

# FISCAL BRIEF

## MOTOR FUEL TAXES, SALES TAX ON MOTOR FUELS, AND METHODS OF TAX COLLECTION

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### FAST FACTS

- Motor fuel taxes on gasoline and diesel fuels are specific taxes that are levied on a per-gallon basis and dedicated for transportation purposes under the state constitution.
- Motor fuel taxes will generate an estimated \$1,527.8 million in the 2023-24 fiscal year.
- Motor fuel is also subject to other taxes and fees, including the state sales tax, a state environmental protection regulatory fee, and federal motor fuel taxes and fees.
- In 2023, estimated sales tax revenue attributable to motor fuel sales was \$967.0 million, representing 9.1% of total state sales tax collections. Sales tax revenue is constitutionally and statutorily earmarked, with the largest shares going to the School Aid Fund and local revenue sharing.

### INTRODUCTION

Historically, state-generated revenue for Michigan transportation programs has come primarily from two “road taxes”—motor fuel taxes and vehicle registration taxes.<sup>1</sup> Both of these tax sources are restricted for transportation purposes under section 9 of Article IX of the Michigan Constitution of 1963.<sup>2</sup>

Revenue from state motor fuel and vehicle registration taxes is credited to the Michigan Transportation Fund (MTF), a state restricted transportation fund established under 1951 PA 51 (“Act 51”). The MTF is the main collection and distribution fund for state restricted transportation revenue. MTF revenue is distributed to other state transportation funds and programs and to local road agencies (county road commissions, cities, and villages) in accordance with the provisions of Act 51.<sup>3</sup>

From 1978, when the fund was created in Act 51, through 2018, MTF revenue was composed almost entirely of constitutionally restricted revenue from motor fuel and vehicle registration taxes.<sup>4</sup>

Between 1997 and 2006, motor fuel tax revenue represented approximately 55% of revenue credited to the MTF, with the balance coming primarily from vehicle registration taxes. After 2006, motor fuel taxes became a smaller share, and vehicle registration taxes a larger share, of total MTF revenue. Since 2007, motor fuel tax revenue has represented approximately 50% of MTF revenue from constitutionally restricted sources.<sup>5</sup>

For FY 2023-24, estimated motor fuel tax revenue totals \$1,527.8 million, of which gasoline contributes \$1,256.0 million; diesel, \$269.5 million; and alternative fuels, \$2.3 million.

<sup>1</sup> This document focuses on motor fuel taxes used to propel motor vehicles on public roads and, except as otherwise noted, does not address fuel used for aircraft, watercraft, snowmobiles, or off-road vehicles (ORVs). It also does not, except as noted, address the taxation alternative fuels. As used throughout this document, “motor fuels” means gasoline and diesel fuel.

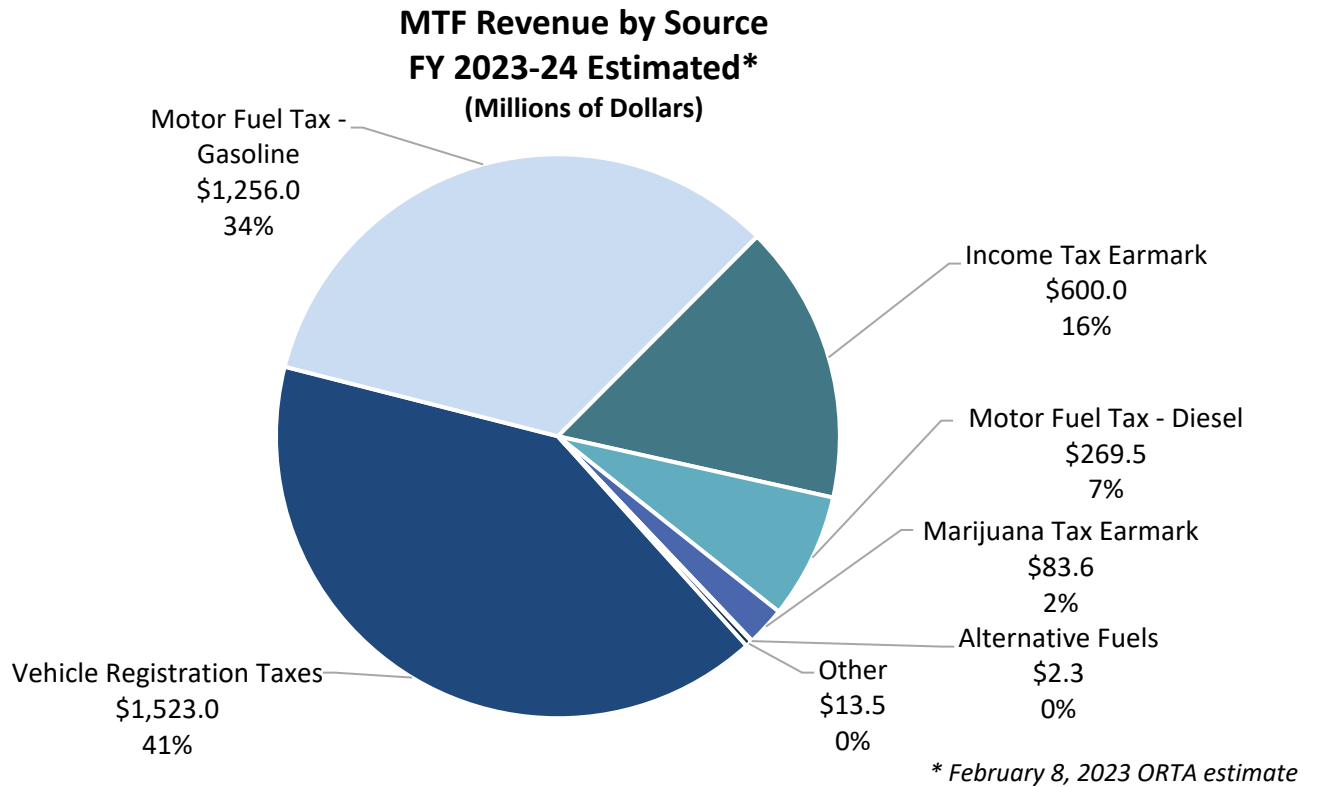
<sup>2</sup> See [Note A](#) regarding the history of this section of the 1963 Michigan Constitution.

<sup>3</sup> For additional information on the distribution of MTF revenue, see the House Fiscal Agency publication [Fiscal Brief: MTF Distribution Formula to Local Road Agencies, March 14, 2024](#).

<sup>4</sup> See [Note B](#) regarding revenue sources for credit to the MTF.

<sup>5</sup> See Figure 1 for a graph showing MTF revenue history by revenue source.

This publication will review the history of motor fuel taxes in Michigan, including the legal authorities for motor fuel taxes, the method of tax collection, and the distribution of motor fuel tax revenue. It will also describe other taxes and fees imposed on the sale of motor fuel in Michigan, including Michigan's general sales tax.



## MICHIGAN MOTOR FUEL TAXES

Michigan’s first motor fuel taxes were earmarked for state road programs. 1925 PA 2 imposed a two-cents-per-gallon tax on “all gasoline sold or used in this state” and provided for the distribution of revenue from the tax. Specifically, the act indicated that “[a]ll sums of money received and collected by the secretary of state under the provisions of this act shall be deposited in the state treasury to the credit of the state highway fund.” The act’s stated intent was “to impose a tax upon the owners of motor vehicles using a combustible type of engine upon the public roads and highways by requiring them to pay [the motor fuel tax ] for the privilege thereof.”

The description of the motor fuel tax as a “privilege tax” for the use of public roads or highways in Michigan is retained in the current Motor Fuel Tax Act, 2000 PA 403.<sup>6</sup>

1925 PA 2 also established a schedule of appropriations from the state highway fund. This earmarking was continued in the subsequent recodification of the motor fuel tax act, 1927 PA 150, which increased the motor fuel excise tax on gasoline to three cents per gallon and directed motor fuel excise tax revenue to the credit of the state highway fund “after the payment of the necessary expenses incurred in the enforcement of this act.” Section 143 of the current Motor Fuel Tax Act retains the earmarking of revenue for transportation programs, specifically, to the MTF.

<sup>6</sup> Section 8(5) of the Motor Fuel Tax Act states that the intent of the act is to “require persons who operate a motor vehicle on the public roads or highways of this state to pay for the privilege of using those roads or highways.” The act defines “public roads or highways” to mean “a road, street, or place maintained by this state or a political subdivision of this state and generally open to use by the public as a matter of right for the purpose of vehicular travel, notwithstanding that they may be temporarily closed or travel is restricted for the purpose of construction, maintenance, repair, or reconstruction.”

1947 PA 319 established a separate, specific tax on diesel motor fuel. As a result, for several years there was a separate public act for the motor fuel tax on gasoline and a separate public act for the motor fuel tax on diesel. 1951 PA 54 repealed 1947 PA 319 and brought its provisions into 1927 PA 150.

1927 PA 150 remained Michigan’s motor fuel tax act until it was repealed and replaced by the current Motor Fuel Tax Act, which took effect April 1, 2001. The Motor Fuel Tax Act establishes a specific tax on motor fuels (gasoline and diesel fuel) “imported into or sold, delivered, or used in this state.”<sup>7</sup>

The statutory earmarking of specific motor fuel and vehicle registration tax revenue was reinforced by a 1938 amendment to the 1908 Michigan Constitution. The amendment provided that revenue from “[a]ll taxes imposed directly or indirectly upon gasoline and like fuels sold or used to propel motor vehicles upon the highways of this state, and on all motor vehicles registered in this state, shall, after the payment of the necessary expenses of collection thereof, be used exclusively for highway purposes, including the payment of public debts incurred therefor, and shall not be diverted nor appropriated to any other purpose.”

The earmarking of motor fuel and vehicle registration tax revenue was carried over into the 1963 Michigan Constitution under section 9 of Article IX.

### **Motor Fuel Tax Rates**

Motor fuel tax rates have been amended several times since they were originally established. The current rates reflect the provisions of 2015 PA 176, which amended the Motor Fuel Tax Act as part of a November 2015 Road funding package.<sup>8</sup> 2015 PA 176 established a uniform motor fuel tax rate for both gasoline and diesel motor fuels of 26.3 cents per gallon, effective January 1, 2017, as well as a method of indexing of the motor fuel tax rate.

2015 PA 176 directed the Michigan Department of Treasury (“Treasury”), beginning with the rate effective on January 1, 2022, and on January 1 of each following year, to determine a cents-per-gallon tax rate on motor fuel by multiplying the cents-per-gallon rate in effect during the previous calendar year by 1 plus the lesser of 0.05 or the inflation rate, rounded up to the nearest 1/10 of a cent. This has resulted in three adjustments. The January 1, 2024 adjustment established the current motor fuel tax rate, 30 cents per gallon, for both gasoline and diesel motor fuel, effective through December 31, 2024. See **Table 1** on page 5.

### **Michigan’s Motor Fuel Tax on Gasoline**

The motor fuel tax rate of 26.3 cents per gallon established under 2015 PA 176 (effective January 1, 2017) represented an increase of 7.3 cents per gallon from the previous 19-cents-per-gallon tax rate.<sup>9</sup> It was estimated that this rate increase would result in an increase in MTF revenue of approximately \$310.5 million annually from the 2016 baseline.

According to February 2023 estimates from the Office of Revenue and Tax Analysis (ORTA), Michigan Department of Treasury, the motor fuel tax on gasoline will generate \$1,256.0 million in FY 2023-24 for credit to the MTF. This represents approximately 41.0% of MTF revenue from constitutionally restricted sources. Each penny of the 30.0-

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<sup>7</sup> The Motor Fuel Tax Act also imposes a separate tax on alternative fuels, as defined in the act (see below). Note that “alternative fuel” is excluded from the definition of “motor fuel.”

<sup>8</sup> For the legislative history and analysis of House Bill 4738, see <http://legislature.mi.gov/doc.aspx?2015-HB-4738>

<sup>9</sup> The 19-cents-per-gallon motor fuel tax rate on gasoline was first effective August 1, 1997, through the passage of 1997 PA 83, one of elements of a 1997 road funding package. The 19-cents-per-gallon rate represented a 4-cents-per-gallon increase from the prior 15-cents-per-gallon tax rate.

cents-per-gallon tax on gasoline currently generates approximately \$43.0 million. [At peak consumption in FY 2001-02, each penny of the motor fuel tax on gasoline generated approximately \$49.4 million.]

### **Michigan’s Motor Fuel Tax on Diesel Fuel**

In establishing a uniform motor fuel tax rate of 26.3 cents per gallon, effective January 1, 2017, 2015 PA 176 effectively increased the motor fuel tax on diesel fuel by 11.3 cents per gallon, from the previous 15-cents-per-gallon effective tax rate. Before the increase, the effective motor fuel tax rate on diesel motor fuel had been 15 cents per gallon for over 30 years—since January 1, 1984.<sup>10</sup> In making the per-gallon tax rate for diesel motor fuel the same as that for gasoline, 2015 PA 176 established what is described as “diesel parity.”

According to February 2023 ORTA estimates, the motor fuel tax on diesel motor fuel will generate \$269.5 million in FY 2023-24 for credit to the MTF. This represents approximately 8.8% of MTF revenue from constitutionally restricted sources.

### **Alternative Fuels**

Most vehicles operating on public highways are propelled by gasoline or diesel motor fuel. As a result, most of the revenue from motor fuel taxes is generated from the taxes applied to those two fuels. However, some vehicles are propelled by motors using “alternative fuels.”

Current provisions of the Motor Fuel Tax Act regarding alternative fuels were added by 2015 PA 176, which revised and expanded earlier provisions that addressed liquefied petroleum gas. Section 151 of the act defines alternative fuel to mean “a gas, liquid, or other fuel that, with or without adjustment or manipulation of pressure or temperature, is capable of being used for the generation of power to propel a motor vehicle, including but not limited to, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, hydrogen compressed natural gas, or hythane.” The definition of “alternative fuel” excludes motor fuel, electricity, leaded racing fuel, or an excluded liquid as defined by 26 CFR 48.4081-1.

Section 152 of the Motor Fuel Tax Act imposes a tax on the use of alternative fuels used in the state equal to the motor fuel tax rate imposed under section 8 of the Motor Fuel Tax Act. Sections 152 through 155 establish the basis for measuring alternative fuels for taxation (per gallon or gallon equivalent), the method of collection, and exemptions from the tax.

Estimated revenue from the motor fuel tax assessed on alternative fuels for FY 2023-24 is \$2.3 million, less than 1% of MTF revenue from constitutionally dedicated sources.

The motor fuel tax rates for gasoline, diesel, and alternative fuels from 1998 forward are shown in [Table 1](#) on page 5.

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<sup>10</sup> As described further below, motor fuel taxes on motor carriers are imposed under the Motor Carrier Fuel Tax Act. Between 1996 and 2002 the per-gallon tax rate for diesel motor fuel under the Motor Carrier Fuel Tax Act was nominally 21 cents per gallon, with a 6-cents-per-gallon credit given for in-state diesel purchases. 2002 PA 668 repealed the 6-cent credit and made the motor carrier fuel tax rate 15 cents per gallon for all transactions subject to the tax.

**Table 1: Motor Fuel and Alternative Fuel Tax Rates**  
(per gallon or gallon equivalent)

Period	Gasoline	Diesel	Alternative Fuels*
August 1, 1997 – December 31, 2016	19.0 cents	15.0 cents	15.0 cents
January 1, 2017 – December 31, 2021	26.3 cents	26.3 cents	26.3 cents
January 1, 2022 – December 31, 2022	27.2 cents	27.2 cents	27.2 cents
January 1, 2023 – December 31, 2023	28.6 cents	28.6 cents	28.6 cents
January 1, 2024 – December 31, 2024	30.0 cents	30.0 cents	30.0 cents

\* = prior to the enactment of 2015 PA 176, “alternative fuels” were not specifically addressed in the Motor Fuel Tax Act, with the exception of “liquified petroleum gas” for which the tax was 15 cents per gallon.

<https://www.michigan.gov/taxes/business-taxes/motor-fuel/current-tax-rates-for-motor-fuel-and-alternative-fuel>

### **OTHER TAXES AND FEES IMPOSED ON MOTOR FUEL SALES**

In addition to motor fuel taxes, described above, sales of motor fuel in Michigan are subject to several other taxes and fees. Specifically, Michigan imposes a sales tax on motor fuels sold in Michigan under the General Sales Tax Act, 1933 PA 167. In addition, petroleum products sold for resale or consumption in the state are subject to a one-cent-per-gallon environmental protection regulatory fee established in Michigan’s Natural Resources and Environmental Protection Act (NREPA), 1994 PA 451.

In addition to state taxes and fees, the federal government imposes taxes and fees on motor fuels totaling 18.4 cents per gallon for gasoline, and 24.4 cents per gallon for diesel motor fuel.

### **Sales Tax on Sales of Motor Fuels**

Michigan is one of a few states that impose a sales tax on motor fuel sales, in addition to specific motor fuel taxes. Sales of motor fuels are subject to the state’s 6% general sales tax on retail sales under the General Sales Tax Act.<sup>11</sup>

Motor fuel sales have been subject to the state sales tax since the tax was first instituted in Michigan in 1933. Because the state sales tax is not specific to motor fuels, the amount of sales tax revenue generated from sales of gasoline and diesel motor fuel cannot be readily broken out from other sales tax revenue. Estimates of sales tax revenue attributable to gasoline and diesel motor fuel sales are made by calculating taxable gallons sold, multiplying taxable gallons sold by the average statewide price per gallon, and then multiplying that sum by the 6% sales tax rate. Estimated sales tax revenue attributable to motor fuel sales varies from year to year, depending on actual taxable gallons sold and actual motor fuel prices.

In 2023, an estimated 4.2 billion taxable gallons of gasoline were sold in Michigan. At this level of sales, and an average pump price of \$3.468 per gallon, the sales tax revenue attributable to gasoline sales was estimated to be \$766.1 million. The estimated sales tax attributable to sales of diesel motor fuel was \$200.9 million. In total, estimated sales tax revenue attributable to motor fuel in 2023 was \$967.0 million, or approximately 9.1% of total 2023 sales tax revenue. See **Table 2** for a history of sales tax attributable to motor fuel sales from 2000 to 2023.

<sup>11</sup> Note that in some circumstances, motor fuel will be subject to use tax under Michigan’s Use Tax Act, 1937 PA 94, instead of sales tax. Use tax revenue attributable to motor fuel is much smaller in total than sales tax revenue attributable to motor fuel.

As previously noted, motor fuel taxes are *specific* taxes, assessed on gallons of fuel sold or consumed in Michigan. In contrast, the sales tax, levied under the authority of the General Sales Tax Act, is an *ad valorem* tax—a tax based on the value of the applicable tax base. As a result, sales tax revenue attributable to motor fuel sales is not restricted for transportation purposes under the provisions of section 9 of Article IX of the 1963 Michigan Constitution. Instead, revenue from the sales tax attributable to motor fuel sales is subject to the constitutional and statutory restrictions that apply to sales tax revenue:

- One hundred percent of the tax collected at 2%, and sixty percent of the tax collected at 4% is dedicated to the School Aid Fund by section 11 of Article IX of the state constitution. This equates to approximately 73% of the gross sales tax collected at 6%.
- Fifteen percent of the tax collected at 4% is dedicated for revenue sharing to townships, cities, and villages under section 10 of Article IX of the state constitution. This equates to approximately 10% of the gross sales tax collected at 6%.
- A portion of the sales tax attributable to motor fuel sales, as well as sales of other automotive products, is earmarked in section 25 of the General Sales Tax Act to the Comprehensive Transportation Fund (CTF), a state restricted transportation fund established in Act 51 for public transportation purposes. This statutory earmark is sometimes described as the “auto-related sales tax.”<sup>12</sup>

The balance of sales tax revenue, i.e., the amount not otherwise constitutionally or statutorily earmarked, is credited to the state general fund.<sup>13</sup>

Presentations that include the sales tax component in cross-state comparisons of motor fuel taxes make Michigan appear to have a relatively high “gas tax.” The sales tax component of state taxes on gasoline isn’t constant—it changes daily with the price of the underlying product, the relatively volatile wholesale price of refined petroleum.<sup>14</sup>

### **Refined Petroleum Environmental Protection Regulatory Fee**

Most states impose an environmental protection fee on the sale of petroleum products. As provided in section 21508 of NREPA, Michigan imposes an environmental protection regulatory fee of one cent per gallon on all petroleum products sold for resale or consumption.<sup>15</sup> This regulatory fee is imposed on all refined petroleum products, not just motor fuels. Revenue from this fee is earmarked in part for the Underground Storage Tank Regulatory Enforcement Fund and in part to the Refined Petroleum Fund for underground storage tank corrective action activities of the Department of Environment, Great Lakes, and Energy (EGLE). Refined Petroleum Fund revenue is also used to support the motor fuel consumer protection programs of the Michigan Department of Agriculture and Rural Development (MDARD), and certain regulatory activities of the Department of Licensing and Regulatory Affairs (LARA).

The environmental protection regulatory fee was increased from 7/8 cents per gallon to one cent per gallon, and the distribution of fee revenue changed, effective March 29, 2017, as a result of amending legislation, Senate Bill 1053

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<sup>12</sup> The actual statutory earmark, in section 25 of the General Sales Tax Act, is not less than 27.9% of 25% of the tax collected at 4% on motor vehicle-related sales as identified by the Michigan Department of Treasury.

<sup>13</sup> There are also some smaller statutory earmarks in the General Sales Tax Act, including earmarks to the Michigan Health Initiative Fund and the State Aeronautics Fund. These earmarks effectively reduce the amount credited to the general fund and can be ignored in the discussion of earmarks affecting the disposition of sales tax attributable to motor fuel sales.

<sup>14</sup> Comparing any single element of dedicated transportation taxes across states can be misleading. States use a mix of transportation taxes including motor fuel taxes, vehicle registration taxes, and tolls. In addition, some states allow for local option registration and motor fuel taxes; Michigan does not.

<sup>15</sup> <http://legislature.mi.gov/doc.aspx?mcl-324-21508>

enacted as 2016 PA 467. For additional information on the regulatory fee and fee revenue distribution, see the House Fiscal Agency analysis of Senate Bill 1053 of the 2015-2016 Legislative Session.<sup>16</sup>

### **Federal Motor Fuel Taxes**

In addition to Michigan’s motor fuel taxes, the federal government levies taxes and fees totaling 18.4 cents per gallon for gasoline, and 24.4 cents per gallon for diesel fuel. Of these totals, 18.3 cents per gallon for gasoline, and 24.3 cents per gallon for diesel, are excise taxes dedicated to the federal Highway Trust Fund. The federal Highway Trust Fund supports federal-aid surface transportation programs—programs that provide funds to states for certain eligible highway and public transportation program activities.<sup>17</sup>

The federal government also imposes a 0.1-cent-per-gallon fee on both gasoline and diesel fuel dedicated to the federal Leaking Underground Storage Tank Fund.<sup>18</sup>

### **HOW MOTOR FUEL TAXES ARE COLLECTED**

Although the retail price of fuel purchased “at the pump” includes federal and state motor fuel taxes, those taxes are not collected directly from the retailer (i.e., service station). The state motor fuel taxes are generally collected by Treasury from fuel *suppliers* as defined in the Motor Fuel Tax Act. The U.S. Department of Treasury also collects federal motor fuel taxes from fuel suppliers, and not from retailers.

Generally speaking, a fuel supplier is the last owner of motor fuel before it is transferred across the loading rack. In most instances, the point of taxation is the point at which fuel is transferred across a terminal loading rack to a fuel *wholesaler*. Although the tax is included in the price charged by the supplier to the wholesaler, the tax is due from and remitted by the *supplier*. Wholesalers may sell fuel to other wholesalers or to retailers such as service stations. Fuel trucks delivering fuel to service stations may represent wholesalers.

Moving the tax collection point to the fuel supplier was put into effect for the motor fuel tax on gasoline by 1992 PA 25, one of the bills in the “Build Michigan” transportation funding package. The change for the motor fuel tax on diesel was made in part by 1992 PA 25 and completed through 2002 PA 668. Moving the collection point to the fuel supplier or importer was intended to make the collection of motor fuel taxes more efficient, effective, and secure. It is relatively easy for Treasury to collect from and audit a relatively small number of large fuel suppliers.<sup>19</sup>

Section 14 of the Motor Fuel Tax Act allows suppliers to deduct 1.5% of the gasoline quantity from taxation “to allow for the cost of remitting the tax.” This tax expenditure equates to approximately \$18.6 million, based on FY 2022-23 figures provided by the Michigan Department of Treasury. (Before the enactment of 1997 PA 83, the act that increased the per-gallon motor fuel tax on gasoline from 15 cents to 19 cents, this deduction was 2% of gasoline quantity and was described in the Motor Fuel Tax Act as an “evaporation and loss allowance.”) Section 14 also requires a wholesaler or supplier to pay or credit to the retailer one-third of the deduction on quantities of gasoline sold to the retailer.

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<sup>16</sup> See Michigan Legislature website: <http://legislature.mi.gov/doc.aspx?2016-SB-1053>

<sup>17</sup> For additional information on federal aid for Michigan transportation programs, see House Fiscal Agency Fiscal Brief: [https://www.house.mi.gov/hfa/PDF/Alpha/Fiscal\\_Brief\\_Federal\\_Aid\\_in\\_MI\\_Transportation\\_Budget\\_Mar2023.pdf](https://www.house.mi.gov/hfa/PDF/Alpha/Fiscal_Brief_Federal_Aid_in_MI_Transportation_Budget_Mar2023.pdf)

<sup>18</sup> <https://www.eia.gov/tools/faqs/faq.php?id=10&t=5>

<sup>19</sup> According to information provided by the Michigan Department of Treasury, there are 118 suppliers licensed under Michigan’s Motor Fuel Tax Act.

## HOW MOTOR FUEL TAXES ON MOTOR CARRIERS ARE COLLECTED

As noted above, the motor fuel tax was established as a “privilege tax” for use of public roads and highways. The tax is included in the pump price for gasoline and diesel motor fuel sold in Michigan. As a result, when operators of motor vehicles purchase fuel in Michigan, they indirectly pay motor fuel taxes. And those taxes capture, in some measure, the use of public roads and highways. However, as noted in the previous section, motor fuel taxes are generally collected “upstream” by Treasury from *fuel suppliers*, a defined term in the Motor Fuel Tax Act. This tax collection system is described in additional detail below.

Although the motor fuel tax is included in the pump price for gasoline and diesel fuel, it is possible for *motor carriers* operating *qualified commercial motor vehicles* in interstate or cross-border commerce to use Michigan roads without purchasing fuel in Michigan.<sup>20</sup> To capture the use of public roads by motor carriers, the Motor Carrier Fuel Tax Act, 1980 PA 119, establishes a “road tax” on motor carriers equal to the motor fuel tax rate established under the Motor Fuel Tax Act. The road tax is calculated through conversion of miles driven on Michigan public roads or highways to motor fuel or alternative fuel consumed in Michigan in qualified commercial motor vehicles.<sup>21, 22</sup>

As a result, motor carriers pay a Michigan “road tax,” imposed under the authority of the Motor Carrier Fuel Tax Act, based on miles driven in Michigan whether or not they purchase fuel in Michigan. Motor carriers who do purchase fuel in Michigan are given credit for taxes effectively paid “at the pump”—they aren’t penalized, or double-taxed, for purchasing fuel in Michigan. Note that diesel-powered passenger vehicles, and diesel-powered trucks, regardless of size, that never leave the state of Michigan, effectively pay all motor fuel taxes “at the pump” and aren’t subject to the Motor Carrier Fuel Tax Act.

Other states and Canadian provinces have similar programs for taxing interstate and cross-border motor carriers based on miles driven within the respective state or province. These tax programs are coordinated through the International Fuel Tax Agreement (IFTA), an agreement of 48 contiguous U.S. states and 10 Canadian provinces. IFTA provides for the reciprocal collection of state and provincial motor fuel taxes imposed on interstate and cross-border motor carriers.<sup>23</sup>

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<sup>20</sup> “Qualified commercial motor vehicle” is a defined term in the Motor Carrier Fuel Tax Act and generally refers to a motor vehicle used, designed, or maintained for transportation of persons or property and has either 3 or more axles regardless of weight, or is a vehicle or combination of vehicles in excess of 26,000 pounds gross vehicle weight. Excluded from the definition are recreational vehicles, certain vehicles used in farming operations, school buses, buses licensed under the Motor Bus Transportation Act, and certain public transit buses. “Motor carrier” is also a defined term and generally refers to an operator of a qualified commercial motor vehicle in Michigan and one other state or Canadian province.

<sup>21</sup> When first enacted, the Motor Carrier Fuel Tax Act applied only to motor vehicles using diesel motor fuel; historically, larger commercial trucks have been almost exclusively propelled by diesel engines. In more recent years, some manufacturers have marketed trucks propelled by alternative fuels. Among other things, 2015 PA 178 included gasoline and alternative fuels within the scope of the Motor Carrier Fuel Tax Act. <http://legislature.mi.gov/doc.aspx?2015-HB-4616>

<sup>22</sup> A commercial motor carrier in a typical interstate configuration (a 3-axle pulling/power unit with dual 125-gallon fuel tanks pulling a two-axle semi-trailer up to 80,000 pounds gross vehicle weight) can travel 1,500 miles or more between fill-ups.

<sup>23</sup> On its website, IFTA, Inc., describes itself as “an Arizona not-for-profit corporation formed to manage and administer the International Fuel Tax Agreement.” The IFTA Mission Statement is: “To foster trust and cooperation among the jurisdictions through efficient and effective planning and coordination and oversight of activities necessary to administer the International Fuel Tax Agreement for the betterment of the members and our partners.” [IFTA, Inc. International Fuel Tax Association \(ifta.org\)](http://ifta.org) IFTA is governed by formal bylaws. The administration of IFTA motor fuel tax collection program is governed by a formal Articles of Agreement.



Section 2a of the Motor Carrier Fuel Tax Act authorizes Treasury to enter into reciprocal agreements, including with other states and Canadian provinces, for the imposition of motor fuel taxes on an apportionment or allocation basis. Section 2a expressly directs Treasury to enter into IFTA and provides that if provisions of IFTA differ from the Motor Carrier Fuel Tax Act, the provisions of IFTA are controlling. Michigan is a member of IFTA.

As a result, each month the Michigan Department of Treasury receives payment, through IFTA, for fuel tax attributable to motor carriers for miles driven in Michigan. And each month, the Michigan Department of Treasury remits tax money through IFTA for miles driven in other states by Michigan-based motor carriers.

## HOW SALES TAX ON MOTOR FUEL IS COLLECTED

Under section 6 of the General Sales Tax Act, most retailers remit sales tax due each month based on the previous month's taxable sales. However, with respect to the sales tax imposed on the sales of gasoline, part of the tax is pre-paid; that is, part of the tax is remitted prior to the sale of gasoline at retail.

Section 6a of the General Sales Tax Act requires Treasury to determine and publish, on a monthly basis, a pre-paid gasoline cents-per-gallon sales tax rate based on 6% of the statewide average retail price of a gallon of self-serve unleaded regular gasoline rounded up to the nearest 1/10 of a cent. Treasury makes a similar calculation for diesel motor fuel. This tax is paid by the purchaser or receiver of fuel, at the Treasury-determined cents-per-gallon rate, at the time fuel is purchased from a refiner, pipeline terminal operator, or marine terminal operator. As a result, estimated (prepaid) sales tax is included in the price paid by the wholesaler and, in turn, by the retail service station.<sup>24</sup>

In remitting monthly sales tax, calculated on gross proceeds, the retailer may deduct the amount of prepaid sales tax assumed in the cost of fuel purchased. For example, if the retailer had effectively prepaid \$10,000 in sales tax on gasoline sales, as included in the price charged by the wholesaler, and the retailer's actual total tax liability for the month was \$11,000, the retailer would remit only the \$1,000 balance to the Department of Treasury. Conversely, if the retailer's actual tax liability was less than the amount of pre-payment, the retailer would be entitled to a credit or refund.

In calculating the pre-paid sales tax rate for gasoline and diesel motor fuel, Treasury excludes the state's motor fuel tax, in accordance with R 205-128 of the Michigan Administrative Rules, which provides for the deduction of Michigan motor fuel taxes from gross proceeds.<sup>25</sup> As a result, the effective sales tax base for motor fuel represents the motor fuel "wholesale price," including federal taxes and the state environmental protection fee but excluding the state motor fuel tax. **Table 3** shows the calculated sales tax base for sales of gasoline at selected price points.

However, as noted above, the tax base for calculating a retailer's actual sales tax obligation is "gross proceeds" as defined in the General Sales Tax Act.

The pre-payment provisions of the General Sales Tax Act were first established by 1983 PA 244. According to the legislative analysis of the amending legislation, these provisions were intended to make it harder for unscrupulous gasoline retailers to undercut tax-compliant retailers by not charging sales tax.

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<sup>24</sup> Revenue Administrative Bulletin 2023-11 ([michigan.gov](http://michigan.gov))

<sup>25</sup> Mich. Admin. Code R. 205.128 - Federal and state taxes | State Regulations | US Law | LII / Legal Information Institute ([cornell.edu](http://cornell.edu))

## NOTES:

**A. Note on Constitutional Language Governing Motor Fuel Taxes:** The original language of section 9 of Article IX of the 1963 Michigan Constitution stated that “all specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel motor vehicles upon highways and on registered motor vehicles shall, after payment of necessary collection expenses, be used exclusively for highway purposes as defined by law.” This section was amended in 1978 to broaden the dedication of motor fuel and vehicle registration taxes to “transportation purposes” rather than simply to “highway purposes.”

**B. Note on Other Revenue for Credit to the MTF:** As part of the November 2015 Road Funding Package, a portion of income tax revenue was earmarked to the MTF for distribution to the State Trunkline Fund (STF) and to local road agencies in accordance with the provisions of Act 51. This earmarking of income tax revenue was phased-in: for FY 2018-19, \$264.0 million in income tax revenue was transferred to the MTF for distribution to the STF and local road agencies; in FY 2019-20, \$468.0 million; and for FY 2020-21, and each succeeding fiscal year, \$600.0 million.

In addition, beginning in FY 2020-21, a portion (35%) of the excise tax on recreational marijuana was earmarked for the MTF for distribution to the STF and local road agencies. That earmark generated \$49.3 million in FY 2020-21, \$69.4 million in FY 2021-22, and \$101.6 million in FY 2022-23. ORTA revenue estimates used to develop the FY 2023-24 transportation budget identified this earmark as \$83.6 million. ORTA subsequently revised this estimate upward to \$115.6 million.

As a result, MTF revenue, which had been sourced almost entirely from constitutionally restricted motor fuel and vehicle registration taxes, is now significantly supported by general fund/restricted purpose revenue sources. For FY 2023-24, of total estimated MTF revenue of \$3.7 billion, \$683.6 million, or 18%, will be derived from the redirection of income tax revenue and the earmark of recreational marijuana excise tax revenue.

**C. Note on Dyed Diesel:** In addition to its use as a fuel to propel motor vehicles, diesel fuel has other uses, including as a fuel for farm equipment and construction equipment. The Motor Fuel Tax Act provides for the untaxed use of diesel fuel for those uses. Untaxed diesel fuel is dyed so that it is readily distinguishable from taxable fuel used in motor vehicles. Section 122 of the Motor Fuel Tax Act provides penalties for the use of dyed (untaxed) diesel fuel in motor vehicles.

**D. Note on the Recreation Improvement Account:** The earmarking of motor fuel taxes for transportation purposes is explicitly tied to the use of those motor fuels to propel motor vehicles on the public roads or highways of Michigan. However, some portion of gasoline sales are for nonhighway uses—for watercraft, off-road vehicles (ORVs), and snowmobiles. Under section 71103 of NREPA, the legislature determined that 2% of gasoline sales were for watercraft, ORVs, and snowmobiles. As a result, Section 71106 of NREPA directs the Michigan Department of Treasury to credit the Recreation Improvement Account within the Conservation and Recreation Legacy Fund with 2% of gasoline tax revenue. In FY 2023-24, this earmark represents approximately \$25.0 million.

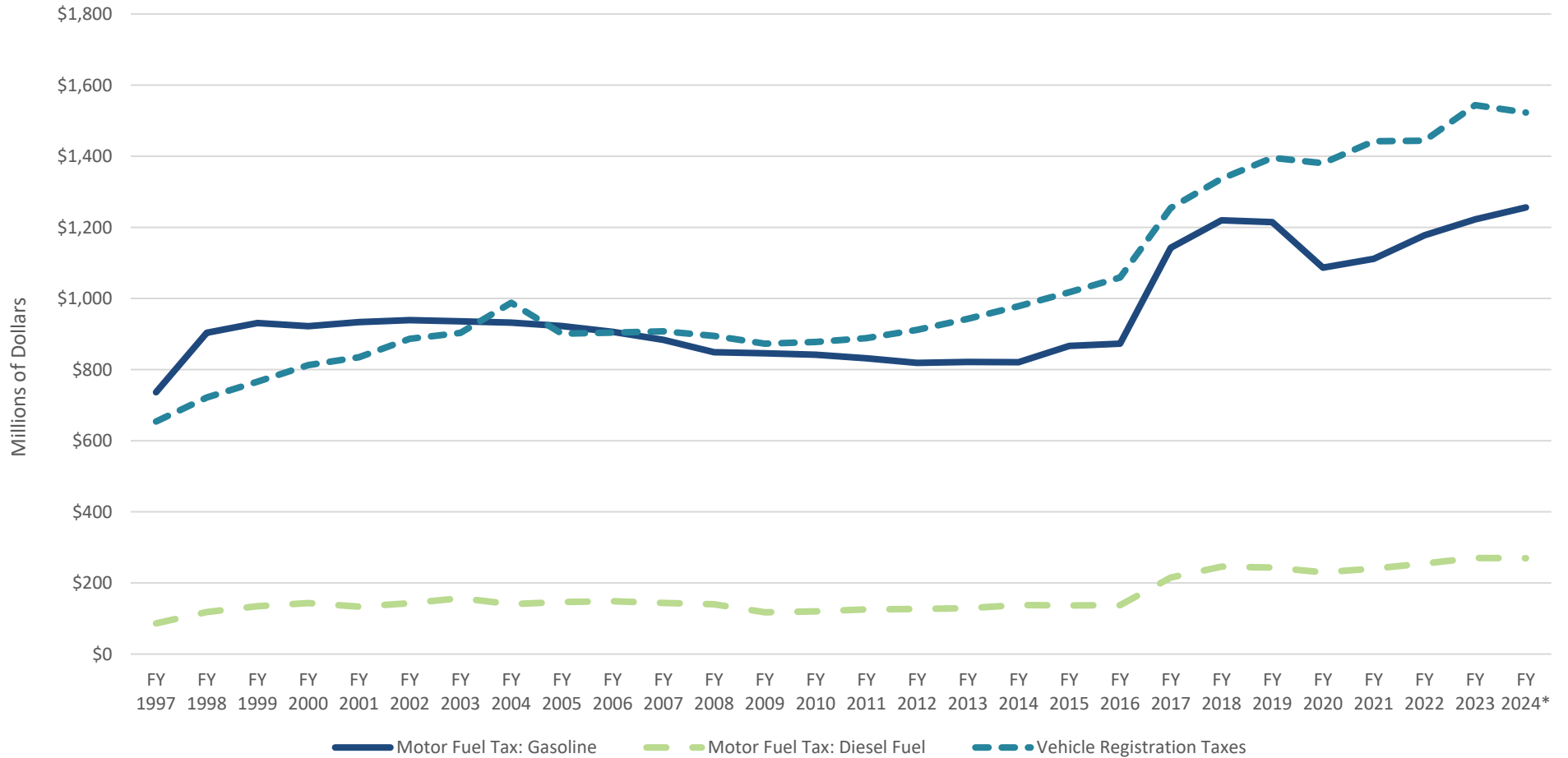
**Table 2: Estimated Michigan Sales Tax Attributable to Gasoline and Diesel Fuel Sales  
Calendar Years 2000 Through 2023**

Year	Gas Tax Revenue (Millions)	Gallons Sold (Millions)	Statewide Average Gas Price	Estimated Sales Tax from Gas (Millions)	Diesel Tax Revenue (Millions)	Gallons Sold (Million)	Statewide Average Diesel Price	Estimated Sales Tax from Diesel (Millions)	Total Estimated Sales Tax from Gas/Diesel (Millions)	Total Sales Tax Collections (Millions)	Estimated Sales Tax from Gas/Diesel as % of Total Sales Tax
2000	\$928.2	4,885.3	\$1.57	\$381.2	\$76.1	507.4	\$1.52	\$40.0	\$421.2	\$6,273.6	6.7%
2001	\$941.5	4,955.3	\$1.50	\$365.4	\$84.9	566.2	\$1.47	\$42.5	\$407.9	\$6,479.3	6.3%
2002	\$936.3	4,927.9	\$1.38	\$334.2	\$110.7	737.8	\$1.32	\$49.0	\$383.2	\$6,392.7	6.0%
2003	\$940.6	4,950.5	\$1.58	\$390.8	\$112.6	750.9	\$1.50	\$56.9	\$447.8	\$6,417.2	7.0%
2004	\$931.7	4,903.7	\$1.86	\$464.5	\$120.3	802.2	\$1.80	\$75.5	\$540.0	\$6,478.0	8.3%
2005	\$920.0	4,842.1	\$2.27	\$572.6	\$117.1	780.4	\$2.44	\$102.2	\$674.8	\$6,559.9	10.3%
2006	\$896.8	4,720.0	\$2.55	\$633.7	\$114.5	763.5	\$2.74	\$112.1	\$745.8	\$6,619.9	11.3%
2007	\$873.7	4,598.4	\$2.87	\$698.6	\$112.7	751.4	\$2.95	\$119.8	\$818.4	\$6,674.7	12.3%
2008	\$836.2	4,401.3	\$3.28	\$771.7	\$102.9	686.2	\$3.82	\$143.6	\$915.3	\$6,560.5	14.0%
2009	\$847.2	4,458.9	\$2.36	\$550.0	\$97.6	651.0	\$2.44	\$85.1	\$635.1	\$6,070.7	10.5%
2010	\$840.3	4,422.7	\$2.80	\$654.1	\$104.8	698.7	\$2.96	\$111.5	\$765.7	\$6,306.1	12.1%
2011	\$832.7	4,382.6	\$3.58	\$838.7	\$106.4	709.4	\$3.57	\$140.0	\$978.8	\$6,779.7	14.4%
2012	\$812.9	4,278.4	\$3.69	\$847.5	\$104.9	699.6	\$4.00	\$152.5	\$1,000.0	\$7,035.7	14.2%
2013	\$838.6	4,413.6	\$3.59	\$849.0	\$111.2	741.5	\$4.00	\$161.7	\$1,010.7	\$7,167.7	14.1%
2014	\$835.7	4,398.4	\$3.418	\$803.4	\$113.9	759.5	\$3.954	\$163.3	\$966.7	\$7,363.5	13.1%
2015	\$885.3	4,659.6	\$2.385	\$580.4	\$119.0	793.1	\$2.771	\$117.5	\$697.9	\$7,233.5	9.6%
2016	\$890.2	4,685.3	\$2.148	\$521.2	\$122.8	818.5	\$2.292	\$99.7	\$620.9	\$7,362.3	8.4%
2017	\$1,198.5	4,557.1	\$2.444	\$563.9	\$210.0	798.3	\$2.655	\$108.8	\$672.7	\$7,855.9	8.6%
2018	\$1,185.4	4,507.2	\$2.745	\$638.9	\$212.9	809.3	\$3.196	\$134.9	\$773.8	\$8,022.5	9.6%
2019	\$1,226.2	4,662.4	\$2.594	\$616.7	\$226.6	861.5	\$2.995	\$133.3	\$750.0	\$8,346.8	9.0%
2020	\$1,045.3	3,974.7	\$2.080	\$413.4	\$218.7	831.6	\$2.542	\$107.0	\$520.4	\$8,214.8	6.3%
2021	\$1,138.3	4,327.9	\$2.982	\$671.0	\$236.5	899.1	\$3.180	\$148.8	\$819.8	\$9,810.5	8.4%
2022	\$1,179.5	4,336.3	\$3.998	\$910.9	\$249.8	918.6	\$5.058	\$248.3	\$1,159.2	\$10,898.9	10.6%
2023	\$1,214.4	4,246.0	\$3.468	\$766.1	\$256.0	895.3	\$4.265	\$200.9	\$967.0	\$10,643.7	9.1%

**Table 3: Elements of the Motor Pump Price at Various Price Points  
Including State and Federal Taxes and Fees  
Michigan 2024**

<b>Pump Price per Gallon</b>	\$2.00	\$2.25	\$2.50	\$2.75	\$3.00	\$3.25	\$3.50	\$3.75	\$4.00	\$4.25
Retail Base Price (calculated)	1.410	1.656	1.891	2.127	2.363	2.599	2.835	3.071	3.307	3.543
Federal Taxes and Fees	0.184	0.184	0.184	0.184	0.184	0.184	0.184	0.184	0.184	0.184
State Environmental Fee	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Base for Michigan Sales Tax	<b>\$1.604</b>	<b>\$1.840</b>	<b>\$2.075</b>	<b>\$2.311</b>	<b>\$2.547</b>	<b>\$2.783</b>	<b>\$3.019</b>	<b>\$3.255</b>	<b>\$3.491</b>	<b>\$3.727</b>
Sales tax	0.096	0.110	0.125	0.139	0.153	0.167	0.181	0.195	0.209	0.224
Michigan Motor Fuel Tax Rate (2024)	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300
<b>Pump Price</b>	<b>\$2.00</b>	<b>\$2.25</b>	<b>\$2.50</b>	<b>\$2.75</b>	<b>\$3.00</b>	<b>\$3.25</b>	<b>\$3.50</b>	<b>\$3.75</b>	<b>\$4.00</b>	<b>\$4.25</b>
<b>Sales Tax as % of Pump Price</b>	4.81%	4.91%	4.98%	5.04%	5.09%	5.14%	5.18%	5.21%	5.24%	5.26%

**Figure 1: MTF Revenue History—Detail  
Motor Fuel and Vehicle Registration Taxes**



\* Estimate

The increase in motor fuel tax and vehicle registration tax revenue beginning in FY 2016-17 reflect the implementation of the November 2015 Road Funding Package, effective January 1, 2017.