

TO: Members of the Senate Finance Committee  
FROM: API of Michigan, Katie Abraham & John Griffin  
RE: HB 4685 (H-4) (Rep. Poleski): Amends Sales Tax Act for Consistency with Motor Fuel Tax Act

- HB 4685 (H-4) will clarify that transfers within the bulk system and sales for export outside of Michigan will be excluded from the pre-paid sales tax, just like with the motor fuel tax.
- Currently, the need to issue refunds, for doubly collected prepaid sales tax, has created a complicated collection system resulting in excess paperwork and headaches.
- Passage of HB 4685 (H-4) will result in an **administrative change, with no fiscal impact**, and will align the Sales Tax Act with the Motor Fuel Tax Act and return the collection system back to the efficient way it was always intended to run.
- The incidence of taxation on motor fuel occurs at the "loading rack" when fuel is loaded into transport trucks for delivery to gas stations and other accounts (see diagram).
- All taxes on a per gallon basis are collected at the "loading rack" including the federal fuel tax, the state fuel tax, a pre-paid per gallon rate on the Michigan sales tax, and the refined petroleum fee (RPF) used for cleanups of leaks from underground storage tanks.
- Refiners, also known as suppliers, are licensed by the IRS to collect federal fuel taxes but are allowed to move barrels through the "bulk" system on a pre-tax basis until they cross the "rack." The industry supports this method as a way to ensure taxes are collected and to combat fraud.
- Michigan adopted the federal tax system for motor fuel in 1992 for gasoline and diesel fuel taxes. The sales tax uses the same system but some glitches have arisen after the pre-paid sales tax was extended to diesel under legislation passed almost two years ago.
- The RPF experienced similar problems but was corrected last year in the underground storage tank clean-up program.
- Under the Motor Fuel Tax Act, suppliers are not required to collect the tax on sales destined for export to another state or Canada. HB 4685 (H-4) will make the sales tax consistent administratively with the motor fuel tax.