



## May Sales Tax Proposal Explained

By James M. Hohman

### Summary

Here are the details about how the May 5 proposal to increase the sales tax was developed and how it will impact voters.

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Voters on May 5 will be asked to decide whether to increase the state's sales tax from 6 percent to 7 percent. Two years worth of negotiations over road funding led to the ballot question and it does a lot more than hike the sales taxes. Voters should know how this proposal was developed and how it will affect them.

Michigan needs extra money to pay for the maintenance of the current road system. According to the Department of Transportation, 85 percent of state roads are currently in good shape but this is expected to decrease in the coming years.

County and city roads — in worse shape than state roads — will also need some additional funding or else face further deterioration.

This projected loss of road quality has been around for awhile. Former Gov. Granholm proposed increasing taxes to repair roads six years ago.

Roads are paid for with an imperfect user fee. Vehicle registration fees and gasoline taxes — both the state and federal fuel taxes — go to pay for building and maintaining the road system. While these taxes and fees are not strictly tied to a person's road use, residents will tend not to pay unless they drive on the roads.

Michigan also assesses its sales tax on the purchase of fuel. Few states do this, perhaps because gas already gets a special tax at the pump.

While legislators have found some additional funds for roads without raising taxes, there was pressure to find a longer-term fix. The Senate offered a plan that would increase fuel taxes by \$1.2 billion. The House offered a plan to gradually replace the current sales tax on gas with a tax that would specifically be used for roads with no net tax increase.

Facing a lame duck deadline, they compromised on a \$2 billion tax increase. The proposal increases sales and use taxes, eliminates the sales tax on gas, replaces the current fuel tax with a wholesale tax and increases the rate of this tax.

It requires a public vote to change the state constitution. Currently, the sales tax is limited to 6 percent. This amendment raises the limit to 7 percent. It excludes the gasoline and diesel fuel from the sales tax used

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Voters will be asked May 5 to increase the sales tax from 6 percent to 7 percent. About \$1.3 billion of the \$2 billion tax increase will go to transportation funding.

by vehicles that operate “on the public roads or highways of this state.” The sales tax will continue to be applied on marine fuel and fuel for industrial vehicles.

The constitutional amendment also earmarks more money to the school aid fund while excluding public universities from receiving school aid fund money, which is primarily used to pay for conventional school districts and charter public schools. It further adds a number of community college programs that have yet to be created to the acceptable uses of the fund.

There are also changes to various state laws that will be adopted if this amendment is approved. The state is reworking how it assesses fuel taxes. Instead of charging a fee on every gallon of fuel sold, the state will be assessing a higher wholesale fuel tax based a rolling average price of fuel. Its rates can go up in the future but are prevented from being reduced from initial levels, adjusted for inflation.

The state will phase-out discounted registration fees for older vehicles. This is estimated to increase revenue by \$150 million over time. Registration fees on heavy trucks, which will raise another \$50 million, will also increase.

The package includes a number of changes that have little to do with the roads. Schools would receive an additional \$336 million due to these tax changes and earmarks and local governments would receive \$106 million. These will be ongoing revenue increases. The fund that pays for bus services also will get more tax revenue.

As a concession to gain the Democratic support necessary to put this on the ballot, the Earned Income Tax Credit program will be enhanced and will cost an additional \$267 million annually.

Voting yes on the proposal would certify the changes described above. Voting no sends lawmakers back to the drawing board.

Overall, the proposal will increase taxes by \$2 billion, with \$1.3 billion going to transportation funding.

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