportation revenues are derived primarily from motor fuel taxes, vehicle registrations, licenses and permits, and federal aid. In FY 2001-02 these sources and bond proceeds provided \$3.2 billion to Michigan's transportation funds (see Exhibit 2). Motor fuel taxes provide the largest component of transportation revenues with the yield per penny of gasoline tax equaling \$49.4 million (see Exhibit 3).

Exhibit 2
Transportation Revenues
FY 2001-02
(millions)

Revenue Sources		Fund	
Gasoline Tax	\$938.9	State Aeronautics Fund	\$131.0
Liquefied Petroleum Gas (LPG) Tax	0.9	State Trunkline Fund	662.9
Diesel Fuel Tax and Motor Carrier Fuel Tax	143.0	Michigan Transportation Fund	1,972.9
Aviation Fuel Tax	6.7	Comprehensive Transportation Fund	108.9
Sales Tax	78.8	Combined State Trunkline Fund	64.5
Vehicle Registrations	827.3	Bond Proceeds Fund	
License and Permits	74.4	Combined Comprehensive Transportation Bonds Proceeds Fund	0.3
Miscellaneous Including Interest Earnings	65.5	Transportation Related Trust Funds	272.8
Local Agencies	133.3		
Federal Aid	944.5		
Total	\$3,213.3	Total	\$3,213.3

Source: Michigan Comprehensive Annual Financial Report, Fiscal Year 2001-02.

Note: This total does not include \$50.9 million in bond sales used to fund expenditures in FY2001-02 included in Exhibit 1.

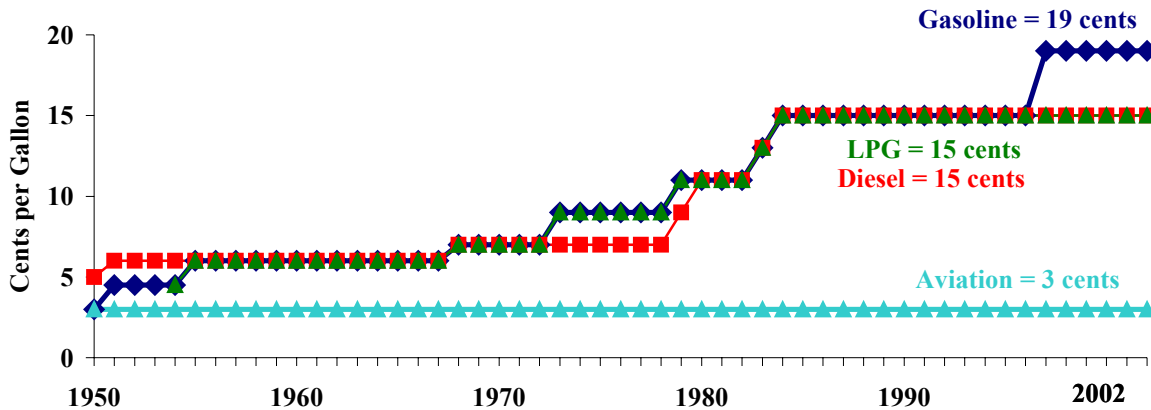
**Exhibit 3
Motor Fuel Tax Revenue Yields
FY 2001-02**

<u>Fuel</u>	<u>Revenue</u>	<u>Rate (cents)</u>	<u>Revenue Per Penny</u>
Gasoline	\$938,911,784	19	\$49,416,410
Diesel	142,966,364	15	9,531,091
Aviation	6,698,836	3	2,232,945
LPG	891,352	15	59,423

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Gasoline is taxed by both an excise tax levied on the total number of gallons purchased and a sales tax levied on its price. Consumption taxes fall into two general categories: ad valorem and unit or excise taxes. Ad valorem taxes charge consumers a specific rate equal to a proportion of the price of a good, e.g., Michigan's six-percent sales tax. An excise or unit tax charges the consumer a fixed amount per unit of commodity sold. Thus, the excise tax liability is independent of the price of the good. Only the quantity purchased determines tax revenues. The 19 cents per gallon gasoline tax in Michigan is an example of an excise tax. Exhibit 4 provides a graphical illustration of changes in all motor fuel excise tax rates from FY 1950 to FY 2002, while Exhibit 31 (located in the Appendix) presents a tabular chronological review of the same data.

**Exhibit 4
Motor Fuel Tax Rates**



Source: Michigan Department of Treasury.

Note: Tax rates are at end of fiscal year.

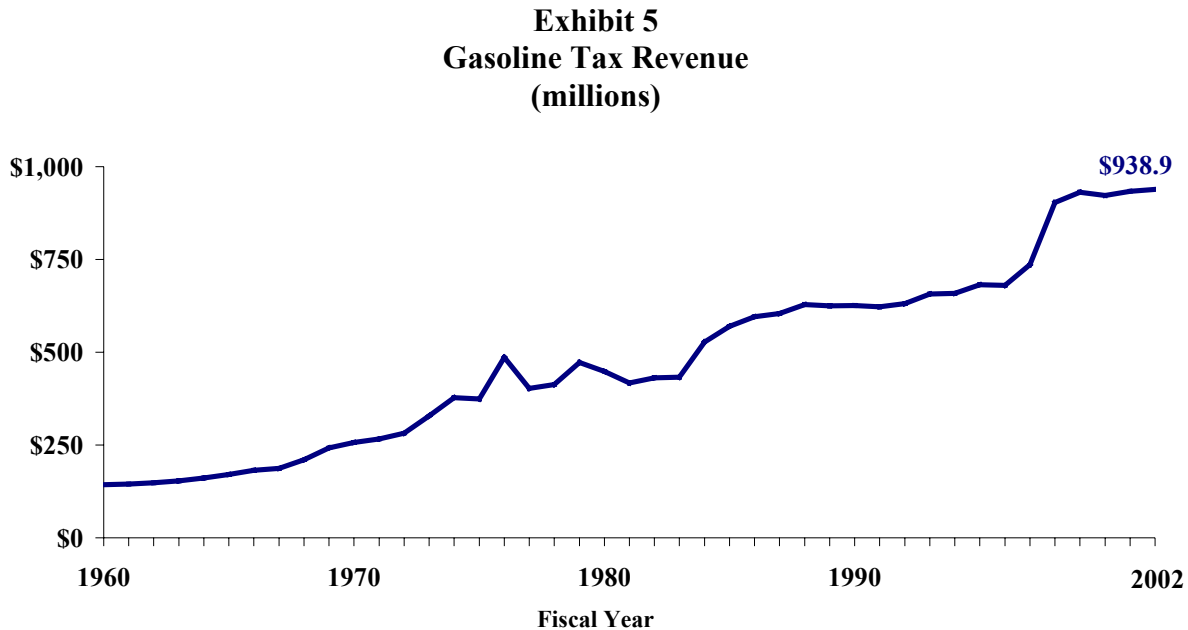
Transportation taxes are levied to pay for roads, highways, bridges, and public transportation throughout the state. The proceeds from these taxes cover costs associated with the maintenance

of existing infrastructure and the construction of new roads and bridges. The typical way to fund transportation systems is to impose a user fee based on road use. User fees are a price paid for a good or service provided by the government. Examples include toll roads and toll bridges. For road use, the user fee could be based on an overall measure of miles driven and damage done to roads from the weight of vehicles. Motor fuel taxes act as proxies for miles driven and weight of the vehicle. In most cases, road use is related to an individual's consumption of motor fuel. Although the relationship is not perfect, because some vehicles are more fuel efficient and some vehicles damage roads to a greater extent, these motor fuel taxes and registration fees remain the most common methods to generate revenues to pay for roads, bridges, and highways.

2. GASOLINE TAX

Collections and Tax Rate

Gasoline tax collections totaled \$938.9 million in FY 2001-02, yielding \$49.4 million per one cent of tax levied. Exhibit 5 provides a 42-year history of collections.



Source: Comprehensive Annual Financial Reports.

Note: FY 1975-76 was 15-month fiscal year.

Gasoline tax revenues grew an average of 1.6 percent per year from FY 1984-85 to FY 1995-96, when the tax rate held constant at 15 cents per gallon¹. On August 1, 1997, the gasoline tax was raised to 19 cents per gallon. (Exhibit 4 provides a graphical illustration of all motor fuel tax rates from FY 1951 to FY 2002, and Exhibit 31 in the Appendix presents a tabular chronological review of the same data.) However, over the next half-year, the gasoline prices declined nearly 20 percent as the slowdown in the rest-of-the-world economy led to a softening of world oil prices. Despite the tax increase, low gasoline prices lead to a 2.6 percent increase in gallons sold during FY 1997-98 and a 23 percent increase in tax collections. As growth in the world economy accelerated in 1999, gasoline prices also rose sharply with the price more than doubling from February 1999 to June

¹ The Michigan gasoline tax was enacted in 1925 at 2 cents per gallon. In 1927 the tax rate increased to 3 cents, where it remained until 1951, when it increased to 4.5 cents per gallon. After several increases over the 1951 - 1983 period, the tax rate increased to 15 cents per gallon in 1984, where it remained until 1997. Since Summer of 1997, the gasoline tax rate has been 19 cents per gallon. Refiners or importers of gasoline must prepay the tax.

2000. Average Michigan gasoline prices increased in FY 1999-2000, from \$1.08 to \$1.48 per gallon, reaching a peak of \$1.51 per gallon in FY 2000-01, and declining in FY 2001-02 at \$1.31 per gallon. Exhibit 6 compares gallons of gasoline sold in Michigan (as reported to the Federal Highway Agency), gasoline tax revenue, and average price of a gallon of Michigan gasoline for selected fiscal years. Gasoline tax revenues are earmarked to the Michigan Transportation Fund (MTF) and distributed by statutory and constitutional formula to local units of government and state transportation funds. As with the sales tax, suppliers are paid a 1.5 percent fee for the cost of remitting the gasoline tax to the state. Suppliers are required to pay one-third of the fee to retailers.

Exhibit 6
Michigan Gasoline Statistics
Selected Fiscal Years

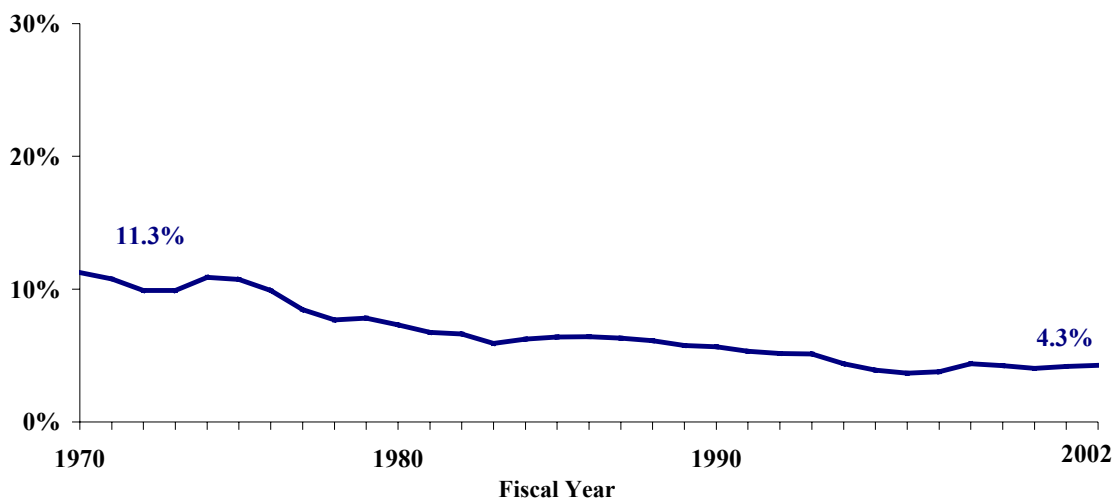
<u>Fiscal Year</u>	<u>Gallons</u>	<u>Tax Revenue</u>	<u>Average Price per Gallon of Michigan Gasoline</u>
1985	3,867,627,365	\$569,708,205	\$1.26
1990	4,194,894,390	626,229,262	\$1.12
1991	4,175,788,031	622,513,663	\$1.21
1992	4,202,465,843	631,024,833	\$1.10
1993	4,242,283,180	657,191,544	\$1.08
1994	4,494,366,161	658,877,569	\$1.06
1995	4,510,953,745	681,711,071	\$1.10
1996	4,577,048,759	680,586,256	\$1.17
1997	4,644,262,717	736,316,612	\$1.23
1998	4,766,365,149	903,542,085	\$1.09
1999	4,981,820,560	931,031,120	\$1.08
2000	4,966,525,045	921,991,065	\$1.48
2001	5,045,764,126	933,494,040	\$1.57
2002	5,001,188,590	938,911,784	\$1.31

Source: Motor Fuel and Office of Revenue and Tax Analysis, Michigan Department of Treasury and Michigan Department of Transportation.

The demand for gasoline is relatively income inelastic as changes in income have only a small effect on the quantity purchased. As a result, gasoline tax revenues have not increased as fast as income growth. While Michigan personal income increased 37.9 percent from Calendar Year (CY) 1991 to CY 1997, gasoline tax revenue increased only 18.3 percent from FY 1991 to FY 1997, without adjusting for the two months where collections were at the 19-cent rate. After adjusting the FY 1997 gasoline tax collections to the 19 cents per gallon tax rate, revenues were up 4.9 percent from FY 1997 to FY 2002. The 18.9 percent personal income growth over the CY 1997-01 period again exceeded the growth in gasoline tax revenues. In part, the slower growth in gasoline tax revenues is because technological advances have made motor vehicles more fuel efficient.

The gasoline tax as a share of total state tax revenues has decreased over the past 30 years, partially because the tax rate did not change from 1984 to 1997, partially due to improved fuel efficiency, and partially because other new state taxes have been enacted. Exhibit 7 shows that gasoline tax revenues were 11.3 percent of total state tax collections in FY 1970 compared with 4.3 percent in FY 2002. School finance reform, enacted in FY 1994, explains a portion of the decline. However, in FY 1993 before school finance reform, gasoline tax revenues had already declined to 5.1 percent of state taxes, less than half the amount compared to FY 1970. With the 1997 increase in the gasoline tax rate, gasoline tax revenues gained back some of the lost share. However, the share loss resumed in FY 1999. By FY 2002, the share of the gasoline tax as a percent of total state taxes had reached a plateau of 4.2 percent. Exhibit 7 illustrates the declining share of the gasoline tax as a percent of total state taxes.

Exhibit 7
Gasoline Taxes as a Percent
of Total State Taxes

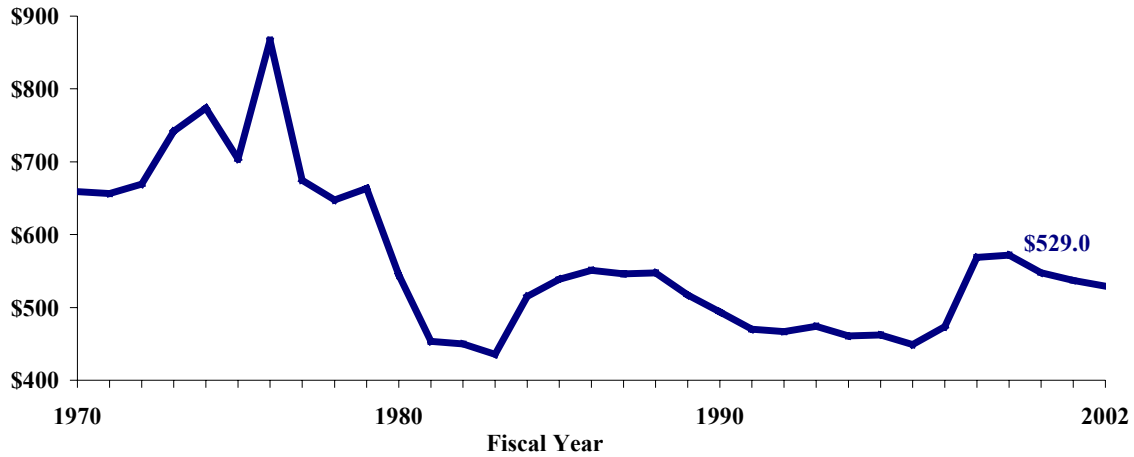


Source: Comprehensive Annual Financial Report, various years.
 Note: FY 1975-76 was 15-month fiscal year.

Real gasoline tax revenues (adjusted for inflation) have decreased over time. Nominal FY 2002 revenues amounted to \$938.9 million, while real gasoline tax revenues (in 1982-84 dollars) were \$529.0 million. Despite the FY 1998 increase in collections reflecting the higher tax rate, real tax revenues declined at a 1.9 percent annual rate from the FY 1976 peak to FY 2002 (see Exhibit 8, and Exhibit 33 located in the Appendix). Higher gasoline prices were responsible for the cutback in gasoline consumption in FY 2000, but sales recovered in FY 2002, albeit at a lower rate than the inflation rate. As a result, real gasoline tax revenue declined 1.5 percent in FY 2002. Gasoline tax revenues have lagged behind inflation for two reasons. First, the tax is an excise tax, not an ad

valorem tax. Second, increased fuel efficiency has slowed the growth in consumption. In contrast, indexed national construction costs for federal highways increased 2.7 percent per year during the CY 1997 to CY 2001 period.

Exhibit 8
Real Gasoline Tax Revenue
(adjusted for inflation)



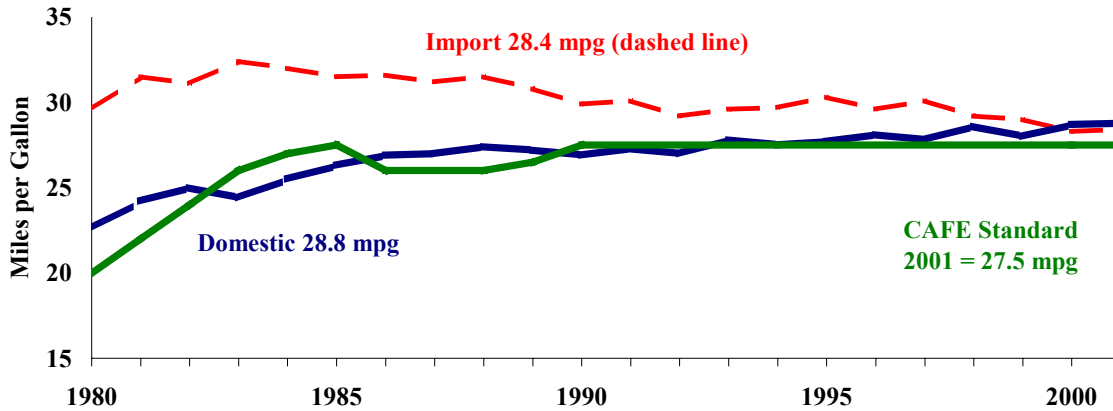
Source: Comprehensive Annual Financial Report, various years.

Note: FY 1975-76 was 15-month fiscal year.

Fuel Economy and Prices

Improvements in motor vehicle fuel economy have clearly contributed to lower gasoline tax revenues. Over the years, vehicles have become more fuel efficient due to a variety of reasons. Possible oil shortages, higher gas prices, federal Corporate Average Fuel Economy (CAFE) standards, and technology advances have all led automakers to manufacture more fuel-efficient vehicles. CAFE standards for cars have risen from 18.0 miles per gallon in 1978 to 27.5 miles per gallon currently (see Exhibit 9).

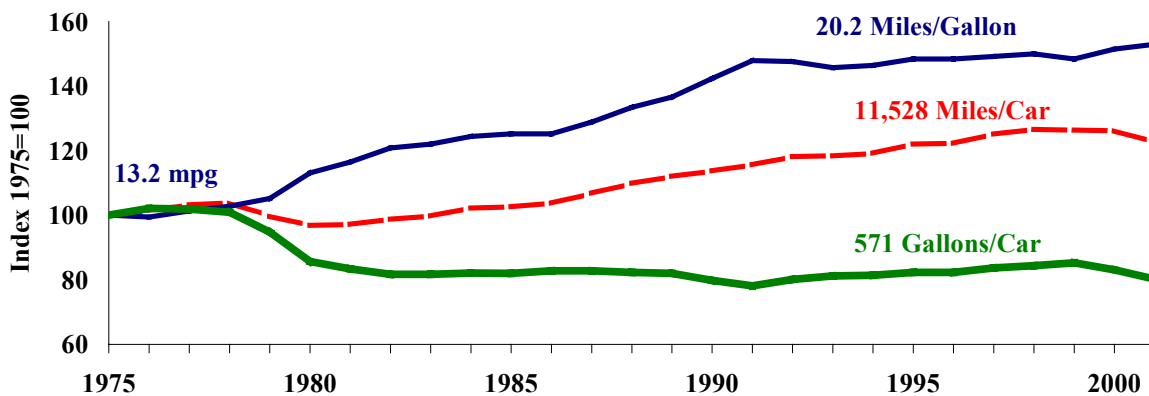
**Exhibit 9
Average Fuel Economy
U.S. New Car Fleet**



Source: U.S. Department of Transportation, National Highway Traffic Safety Administration.

Nationally, the average passenger car's gasoline consumption has decreased over the past 30 years. In 1970, the average passenger car consumed 760 gallons of gasoline per year in contrast to 571 gallons of gasoline consumed in 2001. This represents a 24.9 percent decline in consumption of gasoline per car. Travel per car is up from an average of 9,821 miles in 1970 to 11,528 miles in 2001, a 17.4 percent increase (see Exhibit 10). The fuel efficiency of the total fleet increased from 12.9 miles per gallon in 1970 to 20.2 miles per gallon in 2001, a 55.8 percent increase. Thus, with fuel efficiency gains outpacing vehicle miles traveled, overall gasoline consumption per vehicle has decreased, explaining slower growth in motor fuel revenues.

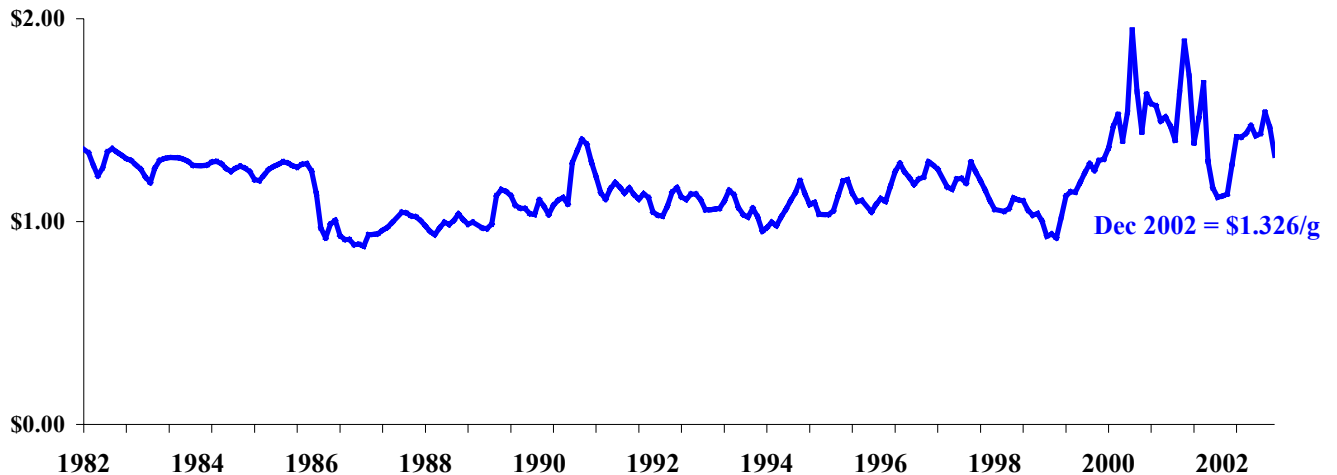
**Exhibit 10
Fuel Efficiency
Total U.S. Passenger Car Fleet**



Source: U.S. Department of Transportation, Federal Highway Administration, *Highway Statistics*, various years.

From January 1991 to November 1998 average Michigan gasoline prices fluctuated from \$0.95 a gallon to \$1.30 a gallon. In February 1999 gasoline prices fell to \$0.92 a gallon. In the spring of 2000, a combination of economic forces, system capacity constraints, and environmental regulations pushed the price of Michigan gasoline to \$1.95 a gallon. Since then, from the peak in June 2000 until December 2002, Michigan average gasoline prices have remained volatile, fluctuating from a low \$1.12 to a high \$1.89 per gallon, ending the period at \$1.33 a gallon. Exhibit 11 shows the monthly fluctuations of the price of a gallon of Michigan gasoline between January 1982 to December 2002.

Exhibit 11
Michigan Gasoline Price per Gallon



Source: Michigan Department of Transportation.

Sales Tax

Michigan levies a 6 percent sales tax on the pump price of motor fuel, excluding state motor fuel taxes. Eight states, including Michigan, levy a sales tax on motor fuel. Currently, 27.9 percent of one-cent of all auto-related sales tax collections (including the sales tax on motor fuel) is distributed to the Comprehensive Transportation Fund (CTF)². The remaining auto-related sales tax collections go to the School Aid Fund and local government revenue sharing. In FY 2001-02, the CTF sales tax transfer was \$78.8 million.

Purchasers of gasoline from a refiner, pipeline terminal operator, or marine terminal operator must prepay state sales tax equal to 6 percent of the statewide average retail price of a gallon of self-serve

² The state constitution permits up to one-cent of auto-related sales tax collections to be distributed to the CTF, while the Sales Tax Act provides that 27.9 percent of one-cent of auto-related sales tax collections be distributed to the CTF.

unleaded regular gasoline as determined by the Department of Treasury. With the fluctuations in gasoline prices the past two years, the prepay sales tax amount has ranged from 4.6 cents a gallon in August 1999 to 7.9 cents a gallon in March 2002. Succeeding purchasers will pass the prepayment along until reaching the retailer level. A retailer must reconcile any differences in prepaid sales tax on gasoline and actual sales tax liability on the retailer's sales tax return. State law does not require prepayment of sales tax on diesel fuel.

Michigan Underground Storage Tank Financial Assurance Fund

Public Act 518 of 1988 created the Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA) which assists owners of underground storage tank systems in meeting environmental standards mandated by the federal government. A 0.875-cent per gallon fee is levied on petroleum products sold in Michigan to help fund MUSTFA projects³. In FY 2001-02, MUSTFA fee revenues totaled \$62.6 million. These revenues provided assistance in environmental cleanup of underground storage tank systems. As of June 29, 1995, MUSTFA no longer accepts new claims, while unpaid claims will be paid from future revenues.

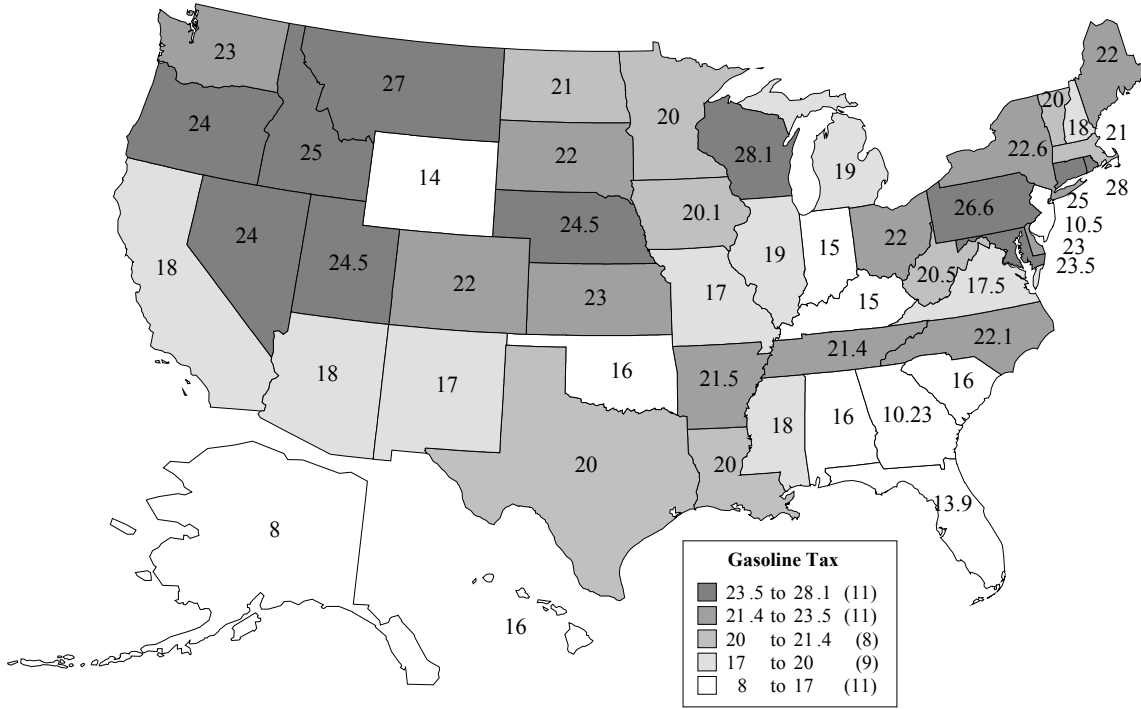
Comparisons to Other States

In 2002, Michigan's gasoline tax rate was one of the lowest, ranking 31st nationally (see Exhibit 12). Wisconsin had the highest state gasoline tax rate of 28.1 cents per gallon. A comparison of gasoline tax rates among states is complicated because other states may levy other additional taxes that are based on per gallon consumption of gasoline. For example, while New York's gasoline tax rate was reported as 8 cents per gallon, New York also has a "business petroleum tax" of 14 cents per gallon. While technically paid by business, the tax is levied on the consumption of gasoline on a per gallon basis at the retail or wholesale level. Michigan is one of eight states that levy sales tax on gasoline. Besides having different sales tax rates, half of these states include the federal gasoline tax in the sales tax base. California also includes the state gasoline tax in the sales tax base. In addition, Michigan does not have any local gasoline taxes while local units in 10 states currently levy a local motor fuel tax. Factoring in sales tax on gasoline and maximum local gasoline taxes, Michigan ranked 12th among all states in gasoline tax rates (see Exhibit 29, located in the Appendix).

Comparing all state motor fuel tax collections (gasoline, diesel, LPG, etc.), Michigan ranks among the lowest in both motor fuel taxes per person and motor fuel taxes as a percent of personal income (see Exhibit 35, located in the Appendix). In 2001, Michigan per person motor fuel taxes averaged \$107 ranking 41st in the country. Michigan ranked 38th in motor fuel taxes as a percent of personal income at 0.36 percent. Montana ranked first in both categories at \$195 per person in motor fuel taxes and 0.81 percent of the state's personal income.

³ The fee will not be imposed after September 30, 2003, as balance in the MUSTFA fund will be enough to pay off the bonds and administrative expenses related to those transactions.

**Exhibit 12
State Gasoline Tax Rates
Effective January 2002
(cents per gallon)**



Source: Commerce Clearing House.

* = Including county tax rate for Honolulu County the tax rate is 32.5 cents per gallon.

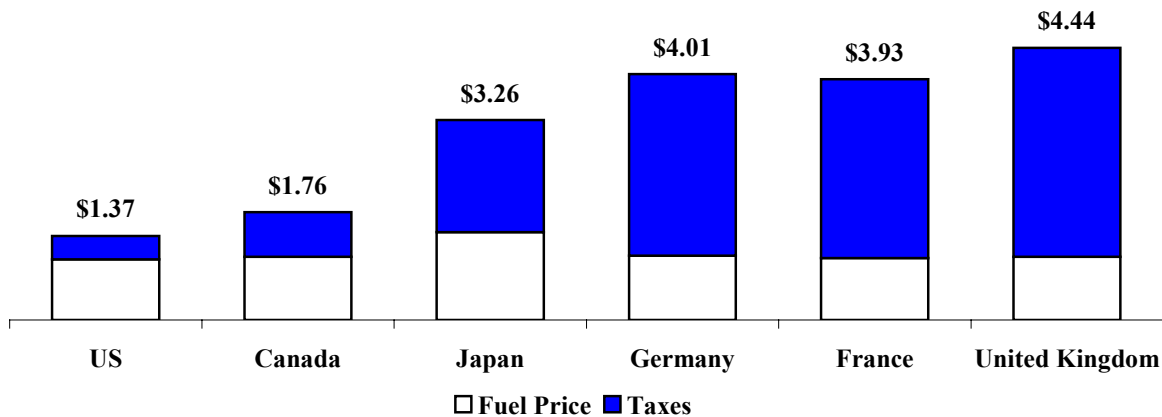
= Included in New York tax rate is a 14 cents per gallon business petroleum tax.

~ = Included in Pennsylvania tax rate is a 13.9 cents per gallon oil franchise tax.

Comparisons to Other Nations

Motor fuel tax rates in other countries are much higher than U.S. rates. In December 2002, the average combined state and federal gasoline tax was about 38 cents (rounded to the penny). The federal tax is 18.4 cents per gallon leaving an average state tax of about 19.6 cents per gallon. For example, all motor fuel taxes in Japan total \$1.83 per gallon while British taxes are \$3.41 per gallon. These higher taxes increase the average price of gasoline per gallon to \$3.26 per gallon in Japan and \$4.44 per gallon in the United Kingdom.

Exhibit 13
World Motor Fuel Prices and Taxes
December 2002
(dollars per gallon)



Source: U.S. Department of Energy, Energy Information Administration, International Energy Agency.

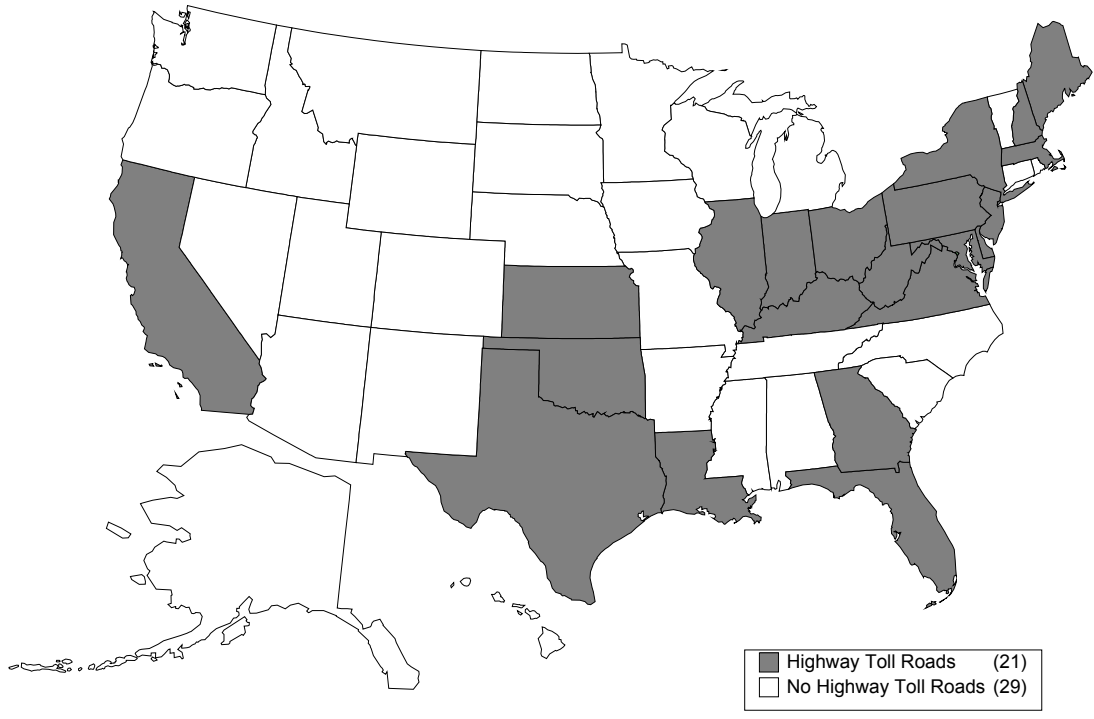
Note: U.S. tax rate is federal rate plus state weighted average. Prices are for premium gasoline except for Canada, Japan, and the United States, which is regular.

Other Revenue

Michigan does not operate any toll roads unlike 21 other U.S. states (see Exhibit 14). As the map indicates, these toll road states are concentrated in the Northeast and Midwest. While not operating toll roads, Michigan and seven other states operate crossing facilities (bridges, tunnels, and ferries) that charge fees. Michigan operates three toll bridges: the Blue Water Bridge, the Mackinaw Bridge, and the International Bridge.

State toll and crossing facility revenues vary widely from state to state (see Exhibit 36, located in the Appendix). In 2000, the latest year information on revenues from state toll and crossing facilities is available, New York, ranked first, collecting \$1,125.9 million, and New Jersey, ranked second, raising \$816.4 million. In comparison, Michigan collected \$34.8 million in bridge toll revenues, while 21 states had no state-administered toll roads or crossing facilities.

Exhibit 14
States With Highway Toll Roads



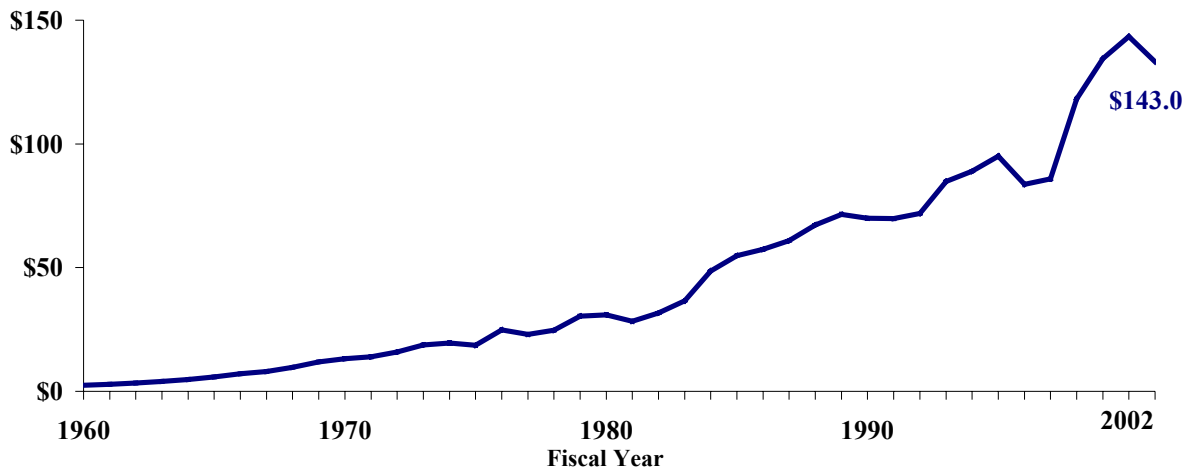
Source: 2000 Highway Statistics, Federal Highway Administration.

3. DIESEL FUEL TAX

Collections and Tax Rate

Michigan diesel fuel revenue collections totaled \$143.0 million in FY 2001-02 with a tax rate of 15 cents per gallon, yielding \$9.5 million per one cent of tax levied. Diesel fuel tax revenues have increased substantially over the past three years (see Exhibit 15). The increase in revenue is due to Public Act 584 of 1996, which raised the Motor Carrier Fuel Tax (MCFT) rate from 9 cents per gallon to 21 cents per gallon and allowed motor carriers to claim a credit of 6 cents per gallon for sales tax paid for in-state purchases of fuel. (Exhibit 4 provides a graphical illustration of all motor fuel tax rates from FY 1951 to FY 2002, and Exhibit 31 in the Appendix presents a tabular chronological review of the same data.)

Exhibit 15
Diesel Fuel Tax Revenue
(millions)



Source: Michigan Comprehensive Annual Financial Reports.

Note: 1976 was a 15-month fiscal year. Diesel fuel revenue includes fees and licenses from FY 1980 to FY 2002.

Diesel Fuel Taxation

Prior to April 1, 2003, motor carriers paid diesel fuel tax in three different, complicated ways. Laws passed in 2002⁴ simplify the process effective April 1, 2003, and eliminate any tax advantage for purchasing fuel outside of Michigan. For the following examples, it is assumed that the sales and use tax on diesel fuel is 7 cents per gallon which equates to a motor carrier pump price of \$1.329 per gallon.

⁴ Public Acts 667 - 669 of 2002.

The first example shown in Exhibit 16 is very straightforward. Diesel-powered light vehicles (under 13 tons) pay a 15 cents per gallon diesel fuel tax at the pump and approximately 7 cents per gallon sales tax on each gallon. Thus, motorists pay approximately 22 cents total state tax on a gallon of diesel fuel.

Exhibit 16
Michigan Diesel Fuel Taxation
Diesel Powered Light Vehicles

Pump	15 cents diesel tax <u>7 cents sales tax</u> 22 cents
------	---

The next three examples are for motor carriers. Exhibit 17 shows how diesel fuel is taxed for an intrastate motor carrier. Before April 1, 2003, the intrastate motor carrier paid 9 cents per gallon diesel fuel tax at the pump along with the 7 cents per gallon sales tax for a total of 16 cents per gallon. On the intrastate carrier's MCFT return, the MCFT was 21 cents per gallon used. However, a credit of 9 cents was given for the diesel fuel tax already paid, and a credit of 6 cents was given for sales tax paid. Therefore, the intrastate motor carrier remitted 6 cents per gallon of diesel fuel used. Beginning April 1, 2003, intrastate motor carriers simply pay 15 cents diesel tax and 7 cents sales tax at the pump.

Exhibit 17
Michigan Diesel Fuel Taxation
Michigan Intrastate Motor Carriers

	Prior to April 1, 2003		Beginning April 1, 2003
Pump	9 cents diesel tax <u>7 cents sales tax</u> 16 cents	Pump	15 cents diesel tax <u>7 cents sales tax</u> 22 cents
MCFT Return	21 cents MCFT -9 cents credit for diesel tax <u>-6 cents credit for sales tax paid</u> 6 cents	MCTF Return	No longer used
Total Tax	9 cents diesel tax 6 cents motor carrier fuel tax <u>7 cents sales tax</u> 22 cents	Total Tax	15 cents diesel tax <u>7 cents sales tax</u> 22 cents

Exhibit 18 gives an example of how an interstate motor carrier remits diesel fuel tax for fuel purchased in Michigan. Prior to April 1, 2003, the interstate motor carrier paid 16 cents at the pump (9 cents diesel fuel tax plus 7 cents sales tax), remitted 12 cents on its International Fuel Tax Agreement (IFTA) return and claimed from the Department of Treasury a 6 cent credit for sales tax paid. If an interstate motor carrier purchased fuel in Michigan but consumed the fuel outside the state, the motor carrier claimed a 15 cent per gallon refund (9 cents diesel fuel tax plus 6 cents for sales tax paid at the pump).

Beginning April 1, 2003, an interstate motor carrier pays 22 cents at the pump (15 cents diesel fuel tax plus 7 cents sales tax), and owes no tax on its IFTA return (15 cents MCFT plus 7 cents use tax less 22 cents credit). If an interstate motor carrier purchases fuel in Michigan but consumes the fuel outside the state, the motor carrier will claim a 22 cent per gallon refund (15 cents diesel fuel plus 7 cents for sales tax paid at the pump).

Exhibit 18
Michigan Diesel Fuel Taxation
Interstate Motor Carriers
Fuel Purchased in Michigan

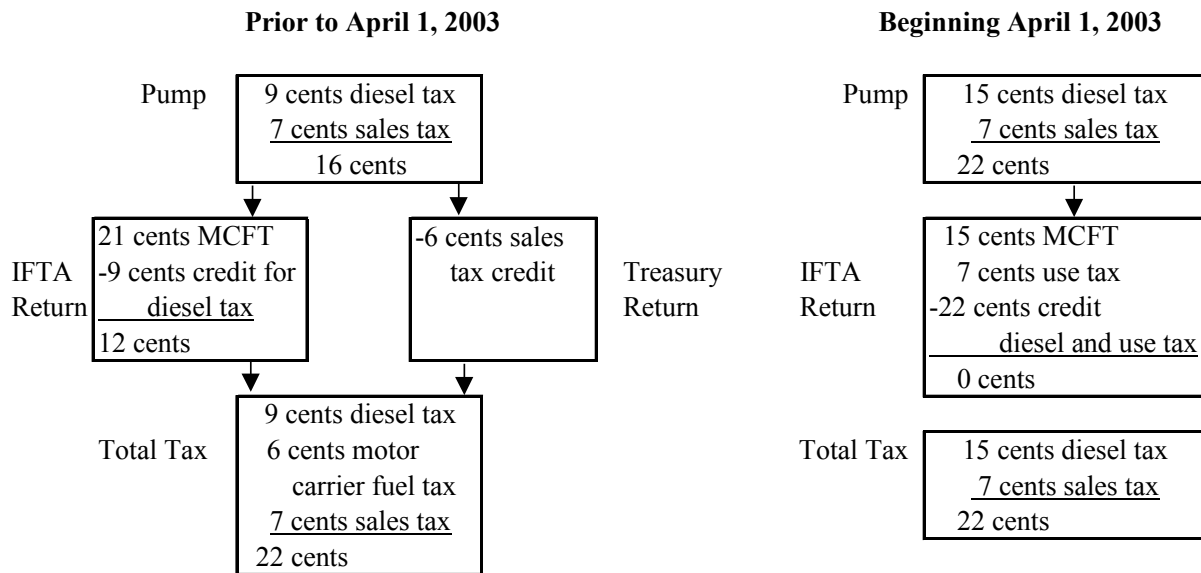


Exhibit 19 shows how an interstate motor carrier remits tax for fuel purchased outside of Michigan but used in Michigan. Since the motor carrier purchased fuel outside of Michigan, before April 1, 2003, the motor carrier was responsible for remitting 21 cents per gallon on their IFTA return for fuel consumed in Michigan, one cent less than if the fuel had been purchased in Michigan. Beginning April 1, 2003, for fuel purchased outside of Michigan, motor carriers will pay 22 cents per gallon, a one cent increase, the same tax they would pay on fuel purchased in Michigan. The motor carrier receives no credit for diesel fuel tax or sales tax because the fuel was not purchased in Michigan.

Exhibit 19
Michigan Diesel Fuel Taxation
Interstate Motor Carriers Traveling in Michigan
Fuel Purchased Outside of Michigan

Prior to April 1, 2003		Beginning April 1, 2003	
Pump	No tax paid in Michigan	Pump	No tax paid in Michigan
IFTA Return	21 cents MCFT 0 cents credit for diesel tax <u>0 cents credit for sales tax paid</u> 21 cents	IFTA Return	15 cents MCFT 7 cents use tax 0 cents credit for diesel tax <u>0 cents credit for sales tax paid</u> 22 cents
Total Tax	0 cents diesel tax 21 cents motor carrier fuel tax <u>0 cents sales tax</u> 21 cents	Total Tax	15 cents MCFT 7 cents use tax 0 cents credit for diesel tax <u>0 cents credit for sales tax paid</u> 22 cents

The Michigan diesel fuel tax was enacted in 1947 at 5 cents per gallon. On January 1, 1984, the rate increased to 15 cents per gallon. Refiners or importers of diesel fuel must prepay the first 9 cents of the tax. Retailers collect and remit the additional 6 cents per gallon for fuel sold for light vehicles.

Exhibit 4 provides a graphical illustration of changes in all motor fuel tax rates from FY 1950 to FY 2002, while Exhibit 31 (located in the Appendix) presents a tabular chronological review of the same data. The two longest periods where the tax rate held steady were 1951 to 1968 (6 cents per gallon – 17 years) and 1984 to 2001 (15 cents per gallon – 17 years).

Major legislation occurred in 1980 affecting diesel fuel taxpayers (Public Acts 117, 118, and 119 of 1980). The enacted legislation raised the diesel fuel tax rate to 11 cents per gallon but provided a 6-cent discount to commercial motor carriers. To qualify for the discount, motor carriers had to purchase a Michigan motor carrier fuel license fee decal. Decal prices were originally \$92 for Michigan-based carriers and \$12 for out-of-state carriers. Public Act 235 of 1987 raised the out-of-state fee to \$25 per decal.

The 6 cent diesel discount was intended to keep Michigan truck stop pump prices competitive with those in other states and to encourage motor carriers to buy fuel in Michigan. For fuel used in Michigan, the 6 cents not paid at the pump was payable with the quarterly MCFT or IFTA return. However, the diesel discount provided several opportunities for tax non-compliance. The tax non-compliance could occur for four reasons:

- (1) users not legally entitled to the discount bought fuel at the reduced rate,
- (2) for diesel fuel taxed at 15 cents, retailers failed to remit the required 6 cents,
- (3) motor carriers failed to file the required quarterly tax return and failed to pay with the return the additional 6 cents per gallon on fuel used in Michigan either on the IFTA or MCFT return, and
- (4) interstate motor carriers underreported their gallons used in Michigan.

Exhibits 17 and 18 demonstrate that eliminating the diesel discount does not increase the total tax liability of motor carriers. However, by eliminating the diesel discount, an estimated additional \$6 million per year of diesel tax will be collected by reducing tax non-compliance.

International Fuel Tax Agreement (IFTA)

On January 1, 1996, Michigan joined the IFTA, a federally mandated fuel tax reporting system. Under IFTA, interstate motor carriers file a single fuel tax report in their home base state for fuel taxes owed to states and provinces belonging to IFTA. The motor carriers pay all motor carrier fuel taxes owed to all IFTA jurisdictions to the carrier's home state; the home state then disburses the taxes owed to each IFTA jurisdiction. In addition, IFTA helps make the administration of MCFT laws uniform for interstate motor carriers, while participation allows jurisdictions to provide mutual assistance in enforcing rules and collecting taxes. By having motor carriers register only in their home state, IFTA simplifies enforcement and administration of motor fuel tax collections. As of December 31, 2002, 48 U.S. states and 10 Canadian provinces belong to IFTA.

IFTA impacts Michigan motor carriers in different ways. Michigan-based IFTA motor carriers file one combined IFTA report with the State of Michigan, rather than a separate report for each IFTA-member jurisdiction in which the motor carrier operates. Motor carriers that operate in Michigan but are based in other states remit Michigan motor carrier fuel taxes to their home base state; the home base state will then remit these Michigan fuel taxes to Michigan. Before April 1, 2003, these motor carriers had to submit a separate claim to Michigan for their 6 cents per gallon credit for sales tax paid. Beginning April 1, 2003, interstate motor carriers who buy diesel fuel in Michigan will claim their 6 percent use tax credit on their IFTA return. IFTA motor carriers based in other states do not have to obtain a Michigan motor carrier decal, but before April 1, 2003, could still purchase discounted diesel fuel in Michigan.

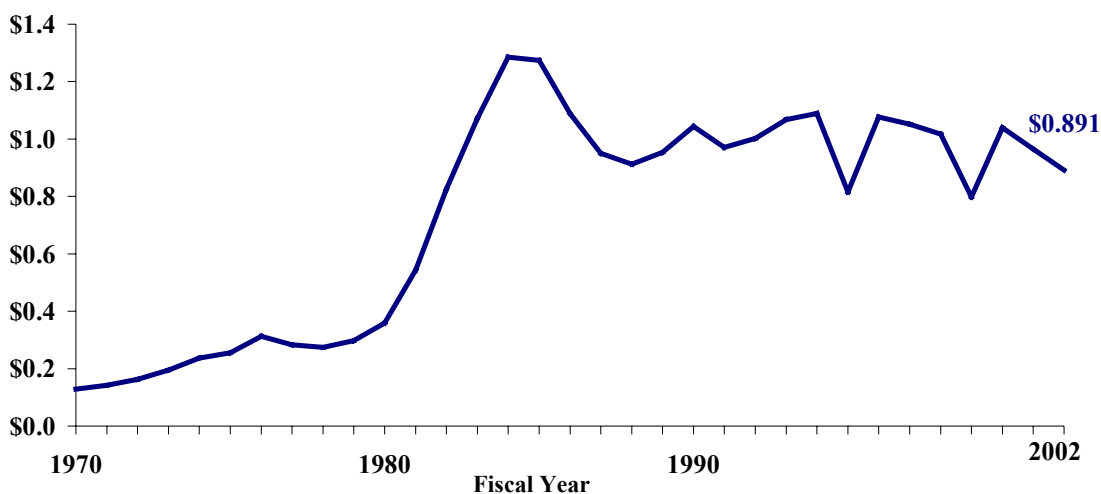
4. OTHER FUEL TAXES

Liquefied Petroleum Gas

Liquefied petroleum gas (LPG) is an alternative fuel used to propel motor vehicles and is currently taxed at 15 cents per gallon (Public Act 403 of 2000). (Exhibit 4 provides a graphical illustration of all motor fuel tax rates from FY 1951 to FY 2002, and Exhibit 31 in the Appendix presents a tabular chronological review of the same data.) LPG collections have totaled approximately \$1 million per year since FY 1981-82. In FY 2001-02, LPG revenues were \$0.89 million (see Exhibit 20), with a \$0.06 million yield per one cent of tax levied. LPG tax revenue is restricted to the MTF.

LPG, also known as propane, is comprised of a minimum of 90 percent propane, 2.5 percent butane, ethane, and propylene. The most likely vehicles to use LPG as a source of fuel are farm or fleet vehicles whose owners have access to propane refueling stations. LPG lowers maintenance costs and prolongs engine life.

Exhibit 20
Liquefied Petroleum Gas Tax Revenues
(millions)



Source: Michigan Comprehensive Annual Financial Reports.

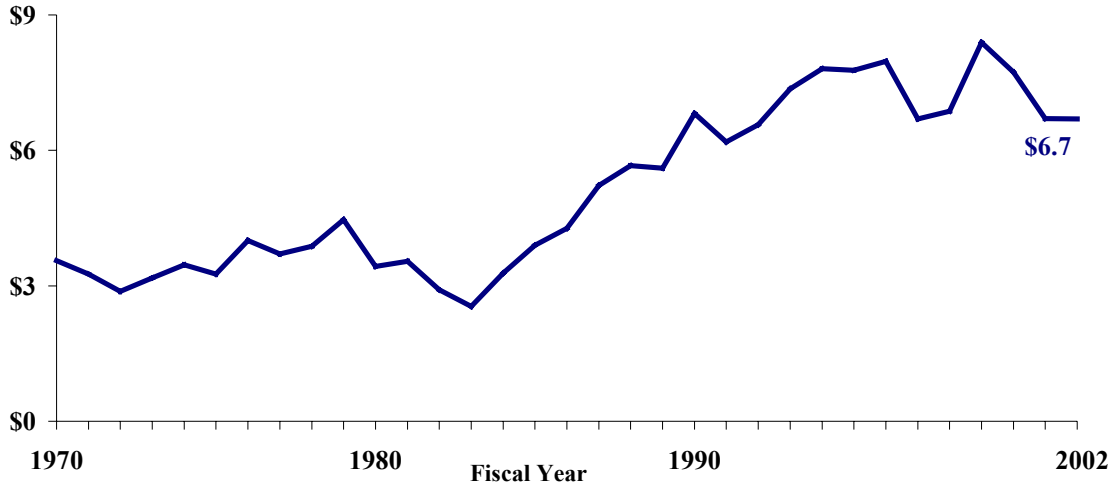
Note: 1976 was a 15-month fiscal year.

Aviation Fuel

Enacted under Public Act 160 of 1931, aviation fuel is taxed at 3 cents per gallon. (Exhibit 4 provides a graphical illustration of all motor fuel tax rates from FY 1951 to FY 2002, and Exhibit 31 in the Appendix presents a tabular chronological review of the same data.) Airline operators with interstate operations receive a 1.5 cent refund per gallon. In FY 2001-02, aviation fuel tax

collections totaled \$6.7 million (see Exhibit 21), with a one cent of tax yield of \$2.2 million after refunds. Aviation fuel tax revenues go to the State Aeronautics Fund.

Exhibit 21
Aviation Fuel Tax Revenues
(millions)



Source: Michigan Comprehensive Annual Financial Reports.

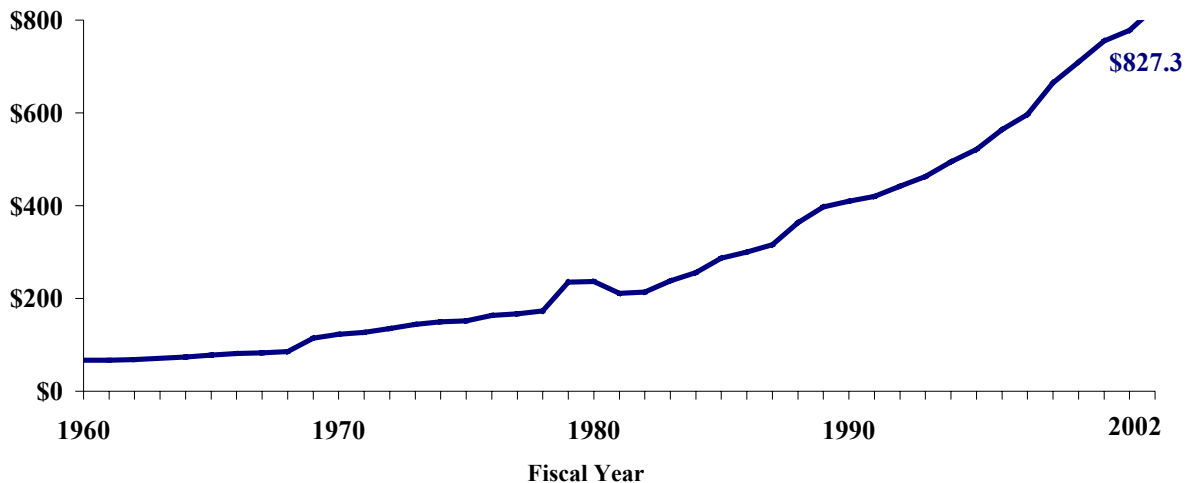
Note: 1976 was a 15-month fiscal year.

5. MOTOR VEHICLE REGISTRATION TAXES

Motor Vehicle Weight and Value Tax

The State of Michigan levies an annual motor vehicle registration tax on all vehicles registered for road use in the state. In FY 2001-02, motor vehicle registration taxes totaled \$827.3 million with tax revenues distributed to the MTF (see Exhibit 22).

Exhibit 22
Motor Vehicle Registration Tax
(millions)



Source: Michigan Comprehensive Annual Financial Reports.

Note: 1976 was a 15-month fiscal year.

The state first imposed the registration tax in 1905, at which time motorists paid a one-time \$2 fee per registered automobile. By 1925, the state had moved to an annual registration tax based strictly on vehicle weight. The weight tax remained in place until 1983.

Public Act 165 of 1983 replaced the vehicle weight registration tax with the current value registration tax, effective October 1, 1983, for all passenger light vehicles that had not previously been subject to the registration tax. In a passenger vehicle's first registration year, vehicles with a list price under \$30,000 are subject to a registration tax according to a tax table under which the registration tax equals approximately 0.5 percent of the list price. Passenger vehicles with a list price over \$30,000 are subject to a registration tax equal to 0.5 percent of the list price. The vehicle's second, third, and fourth year registration tax equals 90 percent of the prior year's tax. Thereafter, the registration tax remains the same. All other vehicles subject to the vehicle tax, including passenger light vehicles from model year 1983 and earlier and commercial use vehicles, are taxed based upon vehicle weight.

Public Act 80 of 1997 increased registration fees on commercial vehicles by 30 percent, took commercial pickups and vans off the weight schedule and onto the value system for registrations, and raised fees for overweight trucks.

Exhibit 23 provides a comparison between registration taxes paid by different types of vehicles under the weight system and under the current value registration tax. The switch to the current value system for registration allows Transportation funding to better keep pace with inflation.

Exhibit 23
Motor Vehicle Registration Tax:
Amount Charged Under Different Systems

<u>Car Model</u>	<u>Model Year</u>	<u>Weight</u>	<u>Retail Price</u>	<u>Registration Tax</u>	
				<u>Previous Weight System</u>	<u>Current Value System</u>
Ford Escort	2002	2,468	\$14,450	\$29.00	\$68.00
Ford Taurus LX	2002	3,354	\$19,260	\$32.00	\$93.00
Buick Park Avenue	2002	3,778	\$34,165	\$37.00	\$170.83
Cadillac Seville SLS	2002	3,992	\$44,269	\$37.00	\$221.35
Ford Explorer XLS	2002	4,159	\$24,935	\$43.00	\$123.00

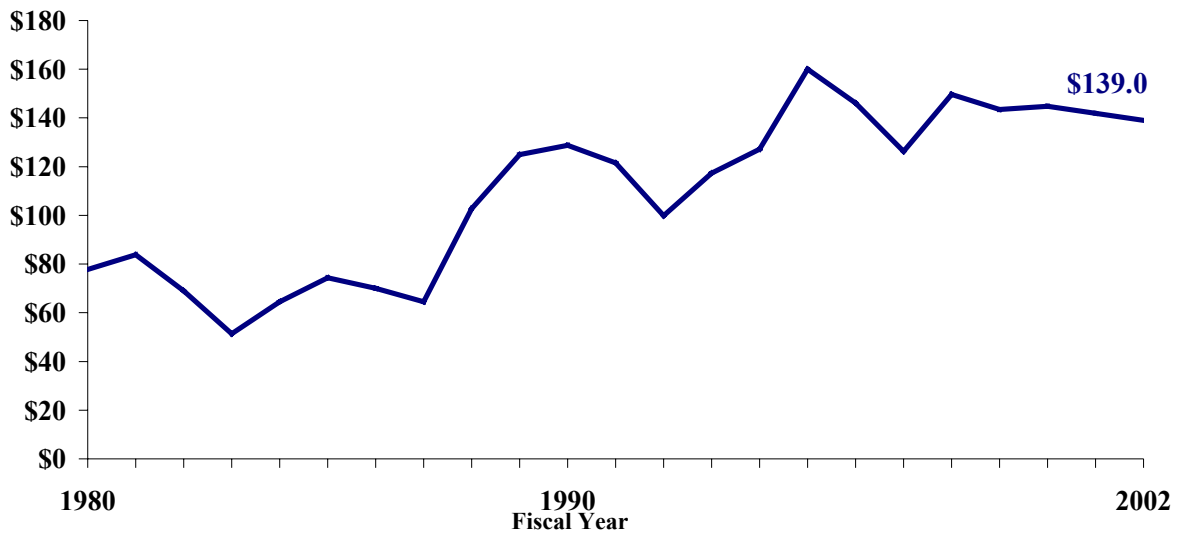
Source: Ward's Automotive Yearbook, 2002.

Notes: Calculations by Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Licenses and Permits

Michigan transportation revenue is also collected from license and permit fees and miscellaneous sources. In FY 2001-02, these revenue sources totaled \$139.0 million (see Exhibit 24). These fees include motor vehicle title fees, motor vehicle transfer fees, and moped registration fees. Approximately 46.6 percent of these monies are deposited into the MTF with the remaining money split between the Aeronautics Fund, State Trunkline Fund (STF), and the Comprehensive Transportation Fund. These revenues do not include motor carrier diesel license fees that have been grouped with diesel fuel tax revenue.

Exhibit 24
License and Permits, and Miscellaneous Revenue
(millions)



Source: Michigan Comprehensive Annual Financial Reports.

6. TRANSPORTATION FUNDS

Michigan Transportation Fund

Established by Public Act 51 of 1951, the Michigan Transportation Fund (MTF) is the primary means of distributing state revenues for transportation purposes. After distribution of revenue from off-road gasoline use to the Recreation Improvement Fund, and after transfers to other departments for transportation-related functions, revenues are distributed by a complicated formula to the State Trunkline Fund, county road commissions, cities and villages, and the Comprehensive Transportation Fund. The MTF received \$1,972.9 million in FY 2001-02 (see Exhibit 2). Of this amount, \$920.9 million was distributed by formulas to county road commissions, cities and villages (see Exhibit 25).

State Trunkline Fund

The State Trunkline Fund (STF) was established by Public Act 51 of 1951, and it provides monies for construction and maintenance of the state highway system. The MTF transfers and federal and local contributions provide most of the revenue for the STF. Any fund balance in the STF not reserved at year-end is used for road and bridge construction projects. The STF also issues bonds to finance construction and maintenance of state highways whose proceeds are accounted for in the STF Bond Proceeds Fund. Each bond issue is accounted for separately. The STF own source revenues were \$662.9 million in FY 2001-02 (see Exhibit 2). In addition, MTF distributions to the STF allowed for total STF expenditures of \$1.8 billion (see Exhibit 25). At the end of FY 2001-02, \$953.2 million remained available to finance future year projects (see Exhibit 26).

Comprehensive Transportation Fund

Created by Public Act 327 of 1972, the Comprehensive Transportation Fund (CTF) assists in the planning and development of public transportation systems within Michigan. The CTF's principal use is for operating grants to local transit systems. The CTF also provides grants for intercity freight, intercity passenger, and transit development. CTF revenue sources include transfers from the MTF, a portion of vehicle-related sales tax, and federal and local monies. The CTF also issues bonds to finance construction and acquisition of comprehensive transportation projects whose proceeds are accounted for in the Comprehensive Transportation Bond Proceeds Fund. Each bond issue is accounted for separately. The CTF revenues were \$108.9 million in FY 2001-02 (see Exhibit 2), excluding MTF transfers. The fund's ending balance for FY 2001-02 was \$146.8 million (including bond proceeds). (See Exhibit 26).

State Aeronautics Funds

Created by Public Act 327 of 1945, the State Aeronautics Fund provides money for capital improvement projects for local airports. Funded primarily by federal monies along with local aid and aviation fuel taxes, the State Aeronautics Fund received \$131.0 million in FY 2001-02 (see Exhibit 2). At the end of FY 2001-02, about \$13.9 million was available to fund future years projects and expenditures (see Exhibit 26).

Exhibit 25
Michigan Department of Transportation
Expenditures From Certain Funds
FY 2001-02
(millions)

	Grant to Local <u>Governments</u>	State Spending	<u>Total</u>
Michigan Transportation Fund (Excluding Transfers Out)	\$919.1	\$1.8	\$920.9
State Trunkline Fund	133.2	1,634.2	1,767.4
Comprehensive Transportation Fund	240.4	54.1	294.5
State Aeronautics Fund	153.2	6.4	159.6
Other Funds	<u>0.0</u>	<u>288.1</u>	<u>288.1</u>
Total	\$1,445.9	\$1,984.6	\$3,430.5
Percentage	42.1%	57.9%	100.0%

Source: Michigan Department of Transportation

- Notes:
1. Grants to local government may not include all federal aid paid to local governments.
 2. Grants to local governments do not include payments to counties for maintenance of state trunklines performed on a contractual basis.
 3. State Trunkline and Comprehensive Transportation Fund expenditures include expenditures from respective bond proceeds fund.

The fiscal year end balances of the three transportation funds has grown dramatically from 1999 through the end of 2002 (see Exhibit 26).

Exhibit 26
Ending Balances of Major Transportation Funds
(millions)

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
State Aeronautics Fund	\$26.3	\$35.2	\$12.4	\$16.0	\$17.9	\$13.9
State Trunkline Fund (1)	\$450.0	\$688.9	\$41.3	\$421.9	\$979.3	\$953.2
Comprehensive Transportation Fund (2)	<u>\$126.1</u>	<u>\$103.7</u>	<u>\$89.0</u>	<u>\$96.4</u>	<u>\$81.3</u>	<u>\$146.8</u>
Total	\$602.4	\$827.8	\$142.6	\$534.3	\$1,078.5	\$1,114.0

Source: Michigan Comprehensive Annual Financial Reports.

Note: 1. Includes balance from the Combined Trunkline Fund Bond Proceeds Fund.

2. Includes balance from the Combined Comprehensive Transportation Bond Proceeds Fund.

State and Local Spending

Transportation revenues help maintain the state trunkline system and provide grants to local governments. Transportation expenditures totaled \$3.4 billion in FY 2001-02 (see Exhibit 25). Local government expenditures totaled \$1,445.9 million, or 42.1 percent of total expenditures. The local government expenditures are broken down into formula grants and project grants. About 77.8 percent of funds provided to local governments are from formula grants (see Exhibit 27).

Exhibit 27
Michigan Department of Transportation
Grants Made to Local Governments
FY 2001-02
(millions)

Formula Grants to Local Governments	
Michigan Transportation Fund Grants to Counties	\$585.9
Michigan Transportation Fund Grants to Cities and Villages	333.2
Local Program Fund Grants to Counties	21.2
Local Program Fund Grants to Cities and Villages	11.8
Bus Operating Assistance Grants	172.0
Total Formula Grants	<u>1,124.1</u>
Project Grants to local Governemnts	
Economic Development Fund	\$100.2
Other Comprehensive Transportation Fund Grants	68.4
Airport Development	153.2
Total Project Grants	<u>321.8</u>
Total Grants to local Governments	\$1,445.9

Source: Michigan Department of Transportation.

7. RECENT DEVELOPMENTS

Sales Tax Credit in the Motor Carrier Fuel Tax

The sales tax credit included by PA 586 of 1996 in the MCFT was enacted in 1996 to encourage motor carriers to buy diesel fuel in Michigan.

In analyzing the revenue impact of the sales tax credit, it is important to note that the credit was tied to a 6 cent increase in the MCFT rate. Without the sales tax credit, the MCFT rate would only be 15 cents per gallon. For diesel fuel both purchased and used in Michigan, the sales tax credit is fully offset by the 6 cent increase in the MCFT rate--there is no impact on Transportation Fund revenue. The sales tax credit, and corresponding 6 cent increase in the MCFT, have two impacts: first, the provisions provide an additional 6 cent refund for gallons purchased in Michigan and used out of Michigan; and second, they provide an additional 6 cents of revenue for gallons purchased outside Michigan and used in Michigan.

For multi-state motor carriers, the net impact of the sales tax credit and additional 6 cent MCFT rate can be calculated by using the number of diesel gallons sold in Michigan (tax-paid gallons) and the number of gallons used in Michigan (taxable gallons) as follows:

$$\begin{array}{l}
 \text{Total Revenue} \\
 \text{From the Diesel Tax} \\
 \text{And the MCFT}
 \end{array}
 = (\text{taxable gallons} * .21) - (\text{tax-paid gallons} * .06) \quad (I)$$

And

$$\begin{array}{l}
 \text{Total Revenue From the} \\
 \text{Diesel Tax and the MCFT} \\
 \text{Without Sales Tax Credit}
 \end{array}
 = (\text{taxable gallons} * .15) \quad (II)$$

Therefore:

$$\begin{array}{l}
 \text{Net Revenue} \\
 \text{Impact of the} \\
 \text{Sales Tax Credit} \\
 \text{And Additional} \\
 \text{Six Cents MCFT}
 \end{array}
 = \begin{array}{l}
 \text{Total Revenue} \\
 \text{From the Diesel Tax} \\
 \text{And the MCFT} \\
 (I)
 \end{array}
 - \begin{array}{l}
 \text{Total Revenue From The} \\
 \text{Diesel Tax and the MCFT} \\
 \text{Without Sales Tax Credit} \\
 (II)
 \end{array}$$

For FY 2002, motor carrier returns filed with the IFTA report 487.8 million taxable gallons, and 396.2 million tax paid gallons. This results in total revenue of \$78.7 million $((487.8 * 0.21) - (396.2 * 0.06) = 102.438 - 23.772 = 78.666)$. Without the sales tax credit, total revenue from interstate

motor carriers would equal \$73.2 million $((487.8 * 0.15) = 73.17)$. Thus, in FY 2001-02 the sales tax credit resulted in a net tax increase of \$5.5 million $(78.7 - 73.2 = 5.5)$ for the Transportation Fund. This figure is affected by taxpayer behavior. Some taxpayers fail to file the necessary paperwork. For example, some truckers fail to claim their credit, either due to lack of information or the paperwork burden of applying for a small refund. These unclaimed credits further increase Transportation Fund revenue, as interstate trucks fail to claim refunds. Other taxpayers may attempt to avoid paying tax by underreporting or not reporting at all fuel used in Michigan.

Beginning April 1, 2003, the 6 percent sales tax credit in the MCFT is replaced by a 6 percent credit in the use tax act. The new credit will have the same effect, but there are two differences: the use tax credit rate will be calculated quarterly based on the average price of diesel fuel, and motor carriers will claim the credit on their IFTA return rather than having to file a separate refund claim with Treasury.

Repeal and Recodification of the Motor Fuel Tax Act

Public Act 403 of 2000 repealed and recodified the Motor Fuel Tax Act. This major rewrite of the Act began with a work group composed of industry and government representatives that held meetings for about one year.

The work group had four goals as it proposed a replacement for the current law. The goals were:

- (1) to implement a dyed diesel fuel program,
- (2) to minimize any unnecessary regulatory burden on industry while providing the Treasury Department with the information it needs to effectively administer and enforce the motor fuel tax,
- (3) to prevent tax evasion, and
- (4) to replace the previous Motor Fuel Tax Act with an act that sets forth in a more comprehensive and organized manner the rights and responsibilities of the Department of Treasury and those regulated and taxed by the Act.

A significant portion of the cost of diesel fuel is the combined state and federal tax – about 39 cents per gallon. Because diesel fuel, aviation fuel, kerosene, and heating oil will all power a diesel engine, incentives to evade the tax are greater for diesel fuel than for gasoline. Diesel fuel that is exempt from the tax must be dyed as a means of easily identifying it and thus increase the chances of preventing tax evasion. Additionally, dyed diesel fuel allows those eligible to make tax free purchases instead of paying the tax at time of purchase and filing for a refund. This is part of the rationale for the dyed diesel fuel program. Dyed diesel fuel programs have been implemented around the country beginning in 1994.

The other changes to the Act clarified the industry licensing and reporting requirement along with departmental enforcement authority.

The Act did not change tax rates, current exemptions, or the diesel discount requirements. The Act's fiscal impact was revenue neutral except for any tax collected that had previously been evaded.

8. APPENDIX

Exhibit 28
Chronology of Major Changes in Motor Fuel and Registration Taxes

- 1905 Michigan motor vehicle registration fee established by Public Act 196 of 1905. A \$2 license plate fee was charged per vehicle.
- 1925 Michigan gasoline tax enacted under Public Act 2 of 1925. The gasoline tax was levied at 2 cents per gallon on usage by motor vehicles.
- 1927 Public Act 150 of 1927 raised the gasoline tax to 3 cents per gallon.
- 1931 Michigan aviation fuel tax enacted under Public Act 160 of 1931. The aviation fuel tax was levied at 3 cents per gallon.
- 1947 Michigan diesel fuel tax enacted under Public Act 319 of 1947. The diesel fuel tax was levied at 5 cents per gallon.
- 1951 Public Act 54 of 1951 increased the gasoline tax to 4.5 cents per gallon and the diesel fuel tax to 6 cents per gallon.
- 1953 Michigan liquefied petroleum gasoline (LPG) tax enacted under Public Act 147 of 1953. The LPG tax was levied at 4.5 cents per gallon.
- 1955 Public Act 87 of 1955 increased the gasoline and LPG tax to 6 cents per gallon.
- 1967 Public Act 5 of Extra Session of 1967 increased the gasoline tax, diesel fuel tax and LPG tax to 7 cents per gallon.
- 1972 Public Act 326 of 1972 increased the gasoline and LPG taxes to 9 cents per gallon.
- 1978 Public Act 426 of 1978 increased the gasoline tax to 11 cents per gallon and the diesel fuel tax to 9 cents per gallon effective January 1, 1979.
- 1980 Public Acts 117, 118, and 119 of 1980 changed tax rates and fees for the diesel fuel tax. The diesel fuel tax was increased to 11 cents per gallon. Motor carriers may receive a 6 cents per gallon discount by purchasing a license. The license fee was \$92 for a Michigan-based carrier and \$12 for a nonresident motor carrier. Motor carriers not purchasing a permit must report and pay a road tax equal to the 5 cents per gallon paid by carriers registered in the state.
- 1982 Public Act 437 of 1982 increased fuel tax rates. The formula developed to calculate the tax rate raised the gasoline tax, diesel fuel tax and LPG tax to 13 cents per gallon on January 1, 1983, and raised the tax to 15 cents on January 1, 1984.
- 1983 Public Act 165 of 1983 replaced the vehicle registration tax with the value

registration tax for vehicles first registered after September 30, 1983.

- 1987 Public Act 235 of 1987 increased the nonresident motor carrier license fee to \$25.
- 1992 Public Act 225 of 1992 changed collection point on taxes for gasoline from wholesalers to refiners/importers and for the first 9 cents of tax on diesel fuel from retailers to refiners/importers.
- 1996 Public Act 584 of 1996 increased the MCFT on diesel fuel from 9 cents per gallon to 21 cents per gallon. A credit of 6 cents per gallon was provided for the amount of sales tax paid per gallon for in-state fuel purchases. Also, due to the International Fuel Tax Agreement (IFTA), Michigan can no longer require that out-of-state truckers purchase a decal to receive the diesel discount.
- 1997 Public Act 83 of 1997 increased the gasoline tax from 15 cents per gallon to 19 cents per gallon effective August 1, 1997. Public Act 80 of 1997 increased registration fees on commercial vehicles by 30 percent, took commercial pickups and vans off the weight schedule and onto the value system for registrations and raised fees for overweight trucks.
- 2000 Public Act 403 of 2000 repealed and recodified the Motor Fuel Tax Act. The Act implemented a dyed diesel fuel program along with other measures to prevent tax evasion. It also minimized unnecessary regulatory burden on industry while providing the information needed to effectively administer and enforce the motor fuel tax.
- 2002 Public Acts 667 – 669 of 2002 repealed the motor carrier 6 cent diesel discount; reduced the motor carrier fuel tax rate from 21 cents per gallon to 15 cents per gallon eliminating the 6 cent sales tax credit; and imposed a 6 percent use tax on diesel fuel used by interstate motor carriers, allowing a credit for fuel purchased in Michigan.

Exhibit 29
Gasoline Tax Rankings by State
January 2002

(Cents Per Gallon)

	State		State Gasoline		State Gasoline	
	Gasoline Tax	Rank	Tax with Sales Tax	Rank	Tax With Sales Tax and Maximum Local Gasoline Taxes	Rank
Alabama	16	40	16	42	24	18
Alaska	8	50	8	50	10	50
Arizona	18	33	18	36	18	40
Arkansas	21.5	21	21.5	26	21.5	28
California	18	33	26.8	5	26.8	10
Colorado	22	17	22	21	22	24
Connecticut	25	5	25	10	25	14
Delaware	23	12	23	17	23	21
Florida	13.9	47	13.9	47	31.2	4
Georgia	10.23	49	11.13	48	11.13	48
Hawaii	16	40	21.6	25	38.1	1
Idaho	25	5	25	10	25	14
Illinois	19	31	25.8	8	36.8	2
Indiana	15	44	20	31	20	34
Iowa	20.1	26	20.1	30	20.1	33
Kansas	23	12	23	17	23	21
Kentucky	15	44	15	45	15	46
Louisiana	20	27	20	31	20	34
Maine	22	17	22	21	22	24
Maryland	23.5	11	23.5	16	23.5	20
Massachusetts	21	23	21	28	21	30
Michigan	19	31	26.2	7	26.2	12
Minnesota	20	27	20	31	20	34
Mississippi	18	33	18	36	21	30
Missouri	17	38	17	40	17	42
Montana	27	3	27	4	27	8
Nebraska	24.5	7	24.5	12	24.5	16
Nevada	24	9	24	14	33	3
New Hampshire	18	33	18	36	18	40
New Jersey	10.5	48	10.5	49	10.5	49
New Mexico	17	38	17	40	17	42
New York	22.6	15	27.3	3	27.3	7
North Carolina	22.1	16	22.1	20	22.1	23
North Dakota	21	23	21	28	21	30
Ohio	22	17	22	21	22	24
Oklahoma	16	40	16	42	16	44
Oregon	24	9	24	14	27	8
Pennsylvania	26.6	4	26.6	6	26.6	11
Rhode Island	28	2	28	2	28	6
South Carolina	16	40	16	42	16	44
South Dakota	22	17	22	21	22	24
Tennessee	21.4	22	21.4	27	21.4	29
Texas	20	27	20	31	20	34
Utah	24.5	7	24.5	12	24.5	16
Vermont	20	27	20	31	20	34
Virginia	17.5	37	17.5	39	19.4	39
Washington	23	12	23	17	24	18
West Virginia	20.5	25	25.65	9	25.65	13
Wisconsin	28.1	1	28.1	1	28.1	5
Wyoming	14	46	14	46	14	47

Notes: State environmental fees were not included. Sales taxes are calculated using pre-tax retail prices for unleaded regular grade gasoline, plus state and federal gasoline taxes where applicable, multiplied by the statewide sales tax rate. Virginia local option sales tax on motor fuel included as local gasoline tax.

Exhibit 30
Michigan Motor Fuel Revenue History

Fiscal Year	Gasoline Tax Revenue	Diesel Fuel Revenue*	Liquefied Petroleum Revenue	Aviation Fuel Revenue
1956	\$130,961,671	\$1,249,857	\$67,853	\$571,402
1957	133,407,898	1,426,389	67,131	761,679
1958	133,818,382	1,588,005	77,951	849,111
1959	135,496,651	1,941,655	72,620	880,685
1960	142,789,451	2,510,539	69,612	962,448
1961	144,426,700	2,828,688	70,330	982,406
1962	148,103,666	3,340,036	79,430	1,109,821
1963	153,087,531	3,949,215	86,258	1,195,797
1964	161,406,978	4,729,550	86,335	1,032,144
1965	170,747,556	5,860,153	96,022	1,338,337
1966	181,660,659	7,087,586	106,287	1,646,505
1967	187,235,437	7,983,849	107,041	2,136,185
1968	209,989,524	9,648,641	120,654	2,486,798
1969	242,556,482	11,953,982	125,286	3,213,298
1970	256,858,580	13,173,736	129,001	3,556,796
1971	266,473,195	13,944,833	142,748	3,261,618
1972	281,878,162	15,877,405	162,813	2,879,953
1973	328,716,356	18,686,540	194,846	3,176,143
1974	377,584,888	19,542,204	236,919	3,465,785
1975	373,818,635	18,680,365	255,532	3,258,367
1976**	486,325,904	24,842,248	313,544	4,001,229
1977	402,755,827	22,959,514	282,813	3,705,705
1978	413,188,311	24,696,828	274,235	3,873,510
1979	472,280,488	30,417,938	297,822	4,462,639
1980	448,192,599	30,861,342	358,859	3,431,017
1981	417,491,808	28,358,625	543,443	3,543,699
1982	430,961,796	31,673,186	825,249	2,911,342
1983	433,052,572	36,531,879	1,072,670	2,542,207
1984	527,680,752	48,596,242	1,285,380	3,277,720
1985	569,708,205	54,763,729	1,273,922	3,896,310
1986	595,729,891	57,469,568	1,088,072	4,271,737
1987	604,479,419	60,881,145	950,226	5,219,748
1988	628,520,349	67,251,468	912,318	5,659,592
1989	624,951,721	71,479,395	954,007	5,605,366
1990	626,229,262	69,945,463	1,044,455	6,815,683
1991	622,513,663	69,884,933	971,290	6,184,456
1992	631,024,833	71,930,644	1,002,404	6,566,513
1993	657,191,544	84,876,025	1,068,636	7,360,801
1994	658,877,569	88,963,786	1,089,271	7,809,245
1995	681,711,071	95,047,310	816,254	7,772,204
1996	680,586,256	83,674,911	1,076,765	7,974,804
1997	736,316,612	85,912,538	1,051,127	6,698,560
1998	903,542,085	118,242,235	1,017,898	6,867,759
1999	931,031,120	134,545,842	798,258	8,389,628
2000	921,991,065	143,461,574	1,039,944	7,732,150
2001	933,494,040	133,184,172	966,056	6,705,528
2002	938,911,784	142,977,457	891,352	6,698,836

* From FY 1980 to 2000, diesel fuel revenue includes diesel fuel tax, motor carrier diesel fuel tax, and motor carrier diesel license fees.

** 1976 was a 15-month fiscal year.

Source: Michigan Department of Treasury.

Exhibit 31
Michigan Motor Fuel Tax Rates
(cents per gallon)

<u>Fiscal Year</u>	<u>Gasoline</u>	<u>Diesel</u>	<u>LPG</u>	<u>Aviation</u>
1925	2	na	na	na
1927	3	na	na	na
1931	3	na	na	3
1947	3	5	na	3
1950	3	5	na	3
1951	4.5	6	na	3
1954	4.5	6	4.5	3
1955	4.5/6	6	4.5/6	3
1956	6	6	6	3
1967	6	6	6	3
1968	6/7	6/7	6/7	3
1969	7	7	7	3
1972	7	7	7	3
1973	7/9	7	7/9	3
1974	9	7	9	3
1978	9	7	9	3
1979	9/11	7/9	9/11	3
1980	11	9/11	11	3
1981	11	11	11	3
1982	11	11	11	3
1983	11/13	11/13	11/13	3
1984	13/15	13/15	13/15	3
1985	15	15	15	3
1996	15	15	15	3
1997	15/19	15	15	3
1998	19	15	15	3
2000	19	15	15	3
2001	19	15	15	3
2002	19	15	15	3

Source: Michigan Department of Treasury.

Exhibit 32
Michigan Gasoline Taxes as a
Percent of Total Michigan State Taxes

<u>Fiscal Year</u>	<u>Michigan Gasoline Tax</u>	<u>Total Michigan State Taxes Revenue</u>	<u>Gasoline Tax as a Percent of State Taxes</u>
1970	\$256,858,580	\$2,282,917,000	11.3 %
1971	266,473,195	\$2,476,286,000	10.8
1972	281,878,162	\$2,847,471,000	9.9
1973	328,716,356	\$3,323,894,000	9.9
1974	377,584,888	\$3,467,770,000	10.9
1975	373,818,635	\$3,488,331,000	10.7
1976*	486,325,904	\$4,907,922,000	9.9
1977	402,755,827	\$4,760,007,000	8.5
1978	413,188,311	\$5,389,620,000	7.7
1979	472,280,488	\$6,044,023,000	7.8
1980	448,192,599	\$6,126,400,000	7.3
1981	417,491,808	\$6,195,020,000	6.7
1982	430,961,796	\$6,500,591,000	6.6
1983	433,052,572	\$7,333,424,000	5.9
1984	527,680,752	\$8,471,626,000	6.2
1985	569,708,205	\$8,910,956,000	6.4
1986	595,729,891	\$9,270,804,000	6.4
1987	604,479,419	\$9,597,215,000	6.3
1988	628,520,349	\$10,285,539,000	6.1
1989	624,951,721	\$10,850,896,000	5.8
1990	626,229,262	\$11,062,400,000	5.7
1991	622,513,663	\$11,722,260,000	5.3
1992	631,024,833	\$12,232,193,000	5.2
1993	657,191,544	\$12,866,305,000	5.1
1994	658,877,569	\$15,082,510,000	4.4
1995	681,711,071	\$17,468,714,000	3.9
1996	680,586,256	\$18,520,076,000	3.7
1997	736,316,612	\$19,440,316,000	3.8
1998	903,542,085	\$20,626,025,000	4.4
1999	931,031,120	\$21,958,875,000	4.2
2000	921,991,065	\$22,865,496,000	4.0
2001	933,494,040	\$22,405,023,000	4.2
2002	938,911,784	\$22,070,408,000	4.3

* 15-month fiscal year.

Sources: Comprehensive Annual Financial Report and GA-24 Accounting Reports.

Exhibit 33
Michigan Gasoline Tax Revenues Adjusted for Inflation

<u>Fiscal Year</u>	<u>Rate (Cents)</u>	<u>Nominal Gasoline Tax Revenue</u>	<u>Real Gasoline Tax Revenue*</u>	<u>Percent Change</u>
1960	6	\$142,789,451	482,668,567	4.5 %
1961	6	144,426,700	483,706,503	0.2
1962	6	148,103,666	496,714,363	2.7
1963	6	153,087,531	508,174,377	2.3
1964	6	161,406,978	531,526,821	4.6
1965	6	170,747,556	551,985,634	3.8
1966	6	181,660,659	565,040,930	2.4
1967	6	187,235,437	560,585,141	-0.8
1968	6/7	209,989,524	606,467,939	8.2
1969	7	242,556,482	661,969,021	9.2
1970	7	256,858,580	659,175,141	-0.4
1971	7	266,473,195	656,337,919	-0.4
1972	7	281,878,162	669,544,328	2.0
1973	7/9	328,716,356	742,023,377	10.8
1974	9	377,584,888	773,739,525	4.3
1975	9	373,818,635	703,989,896	-9.0
1976	9	486,325,904	866,891,094	23.1
1977	9	402,755,827	674,632,876	-22.2
1978	9	413,188,311	647,630,582	-4.0
1979	9/11	472,280,488	663,315,292	2.4
1980	11	448,192,599	544,583,960	-17.9
1981	11	417,491,808	453,302,723	-16.8
1982	11	430,961,796	449,855,737	-0.8
1983	11/13	433,052,572	435,666,572	-3.2
1984	13/15	527,680,752	515,313,234	18.3
1985	15	569,708,205	538,476,564	4.5
1986	15	595,729,891	551,091,481	2.3
1987	15	604,479,419	546,051,869	-0.9
1988	15	628,520,349	547,491,593	0.3
1989	15	624,951,721	517,344,140	-5.5
1990	15	626,229,262	493,871,658	-4.5
1991	15	622,513,663	470,176,483	-4.8
1992	15	631,024,833	467,079,818	-0.7
1993	15	657,191,544	474,164,173	1.5
1994	15	658,877,569	461,075,975	-2.8
1995	15	681,711,071	462,176,997	0.2
1996	15	680,586,256	448,935,525	-2.9
1997	15/19	736,316,612	473,820,214	5.5
1998	19	903,542,085	568,623,087	20.0
1999	19	931,031,120	571,886,437	0.6
2000	19	921,991,065	547,825,945	-4.2
2001	19	933,494,040	537,108,194	-2.0
2002	19	938,911,784	528,964,385	-1.5

* Adjusted by Detroit Consumer Price Index to 1982-84 dollars.

Sources: Michigan Department of Treasury and U.S. Department of Labor.

Exhibit 34
State Motor Fuel Tax Rates and Other Transportation-Related Taxes
January 2002
(cents)

State	Gasoline Tax Rate	Diesel Tax Rate	Motor Carrier Tax Rate	Local Gasoline Tax	Sales Tax on Gasoline	Highway Toll Roads
Alabama	16.0	17.0	17.0	Yes		
Alaska	8.0	8.0	8.0	Yes		
Arizona	18.0	18.0	26.0			
Arkansas	21.5	22.5	22.5			
California	18.0	18.0	28.2		Yes	Yes
Colorado	22.0	20.5	20.5			
Connecticut	25.0	18.0	26.0			
Delaware	23.0	22.0	22.0			Yes
Florida	13.9	26.4	28.5	Yes		Yes
Georgia	10.2	7.5	11.0		Yes	Yes
Hawaii	16.0	16.0	16.0	Yes	Yes	
Idaho	25.0	25.0	25.0			
Illinois	19.0	21.5	29.4	Yes	Yes	Yes
Indiana	15.0	16.0	27.0		Yes	Yes
Iowa	20.1	22.5	22.5			
Kansas	23.0	25.0	25.0			Yes
Kentucky	15.0	12.0	17.2			Yes
Louisiana	20.0	20.0	20.0			Yes
Maine	22.0	23.0	23.0			Yes
Maryland	23.5	24.3	24.3			Yes
Massachusetts	21.0	21.0	21.0			Yes
Michigan	19.0	15.0	21.0		Yes	
Minnesota	20.0	20.0	20.0			
Mississippi	18.0	18.0	18.0	Yes		
Missouri	17.0	17.0	17.0			
Montana	27.0	27.0	27.8			
Nebraska	24.5	24.5	24.5			
Nevada	24.0	27.0	27.0	Yes		
New Hampshire	18.0	18.0	18.0			Yes
New Jersey	10.5	13.5	17.5			Yes
New Mexico	17.0	18.0	18.0			
New York	22.6	20.9	29.8		Yes	Yes
North Carolina	22.1	22.1	22.1			
North Dakota	21.0	21.0	21.0			
Ohio	22.0	22.0	25.0			Yes
Oklahoma	16.0	13.0	13.0			Yes
Oregon	24.0	24.0	24.0	Yes		
Pennsylvania	26.6	31.8	31.8			Yes
Rhode Island	28.0	28.0	30.0			
South Carolina	16.0	16.0	16.0			
South Dakota	22.0	22.0	22.0			
Tennessee	21.4	18.4	17.0			
Texas	20.0	20.0	20.0			Yes
Utah	24.5	24.5	24.5			
Vermont	20.0	17.0	26.0			
Virginia	17.5	16.0	19.5	Yes		Yes
Washington	23.0	23.0	23.0	Yes		
West Virginia	20.5	20.5	25.4		Yes	Yes
Wisconsin	28.1	28.1	31.1			
Wyoming	14.0	14.0	14.0			

Notes: Michigan provides motor carriers a six-cent/gallon credit for sales tax paid on fuel purchased in Michigan. New York tax rate includes a 14.6 cents/gallon business petroleum tax. Georgia gasoline tax rate includes an additional tax of 3 percent of the sale price. Pennsylvania tax rate includes a 14.6 cents/gallon gasoline and 19.8 cents/gallon diesel oil franchise tax. Virginia has a local option sales tax on motor fuel. Some states have local option taxes but do not currently levy them.

Sources: Commerce Clearing House, Federation of Tax Administrators, and Federal Highway Administration.

Exhibit 35
State Motor Fuel Taxes 2001
Per Person and as Percent of Personal Income

<u>State</u>	<u>Per Person Motor Fuel Taxes</u>	<u>Rank</u>	<u>Motor Fuel Taxes as a Percent of Personal Income</u>	<u>Rank</u>
Alabama	\$125	24	0.51%	15
Alaska	45	50	0.14%	50
Arizona	110	40	0.43%	29
Arkansas	153	10	0.67%	4
California	91	45	0.28%	44
Colorado	123	29	0.37%	36
Connecticut	119	32	0.28%	43
Delaware	124	26	0.38%	34
Florida	103	43	0.35%	39
Georgia	53	49	0.19%	48
Hawaii	58	48	0.20%	47
Idaho	171	5	0.69%	3
Illinois	97	44	0.30%	42
Indiana	121	31	0.44%	28
Iowa	136	15	0.50%	17
Kansas	132	16	0.46%	20
Kentucky	114	35	0.46%	22
Louisiana	122	30	0.50%	16
Maine	130	20	0.49%	19
Maryland	127	22	0.36%	37
Massachusetts	104	42	0.27%	45
Michigan	107	41	0.36%	38
Minnesota	124	25	0.38%	35
Mississippi	131	17	0.60%	7
Missouri	117	33	0.42%	31
Montana	195	1	0.81%	1
Nebraska	173	4	0.60%	8
Nevada	178	3	0.60%	10
New Hampshire	113	38	0.33%	41
New Jersey	63	47	0.16%	49
New Mexico	129	21	0.56%	12
New York	76	46	0.21%	46
North Carolina	145	11	0.53%	13
North Dakota	155	8	0.60%	9
Ohio	131	18	0.45%	26
Oklahoma	116	34	0.46%	21
Oregon	113	36	0.40%	32
Pennsylvania	140	13	0.46%	23
Rhode Island	126	23	0.42%	30
South Carolina	112	39	0.45%	27
South Dakota	165	6	0.62%	6
Tennessee	123	28	0.46%	25
Texas	131	19	0.46%	24
Utah	137	14	0.57%	11
Vermont	142	12	0.50%	18
Virginia	113	37	0.35%	40
Washington	123	27	0.39%	33
West Virginia	165	7	0.72%	2
Wisconsin	153	9	0.52%	14
Wyoming	194	2	0.66%	5
U.S. Average	\$113		0.37%	

Sources: 2001 Highway Statistics, Federal Highway Administration, Table MF-1.
Bureau of Economic Analysis and Bureau of the Census, U.S. Department of Commerce.

Exhibit 36
Revenue From State-Administered
Toll Roads and Crossing Facilities, 2000

State	Toll Revenue	Rank
New York	\$1,125,935,000	1
New Jersey	816,407,000	2
Pennsylvania	713,376,000	3
Florida	677,726,000	4
California	555,343,000	5
Massachusetts	431,454,000	6
Illinois	366,942,000	7
Maryland	239,155,000	8
Ohio	208,697,000	9
Washington	207,870,000	10
Oklahoma	172,485,000	11
Delaware	171,659,000	12
Texas	136,647,000	13
Virginia	113,821,000	14
Alaska	102,892,000	15
Indiana	102,464,000	16
Kansas	71,292,000	17
New Hampshire	67,347,000	18
Maine	61,579,000	19
Louisiana	57,079,000	20
West Virginia	56,876,000	21
Michigan	34,772,000	22
Georgia	24,327,000	23
North Carolina	20,407,000	24
Kentucky	15,678,000	25
Rhode Island	12,923,000	26
Utah	1,747,000	27
Connecticut	499,000	28
Tennessee	261,000	29
Alabama	0	30
Arizona	0	30
Arkansas	0	30
Colorado	0	30
Hawaii	0	30
Idaho	0	30
Iowa	0	30
Minnesota	0	30
Mississippi	0	30
Missouri	0	30
Montana	0	30
Nebraska	0	30
Nevada	0	30
New Mexico	0	30
North Dakota	0	30
Oregon	0	30
South Carolina	0	30
South Dakota	0	30
Vermont	0	30
Wisconsin	0	30
Wyoming	0	30

Note: Total revenue includes tolls, concessions and rentals, bond proceeds, net income from investments and miscellaneous revenue.

Source: 2000 Highway Statistics Federal Highway Administration, Table SF-3B (latest year information was published).

Exhibit 37
Michigan Motor Vehicle Registration Taxes

<u>Fiscal Year</u>	<u>Motor Vehicle Registration Taxes</u>
1956	\$63,386,404
1957	66,107,708
1958	63,096,982
1959	64,483,983
1960	67,143,071
1961	67,137,714
1962	68,272,798
1963	70,931,922
1964	73,953,110
1965	77,911,496
1966	81,190,953
1967	82,640,929
1968	85,653,690
1969	114,545,531
1970	122,655,292
1971	126,664,196
1972	134,973,154
1973	143,877,500
1974	149,741,376
1975	151,426,516
1976	163,485,628
1977	166,993,061
1978	173,363,943
1979	235,344,000
1980	236,249,529
1981	211,009,832
1982	213,531,008
1983	237,724,622
1984	255,862,631
1985	286,683,713
1986	299,980,206
1987	315,941,648
1988	363,183,844
1989	397,038,510
1990	409,819,989
1991	420,162,272
1992	441,775,914
1993	462,458,099
1994	494,250,965
1995	521,156,108
1996	564,416,538
1997	596,452,461
1998	664,781,693
1999	709,869,374
2000	755,096,882
2001	777,903,036
2002	827,347,381

Source: Michigan Department of Treasury.