

## **GASOLINE PRICES AND TAXES IN MICHIGAN** *by David Zin, Economist*

---

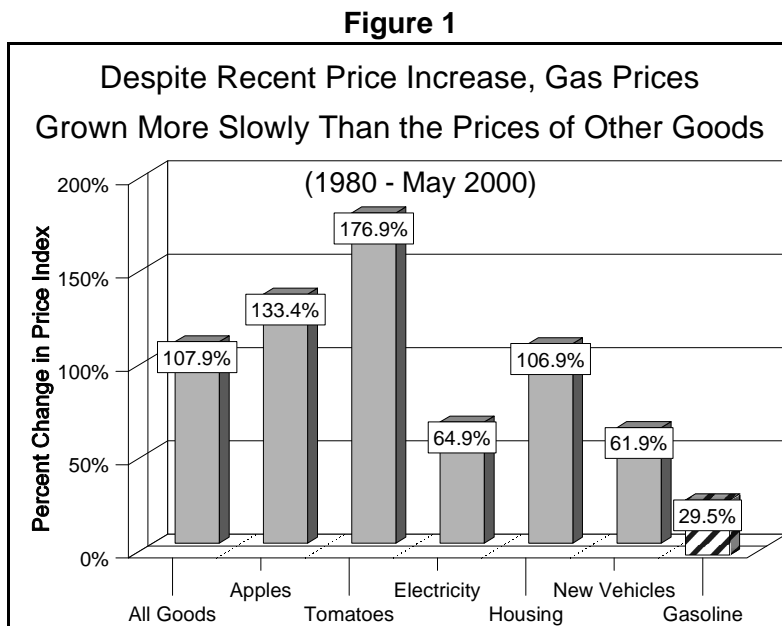
### **Introduction**

Gas prices in Michigan reached a record high in June 2000, topping out at an average price of \$2.08 per gallon during the week of June 19. Despite the rapid spiking in gas prices over the last few months, when adjusted for inflation gas prices are as little as 70.8% of the price of gas during the late 1970s.

### **The Rise in Gasoline Prices**

After the initial OPEC oil embargoes, gasoline prices in Michigan rose from around \$0.58 per gallon in 1973 to \$1.40 a gallon in 1981. Between 1980 and 1999, gas prices fell slightly, remaining in the neighborhood of \$1.00 per gallon. While gas prices remained stable through the 1980s and 1990s, other costs in the economy did not. Table 1 shows the price of gas in Michigan, both in nominal terms and adjusted for inflation in the general economy. Although the nominal price of gasoline has risen 80.7% since June 1999, when adjusted for inflation gas prices were much higher during the 1978-1983 period. When adjusted for inflation, the average price of gasoline in 1979 was equivalent to approximately \$2.93 per gallon today. Furthermore, in 1979, the Michigan gasoline tax totaled 9 cents per gallon. If the Michigan gasoline tax in 1979 had been the current rate of 9 cents per gallon, the inflation-adjusted price would be even higher.

Figure 1 illustrates how the prices of other goods have risen more rapidly than has the price of gasoline between 1980 and May 2000. Most other consumer goods have experienced more substantial, as well as more prolonged, price increases. Necessities such as housing and food have shown overall price increases of more than three times that experienced by the run-up in gasoline prices over the last 12 months.



<b>Table 1 MOTOR GASOLINE RETAIL PRICES MICHIGAN STATEWIDE AVERAGE</b>		
<b>Year</b>	<b>Nominal Price Per Gallon</b>	<b>Price Per Gallon in June 2000 Dollars</b>
1973	\$0.572 <sup>a)</sup>	\$2.143
1974	\$0.608 <sup>a)</sup>	\$2.055
1975	\$0.635 <sup>a)</sup>	\$1.995
1976	\$0.675 <sup>a)</sup>	\$2.012
1977	\$0.704 <sup>a)</sup>	\$1.964
1978	\$0.956 <sup>a)</sup>	\$2.479
1979	\$1.274	\$2.931
1980	\$1.274	\$2.529
1981	\$1.397	\$2.538
1982	\$1.309	\$2.285
1983	\$1.264	\$2.144
1984	\$1.251	\$2.052
1985	\$1.236	\$1.959
1986	\$0.940	\$1.470
1987	\$0.957	\$1.451
1988	\$0.947	\$1.381
1989	\$1.033	\$1.430
1990	\$1.168	\$1.538
1991	\$1.148	\$1.460
1992	\$1.003	\$1.250
1993	\$1.067	\$1.294
1994	\$1.083	\$1.273
1995	\$1.125	\$1.282
1996	\$1.226	\$1.361
1997	\$1.221	\$1.323
1998	\$1.067	\$1.130
1999	\$1.164	\$1.202
Jan. 2000	\$1.378	\$1.409
Feb. 2000	\$1.486	\$1.505
Mar. 2000	\$1.558	\$1.573
Apr. 2000	\$1.441	\$1.451
May 2000	\$1.521	\$1.521
6/5/2000	\$1.740	\$1.740
6/12/2000	\$2.011	\$2.011
6/19/2000	\$2.078	\$2.078
6/26/2000	\$1.977	\$1.977

a) Price of full-serve unleaded regular. Other prices reflect self-serve unleaded regular.

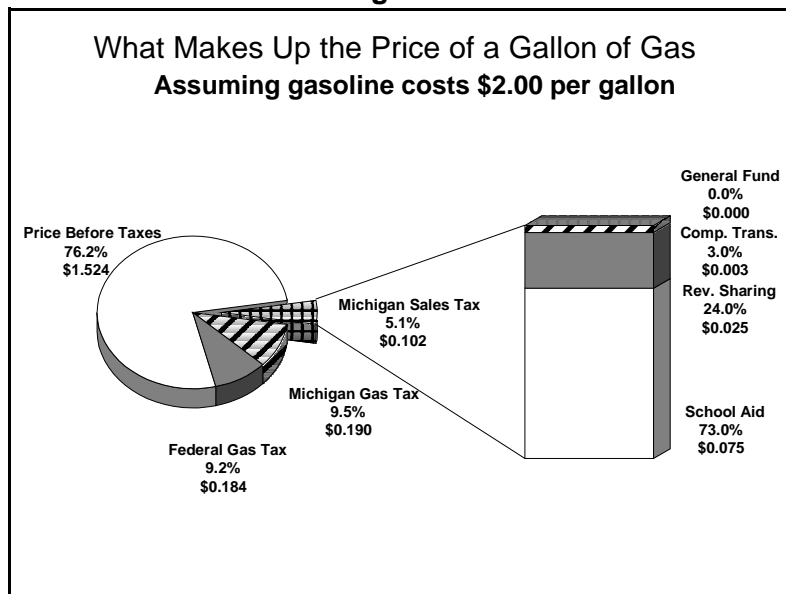
**Source:** Bureau of Labor Statistics, U.S. Department of Labor and AAA Michigan

### Taxes upon Gasoline

As with most consumer goods, the State of Michigan imposes an excise tax upon the sale of gasoline. The Federal government also imposes an excise tax upon the sale of gasoline. [Figure 2](#) provides a breakdown of the price of a gallon of gas, assuming a price of \$2.00 per gallon. The Federal government levies a tax of 18.4 cents per gallon, while the State of Michigan assesses a tax of 19 cents per gallon. The State also imposes the sales tax on sales of gasoline, although the sales tax is not imposed upon the Michigan gasoline tax. If the retail price

of a gallon of gasoline is \$2.00 per gallon, the Michigan sales tax comprises 10.2 cents of that price. The remaining \$1.524 represents the price of gas in the absence of any Michigan or Federal taxes.

Figure 2



Consequently, if the retail price of gasoline totals \$2.00 per gallon, approximately 23.8% of the price will reflect State and Federal taxes. However, because both the Federal and Michigan gasoline taxes are a flat rate per gallon, the share of the price that taxes comprise rises as the price of gasoline falls. At a price of \$1.20 per gallon, Federal and Michigan taxes would be virtually identical to those at \$2.00 a gallon (43.1 cents compared with 47.6 cents). As a result, at \$1.20 per gallon, State and Federal taxes would comprise 35.9% of the price.

Virtually all of the taxes levied upon gasoline by the State of Michigan are earmarked for special purposes. The 19-cent-per-gallon gasoline excise tax is restricted for deposit in the Michigan Transportation Fund. The May Consensus Revenue Estimate forecasts the Michigan gasoline tax to raise \$941.0 million in revenue in FY 1999-2000. The sales tax upon gasoline is earmarked for several funds. Approximately 73.0% of the revenue received from the sales tax on gasoline is earmarked for the School Aid Fund, while about 24.0% is reserved to help fund State revenue sharing payments to local units of government and around 3.0% must be deposited in the Comprehensive Transportation Fund (CTF). Although distributions to the School Aid Fund, revenue sharing, and the CTF traditionally exhaust all of the revenue generated by the sales tax upon gasoline, any remaining funds that may exist must be deposited into the State General Fund. Based upon gasoline prices during FY 1999-2000, sales tax revenues from gasoline sales are forecasted to total approximately \$370.0 million (compared with \$250 million in FY 1998-99), of which \$270.1 million would go to the School Aid Fund, \$88.8 million would be directed to revenue sharing, and the remaining \$11.1 million would be deposited into the CTF.

### Conclusion

The retail price of gasoline varies considerably between states, as a result of different taxation structures as well as transportation costs, environmental requirements, regional market patterns, or even temporary disruptions such as refinery or pipeline outages. During June 2000, Michigan's average gas price ranked second in the nation, lagging first-place Illinois by less than 1 cent. Despite the level of taxes imposed by the State and Federal governments, both gasoline prices and gasoline taxes are much higher in most developed countries than in Michigan. During the last week of June, average gas prices declined nearly 10 cents per gallon in Michigan. The U.S. Energy Information Administration predicts gasoline prices will continue to decline, particularly after the July 4<sup>th</sup> holiday, to approximately \$1.39 per gallon in September.