



## Nation's Highest Gas Tax Coming to Michigan?

By Jack McHugh

*(Editor's note: This is an edited version of a commentary that appeared Feb. 2, 2012, in Michigan Capitol Confidential.)*

### Summary

Gov. Rick Snyder and the Legislature need to reprioritize how gas taxes are spent before increasing those taxes to make additional road improvements.

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Michigan could potentially have the nation's highest gas tax if Gov. Rick Snyder's proposal to replace the state motor fuel tax with a higher wholesale tax becomes law.

As of Jan. 1, motorists here pay 57.8 cents per gallon worth of state and federal taxes, according to the American Petroleum Institute. This includes the 6 percent Michigan sales tax imposed on fuel sales, from which not a dime goes to roads, although a small amount subsidizes public transportation. Michigan is one of only eight states that impose sales tax on fuel; the other seven are California, New York, Hawaii, Florida, Georgia, Indiana and Illinois.

The new tax would replace the current Michigan motor fuel tax of 19 cents per gallon with a wholesale tax, initially levied at an effective rate of 28.3 cents per gallon — an immediate 9.3-cent increase at the pump. Assuming no other changes, this would put government's total take per gallon here at 67.1 cents, making Michigan the second highest after New York at 67.4 cents. California and Connecticut would be tied for third place at 67.0 cents.

But because the new levy would be based on a percentage of the wholesale price, any sustained increase in oil prices would gradually translate into additional gas tax hikes. This would be a double whammy for Michigan motorists, because the 6 percent sales tax on gas already has this effect. For example, if wholesale prices rose by \$1 per gallon and stayed there for several years, Michigan drivers would eventually find themselves paying more than 80 cents per gallon in state and federal taxes — by far the highest in the nation (assuming other states stayed the same).

The governor's proposal is contained in House Bill 5298, sponsored by Rep. Rick Olson, R-Saline, and Senate Bill 918, sponsored by Sen. Roger Kahn, R-Saginaw. Under the bills, the rate of the proposed new tax would be 10.1 percent of the statewide "average wholesale price" over the preceding 12 months. This rate, however, would be subject to various adjustments. The highest the tax could go would be the equivalent of 40.0 cents per gallon, and following the initial 9.3-cent increase, it could rise or fall by only 1 cent per gallon per year.



Motorists would face higher gas taxes and vehicle registration fees under proposed legislation.

To put this in perspective, the current wholesale gasoline rack price in Detroit — the price paid when the gas is loaded into a tanker truck at the terminal — is around \$2.70 per gallon. Retail prices in the region currently average around \$3.30.

Gas tax hikes are only one component of Gov. Snyder’s transportation infrastructure proposal. House Bill 5300, sponsored by Rep. Jud Gilbert, R-Algonac, and Senate Bill 919, also sponsored by Sen. Kahn, would increase the vehicle registration tax by 67 percent. This annual license plate tax — which has been called a “Birthday Tax” — is levied on the list price of a car when new. As an example, the annual registration tax on a \$20,000 car would go from \$103 to \$172. Other bills in the package would give counties and a proposed Detroit regional transit authority the power to impose even higher registration taxes, subject to a popular vote.

No one disagrees that Michigan roads would benefit from an infusion of new resources. The real problem, however, isn’t that the state doesn’t collect enough money, but that it doesn’t properly prioritize the money it does collect and “skims” too much for other purposes.

In addition to the sales tax component mentioned above — none of which goes for roads — some of the remaining money is diverted to subsidize city buses, and some is wasted by mandating above-market wages on road projects through the state’s “prevailing wage” law. Another seven-eighths-of-a-cent-per-gallon tax originally intended for leaking underground fuel tank cleanups was diverted to other government spending in a 2004 fund raid, and it continues to be used that way.

Instead of reaching deeper into the pockets of motorists, Michigan needs to correct these abuses.

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