

Legislative Analysis



TRANSPORTATION FUNDING PACKAGE

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4180 as enrolled
Sponsor: Rep. Donni Steele

Analysis available at
<http://www.legislature.mi.gov>

House Bill 4181 as enrolled
Sponsor: Rep. Steve Frisbie

House Bill 4182 as enrolled
Sponsor: Rep. Bradley Slagh

House Bill 4183 as enrolled
Sponsor: Rep. Tom Kunse

House Bill 4961 as enrolled
Sponsor: Rep. Ann Bollin

House Bill 4951 as enrolled
Sponsor: Rep. Samantha Steckloff

Senate Bill 578 as enrolled
Sponsor: Sen. Veronica Klinefelt

House Committee (HBs 4180 to 4183): Transportation and Infrastructure
(HB 4951 and SB 578): Appropriations [Discharged]
(HB 4961): Finance [Discharged]

Senate Committee (HBs 4180 to 4183 and SB 578): Appropriations [Discharged]
(HBs 4951 and 4961): Committee of the Whole

Complete to 10-3-25

SUMMARY:

Broadly speaking, the bills would do the following, with details as described below:

- House Bills 4180 and 4182 would exempt motor fuel from the sales and use taxes beginning January 1, 2026, and hold the School Aid fund harmless for revenue lost due to the exemptions.
- House Bill 4181 would eliminate the 6% specific tax on interstate motor carriers that use motor fuel or alternative fuel beginning January 1, 2026.
- House Bill 4183 would increase the tax levied on motor fuel from 31 cents per gallon to at least 51 cents per gallon beginning January 1, 2026.
- House Bill 4951 would impose excise taxes on certain sales or transfers of marijuana and direct the revenue to the Neighborhood Roads Fund proposed by Senate Bill 578.
- House Bill 4961 would decouple state income tax provisions used to determine taxable income from recently amended federal provisions and make changes for the 2026, 2027, and 2028 tax years to the income tax treatment of tips and overtime pay and Social Security income for certain taxpayers.
- Senate Bill 578 would create the Neighborhood Roads Fund and the Infrastructure Projects Authority Fund and prescribe the distribution of money from each fund.

House Bills 4180 and 4182 would respectively amend the General Sales Tax Act and the Use Tax Act to exempt, beginning January 1, 2026, the sale of *eligible fuel* from the sales tax and the storage, use, or consumption of eligible fuel from the use tax. The bills would require an annual deposit in the School Aid Fund of sales tax revenue equal to the amount of revenue lost to the School Aid Fund as a result of the exemptions.

Eligible fuel would mean *motor fuel*, *alternative fuel*, and *leaded racing fuel*, but would *not* include any of the following:

- Motor fuel sold for use in aircraft if the purchaser paid the privilege tax under section 203 of the Aeronautics Code¹ and is registered (if required to be) under section 94 of the Motor Fuel Tax Act.²
- Aviation fuel on which the privilege tax under section 203 of the Aeronautics Code is due.
- Motor fuel on which the privilege tax under section 203 of the Aeronautics Code has been paid and that is sold as aviation fuel and identified on the shipping paper or invoice as aviation fuel.
- Motor fuel or alternative fuel sold for residential, commercial, or industrial use for heating, cooling, or ventilation purposes (such as in utility systems, furnaces, boilers, space heaters, water heaters, dryers and similar appliances, and heat pumps), including motor fuel or alternative fuel that is exempt from the sales tax at the additional 2% rate under section 4n of the applicable act.³
- *Liquefied petroleum gas*, unless it is “used” or for “use” as defined in the Motor Fuel Tax Act.⁴

Motor fuel would mean gasoline, diesel fuel, or kerosene (as those terms are defined in the Motor Fuel Tax Act), a mixture of any of those fuels, or a mixture of any of those fuels and another substance, but it would not include leaded racing fuel.

Alternative fuel would mean a gas, liquid, or other fuel that can be used to generate power to propel a motor vehicle, such as natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, hydrogen compressed natural gas, or hythane. The term would not include motor fuel, electricity, leaded racing fuel, or an *excluded liquid* as defined in 26 CFR 48.4081-1.⁵

Leaded racing fuel would mean a fuel other than diesel fuel that is leaded, at least 100 octane, and used in vehicles on a racetrack.

Liquefied petroleum gas would mean gases derived from petroleum or natural gases that are in the gaseous state at normal atmospheric temperature and pressure, but may be maintained in the liquid state at normal atmospheric temperature by suitable pressure. The term includes products predominantly composed of propane, propylene,

¹ <https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-259-203>

² <https://www.legislature.mi.gov/Laws/MCL?objectName=mcl-207-1094>

³ <https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-205-54N>

⁴ See subdivision (j): <https://www.legislature.mi.gov/Laws/MCL?objectName=mcl-207-1151>

⁵ *Excluded liquid* means any liquid that contains less than 4% normal paraffins or that has a distillation range of 125° F or less, a sulfur content of 10 ppm or less, and minimum color of + 27 Saybolt. <https://www.ecfr.gov/current/title-26/chapter-I/subchapter-D/part-48/subpart-H/subject-group-ECFRfec64af5287e9f1/section-48.4081-1>

butylene, butane, and similar products. The term would not include compressed natural gas, liquefied natural gas, hydrogen, or hythane.

House Bill 4180 also would provide for the expiration on December 31, 2025, of various current provisions that now relate to the prepayment of sales tax on certain fuels that would be exempted by the bill, as well as eliminating several obsolete provisions.

Finally, House Bill 4180 would require that an amount equal to the revenue lost to the School Aid Fund as a result of the exemptions under both bills be deposited in the School Aid Fund from revenues from the collection of the sales tax imposed at a rate of 4%.

MCL 205.56a and proposed MCL 205.54gg (HB 4180)
MCL 205.111 and proposed MCL 205.94gg (HB 4182)

House Bill 4181 would amend the Streamlined Sales and Use Tax Revenue Equalization Act to eliminate, beginning January 1, 2026, the 6% specific tax levied on interstate motor carriers that use motor fuel or alternative fuel in Michigan. The bill also would eliminate the credits available against these taxes to offset any sales tax paid on fuel purchased in Michigan.⁶

MCL 205.173 and 205.175

House Bill 4183 would amend the Motor Fuel Tax Act to increase the tax levied on motor fuel beginning January 1, 2026.

Currently, the tax on gasoline and diesel fuel under the act is 31 cents per gallon.⁷ This rate is adjusted annually effective January 1 by the ***inflation rate*** or 5%, whichever is less, and rounded up to the nearest tenth of a cent.⁸

Inflation rate means the annual percentage change in the Consumer Price Index (CPI), as determined by the Department of Treasury, comparing the two immediately preceding October 1 through September 30 periods. If the annual percentage change is negative, the inflation rate is zero.

Under the bill, beginning January 1, 2026, the motor fuel tax rate would be 51 cents per gallon as adjusted by the lesser of the inflation rate or 5%, rounded up to the nearest tenth of a cent.

Beginning January 1, 2027, this rate would then be adjusted annually effective January 1 by the ***inflation rate*** or 5%, whichever is less, and rounded up to the nearest tenth of a cent.

⁶ The Streamlined Sales and Use Tax Agreement is an agreement by 24 states and other governmental bodies to simplify the collection and administration of sales and use tax for retailers and states. The agreement is intended to ease tax compliance for businesses operating in more than one state by creating uniformity in state tax bases and definitions; simplifying exemptions, returns, and remittances; and requiring uniformity between state and local tax bases, with collections administered at the state level. Michigan joined the agreement in 2004.

⁷ The motor fuel tax rate is also applied to the per-gallon equivalent of *alternative fuel* (defined as shown above).

⁸ <https://www.michigan.gov/taxes/business-taxes/motor-fuel/current-tax-rates-for-motor-fuel-and-alternative-fuel>

Transition provisions

The tax on motor fuel would be imposed at a rate that equals the difference between the current 31-cent rate and the rate effective January 1, 2026, on all of the following:

- Motor fuel in excess of 3,000 gallons held in storage by an end user as of 11:59 p.m. on December 31, 2025, or held for sale at the close of business on December 31, 2025 that is in excess of dead storage, for which the tax at the current 31-cent rate has been previously paid or has been accrued by either of the following:
 - A licensed supplier at the time of removal from a terminal.
 - A licensed importer, if all of the applicable conditions in sections 76, 82, and 104 of the act concerning the lawful importation of motor fuel by the importer have been met.
- All nonexempt motor fuel held by a person outside of the bulk transfer/terminal system in the state as of 11:59 p.m. on December 31, 2025, in excess of 3,000 gallons, for which the tax at the current 31-cent rate has *not* been previously paid or has *not* been accrued by either of the following:
 - A licensed supplier at the time of removal from a terminal.
 - A licensed importer, if all of the applicable conditions in sections 76, 82, and 104 of the act concerning the lawful importation of motor fuel by the importer have been met.

A person that possesses motor fuel subject to tax as described above would have to determine the number of gallons subject to the tax and report them to the Department of Treasury, together with payment of the tax due, by February 20, 2026.

MCL 207.1008

House Bill 4951 would create a new act, the Comprehensive Road Funding Tax Act, to impose excise taxes on certain sales or transfers of marijuana and distribute nearly all of the revenue to the Neighborhood Roads Fund proposed by Senate Bill 578.

Excise taxes

Beginning January 1, 2026, the bill would levy an excise tax on the following entities at the rate of 24% on the ***wholesale price*** of marijuana sold or otherwise transferred as follows:⁹

- On a *marijuana establishment*, for the first sale or other transfer of marijuana to a marijuana retail licensee.
- On a *marijuana retail licensee*, for the sale of marijuana it has cultivated or processed to sell itself at retail (based on the wholesale price of the aggregate amount of the marijuana).
- On a *provisioning center*, for the sale or transfer of marijuana to a marijuana retail licensee.

⁹ *Marijuana* and *marijuana establishment* would be defined as in the Michigan Regulation and Taxation of Marihuana Act. *Marijuana retail licensee* would mean a *marijuana retailer* or *marijuana microbusiness*, as defined in that act, or any other person authorized by the Cannabis Regulatory Agency under that act to sell or otherwise transfer marijuana to individuals who are 21 or older. See <https://www.legislature.mi.gov/Laws/MCL?objectName=mcl-333-27953> The term *provisioning center* would be defined as in the Medical Marihuana Facilities Licensing Act. <https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-333-27102> Note that, in Michigan law, marijuana is spelled *marihuana*.

Wholesale price would mean either of the following, as applicable:

- For transactions between persons that are not ***affiliated persons***, the actual price paid by a marijuana retail licensee to acquire marijuana from a marijuana establishment. The wholesale price would include any tax, fee, or other charge reflected on the invoice or other documentary evidence of the sale or transfer. The wholesale price could not be reduced due to any reduction given by the marijuana establishment, such as a rebate, trade allowance, licensing or exclusivity agreement, or volume discount.
- For transactions between persons that are affiliated persons, including between provisioning centers and marijuana retail licensees, and for marijuana cultivated and processed for retail sale by a marijuana retail licensee, the ***average wholesale price*** (defined as the price of marijuana the Department of Treasury calculates and publishes each quarter based on the best available information).

Affiliated person would mean a person that, directly or indirectly through one or more intermediaries, controls or is controlled by another person or is under common control with another person.

Each person subject to a tax described above would have to file periodic returns as prescribed by the Department of Treasury and remit the total amount of tax due with each return. The Department of Treasury would have to administer the taxes under 1941 PA 122, known as the revenue act, and prescribe forms necessary to do so. (In the case of a conflict between the bill and that act, the bill would prevail.) The bill would authorize the department to issue rules to implement the bill and prescribe a method for paying and collecting the taxes.

Allocation of revenue

The revenue collected under the bill would have to be distributed as follows:

- For the 2025-26 fiscal year, \$3.0 million to the Comprehensive Road Funding Fund described below and the balance to the Neighborhood Roads Fund proposed by Senate Bill 578.
- For the 2026-27 and subsequent fiscal years, \$500,000 to the Comprehensive Road Funding Fund and the balance to the Neighborhood Roads Fund. (Beginning with the 2027-28 fiscal year, the Comprehensive Road Funding Fund amount would be adjusted annually for inflation based on the CPI for the state.)

Comprehensive Road Funding Fund

The bill would create the Comprehensive Road Funding Fund in the state treasury. Money in the fund at the close of the fiscal year would remain in the fund and not lapse to the general fund. The Department of Treasury could expend money from the Comprehensive Road Funding Fund, upon appropriation, to implement and administer the act.

House Bill 4961 would amend the Income Tax Act to provide that, for tax years beginning after December 31, 2024, a taxpayer's adjusted gross income (or federal taxable income, as applicable) must be calculated as though sections 168(n) and 174A of the federal Internal

Revenue Code¹⁰ were not in effect, and as though sections 163(j), 168(k), 174, and 179 of the Internal Revenue Code, as in effect on December 31, 2024, applied.¹¹

In addition, for tax years beginning after December 31, 2021, a taxpayer's adjusted gross income (or federal taxable income) would have to be calculated as if the transition rules under section 70302 of the One Big Beautiful Bill Act (OBBBA), Public Law 119-21, do not apply, including provisions related to the application of section 174A of the Internal Revenue Code.¹²

The above provisions would apply to determining the adjusted gross income (or federal taxable income, as applicable) of individuals, resident estates or trusts, and taxpayers subject to the corporate income tax (CIT), including flow-through entities.

Individual income tax

In addition, for tax years beginning after December 31, 2025, and before January 1, 2029, in determining taxable income, an individual taxpayer could deduct from their adjusted gross income (to the extent not already deducted) an amount equal to the sum of the following deductions allowed to be claimed on the taxpayer's federal income tax return for the same tax year:

- Qualified tips under section 224 of the Internal Revenue Code.¹³ A nonresident could deduct tips only for services performed in Michigan.
- Qualified overtime compensation under section 225 of the Internal Revenue Code.¹⁴ A nonresident could deduct overtime pay only for services performed in Michigan.

Tier 3 retirement income

The act now contains a three-tier system under which a taxpayer's birth year determines how retirement income is taxed. For a joint return, the treatment of retirement income is based on the birth year of the older spouse. Currently, taxpayers in Tier 3 (those born after 1952) cannot exempt any retirement income (except Social Security income) until reaching age 67. After turning 67, these taxpayers can choose between taking a deduction of \$20,000 for single filers (\$40,000 for joint returns) against *all* types of income or continuing to exempt Social Security income and claiming other personal exemptions they are eligible for. Under the bill, for tax years that begin on and after January 1, 2026, and before January 1, 2029, a Tier 3 taxpayer opting to take the \$20,000/\$40,000 deduction against *all* income could also deduct Social Security income (but could not also take the standard personal exemptions).¹⁵

¹⁰ Currently, *Internal Revenue Code*, when used in Parts 1 and 2 of the act, means the United States Internal Revenue Code of 1986 in effect on January 1, 2018, or, at the option of the taxpayer, in effect for the tax year. The bill would change the applicable date to January 1, 2025.

¹¹ If necessary, the state treasurer would have to modify the application of any references to the sections described above in the Internal Revenue Code and OBBBA to effect the purpose of the bill.

¹² See https://www.house.mi.gov/hfa/PDF/Alpha/Fiscal_Brief_OBBBA_of_2025_Jul2025.pdf for a description of significant federal tax changes and other federal programming changes made by the OBBBA.

¹³ <https://www.law.cornell.edu/uscode/text/26/224>

¹⁴ <https://www.law.cornell.edu/uscode/text/26/225>

¹⁵ Under both current law and the bill, a Tier 3 taxpayer also could opt to take a percentage (the size of which is being phased in with annual increases) of the maximum deduction available to Tier 1 taxpayers (born before 1946) for private retirement income for retirement/pension benefits (for tax year 2024 this maximum is \$64,040 for a single filer and \$128,080 for a joint return).

Current CIT distribution

The act now provides that, for the 2024-25 fiscal year, CIT revenue must be distributed as follows, in the following order:

- Up to \$1.2 billion to the general fund.
- Up to \$50.0 million, if available, to the Michigan Housing and Community Development Fund.¹⁶
- Up to \$50.0 million, if available, to the Revitalization and Placemaking Fund.¹⁷
- Up to \$500.0 million, if available, to the Strategic Outreach and Attraction Reserve (SOAR) Fund.¹⁸
- The balance to the general fund.

For the 2025-26 and subsequent fiscal years, \$50.0 million of CIT revenue must be deposited into the Michigan Housing and Community Development Fund, and the balance into the state's general fund.

CIT distribution under the bill

Under the bill, for the 2024-25 fiscal year, CIT revenue would have to be distributed as follows, in the following order:

- Up to \$1.2 billion to the general fund.
- Up to \$50.0 million, if available, to the Michigan Housing and Community Development Fund.
- Up to \$50.0 million, if available, to the Revitalization and Placemaking Fund.
- Up to \$250.0 million, if available, to the Healthy Michigan Fund.¹⁹
- The balance to the general fund.

For the 2025-26 and subsequent fiscal years, CIT revenue would have to be distributed as follows, in the following order:

- Up to \$1,200.0 million to the general fund.
- Up to \$50.0 million, if available, to the Michigan Housing and Community Development Fund.
- An amount to the Neighborhood Roads Fund as described below:
 - For the 2025-26 fiscal year, up to \$688.0 million, if available.
 - For the 2026-27 fiscal year, up to \$776.0 million, if available.
 - For the 2027-28 fiscal year, up to \$864 million, if available.
 - For the 2028-29 fiscal year, up to \$952.0 million, if available.
 - Beginning with the 2029-30 fiscal year, up to \$1,040.0 million, if available.
- The balance to the general fund.

Other provisions

The bill would repeal section 51d of the Income Tax Act, effective September 30, 2025. That section now provides for a \$600.0 million distribution of individual income tax revenue to the Michigan Transportation Fund (MTF) every October 1.

MCL 206.12 et seq.

¹⁶ <https://www.michigan.gov/mshda/developers/housing-and-community-development-fund-hcdf>

¹⁷ <https://www.michiganbusiness.org/rap/>

¹⁸ <https://www.michiganbusiness.org/real-estate/sites-and-buildings/ssrp-and-cip/>

¹⁹ <https://www.michigan.gov/healthymiplan>

Senate Bill 578 would amend 1951 PA 51, which governs the distribution of funding for state and local road and bridge programs, to create the Neighborhood Roads Fund, create the Infrastructure Projects Authority Fund, prescribe the distributions and other parameters of each fund, and expand allowable uses of money in the Movable Bridge Fund.

Neighborhood Roads Fund

The bill would create the Neighborhood Roads Fund in the state treasury. Money in the fund at the close of a fiscal year would not lapse to the general fund.

For the 2025-26 through 2029-30 fiscal years, money in the fund each fiscal year would be distributed as follows:

- \$100.0 million to a separate account to be spent by the Local Bridge Advisory Board for the repair of closed, restricted, and critical bridges as determined by the board.
- After the above distribution, \$40.0 million to the Local Grade Separation Fund for use under section 11i of the act.²⁰
- After the above distributions, \$100.0 million as follows:
 - \$35.0 million to the Comprehensive Transportation Fund (CTF)²¹ for use for *eligible authorities* and *eligible governmental agencies* that provide public transportation services, with 5% (\$1.75 million) reserved for agencies in urbanized areas with a Michigan population of up to 10,000 and nonurbanized areas under 49 USC 5311.²²
 - \$65.0 million to the Infrastructure Projects Authority Fund described below.
- Money remaining in the fund after the above distributions as follows:
 - 52% to county road commissions, to be allocated in the same way as Michigan Transportation Fund revenue returned to counties under section 12 of the act.²³
 - 28% to city and village road agencies, allocated in the same way as MTF revenue returned to cities and villages under section 13 of the act.²⁴
 - 20% to the State Trunkline Fund (STF) for use under section 11 of the act.²⁵

For the 2030-31 and subsequent fiscal years, money in the fund each fiscal year would be distributed as follows:

- \$100.0 million to the Local Grade Separation Fund for use under section 11i.
- After the above distribution, \$70.0 million as follows:
 - \$52.5 million to the CTF for use for eligible authorities and eligible governmental agencies that provide public transportation services, with 5% (\$2.63 million) reserved for agencies in urbanized areas with a Michigan population of up to 10,000 and nonurbanized areas under 49 USC 5311.
 - \$17.5 million to the Infrastructure Projects Authority Fund.
- After the above distributions, \$100.0 million as follows:
 - \$6.5 million to county road commissions, to be allocated as is MTF revenue returned to counties under section 12.

²⁰ <https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-661i>

²¹ <https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-660b> For a description of the CTF:
https://www.house.mi.gov/hfa/PDF/Alpha/Fiscal_Brief_CTF_and_State_Support_for_Public_Transit_Aug2023.pdf

²² <https://www.law.cornell.edu/uscode/text/49/5311>

²³ <https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-662> For a description of MTF distributions:
https://www.house.mi.gov/hfa/PDF/Alpha/Fiscal_Brief_MTF_Distribution_Formula_to_LRA_Feb2025_Update.pdf

²⁴ <https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-663>

²⁵ <https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-661>

- \$3.5 million to city and village road agencies, to be allocated as is MTF revenue returned to cities and villages under section 13.
- \$90 million to the STF.
- Money remaining in the fund after the above distributions as follows:
 - 46.5% to county road commissions, to be allocated as is MTF revenue returned to counties under section 12.
 - 25% to city and village road agencies, to be allocated as is MTF revenue returned to cities and villages under section 13.
 - 29.5% to the STF.

Matching funds would not be required from a local unit of government or county road commission as a condition for spending money distributed under the above provisions, but a government entity spending money distributed under the above provisions could request matching funds from other sources.

Eligible authority means an authority organized under the Metropolitan Transportation Authorities Act.²⁶

Eligible governmental agency means a county, city, or village or an authority created under 1963 PA 55; the Urban Cooperation Act; 1967 (Ex Sess) PA 8; 1951 PA 35; the Public Transportation Authority Act; or the Revenue Bond Act. (These acts all authorize the formation of public transportation authorities by certain local units of government or other public entities or through intergovernmental arrangements.)

Infrastructure Projects Authority Fund

The bill would create the Infrastructure Projects Authority Fund in the state treasury. Money in the fund at the close of a fiscal year would not lapse to the general fund.

The Michigan Department of Transportation (MDOT) could expend money in the fund each year only as follows:

- If the amount appropriated in a fiscal year from the CTF for operating grants to eligible authorities and eligible governmental entities under section 10e(4)(a) of the act²⁷ is *not less than* the amount expended under that provision in the 2025-26 fiscal year, as adjusted for inflation using the Detroit CPI, then MDOT could expend up to 20% of the fund for payment of supplemental operating grants to eligible authorities and eligible governmental entities, subject to all of the following:
 - MDOT would have to receive and review financial documents demonstrating that an eligible authority or eligible governmental entity is in compliance with a balanced budget plan before it could award a grant to the authority or entity.
 - MDOT would have to allocate grants in a way that conforms to, supplements, and is proportional to the formula for operating grants under section 10e(4)(a).
 - Grants under these provisions would be in addition to any money an eligible authority or eligible governmental entity may receive under section 10b.²⁸

²⁶ The Metropolitan Transportation Authorities Act authorizes two or more counties in a metropolitan area to form a regional transportation authority. The Suburban Mobility Authority of Regional Transit (SMART) is organized under this law.

²⁷ <https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-660E>

²⁸ <https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-660b>

- After the above, MDOT could make *qualified investments* in infrastructure mobility projects consistent with section 10b to eligible authorities and eligible governmental entities. MDOT would have to consider the following criteria, as reasonably applicable, before entering into a written agreement for the qualified investment:
 - Whether the qualified investment is for the development, expansion, or enhancement of any of the following:
 - A high-capacity mobility transportation project.
 - Regional or multijurisdictional high-capacity mobility transportation that connects major centers of population, employment, education, health care, or other activity.
 - Innovative and flexible mobility transportation to meet mobility needs in lower density areas, for first- and last-mile transportation solutions, or for other specialized purposes such as access to health care.
 - Support for the qualified investment in the affected region, including from the following:
 - Local government.
 - An eligible authority or eligible governmental entity.
 - Regional anchor institutions such as major regional employers, local and regional economic development organizations, and educational institutions.
 - Financial participation from affected regional entities, including local units of government and public transportation providers.
 - The readiness, financial feasibility, and financial sustainability of the qualified investment, with the qualified investment facilitating a complete capital and operating financial model for the project it supports, with the highest priority for financial assistance given when the qualified investment is necessary to meet a capital or operating matching requirement for federal funding.
 - Whether the proposed qualified investment will provide locally or regionally significant benefits for the movement of people or goods, provide regional economic growth, and increase the attractiveness of the region for population growth, job growth, or tourism, with priority given to a qualified investment that includes a transit, nonmotorized, or multimodal (i.e., movement using multiple forms of transportation) component.

Qualified investment would mean a grant, loan, or other economic assistance provided by MDOT to an eligible authority or eligible governmental entity under the bill for a project eligible for assistance under the Federal Transit Act²⁹ or Title 23 (Highways) of the United States Code.³⁰

Grants and qualified investments from the Infrastructure Projects Authority Fund could be used to match federal aid, grants, or other assistance.

By December 31, 2026, and each subsequent calendar year in which the Infrastructure Projects Authority Fund receives appropriations, MDOT would have to report to the governor, the State

²⁹ 49 USC 101 to 80504: <https://www.law.cornell.edu/uscode/text/49>

³⁰ 23 USC 101 to 611: <https://www.law.cornell.edu/uscode/text/23>

Transportation Commission, and the legislature on the status of projects funded by the fund. The report would have to include all of the following for the previous fiscal year:

- The location of funded projects.
- A listing of total money distributed to each region.
- Individual project funding amounts.
- Project selection criteria.
- A listing of individual project support.
- A running total fund balance.
- Any other relevant details about the status of the fund.

Movable Bridge Fund

Finally, the bill would allow distributions from the Movable Bridge Fund to cover certain costs related to local federal bridge inspections or mandates. Money in the fund is generally used to offset the operational costs of publicly owned movable bridges in the state.³¹

The bill would require MDOT to develop, each year before September 30, 2029, an estimate for the cost of local federal bridge load analysis, inspection, or other local federal bridge mandates. Before September 30, 2029, MDOT could use any money remaining in the Movable Bridge Fund in a fiscal year, after the required distribution for operational costs of publicly owned movable bridges, to cover other costs for required local federal bridge load analyses or inspections, or other local federal bridge mandates, for which no other source of funding is available.

MCL 247.661g and proposed MCL 247.663c

FISCAL IMPACT:

House Bills 4180 and 4182 would exempt eligible motor fuels (defined above) from the sales and use tax, which would reduce sales and use tax revenue by \$695.8 million in fiscal year 2025-26 (represents 3/4 of the fiscal year). On a full-fiscal-year basis, the exemption would reduce sales and use tax revenue by approximately \$927.7 million. It should be noted that the impact from year to year will vary depending on fuel prices and gallons sold.

Approximately 73% of sales tax revenue is constitutionally earmarked to the School Aid Fund, 10% is constitutionally earmarked to revenue sharing, and the remainder is allocated to the general fund. With respect to use tax revenue, after accounting for the Local Community Stabilization Authority share for personal property tax reimbursements, approximately 57% is deposited in the general fund and approximately 43% is deposited in the School Aid Fund.

The School Aid Fund would be held harmless from the exemption of eligible motor fuels from the sales and use tax. This would result in a corresponding general fund revenue reduction of approximately \$510.0 million in FY 2025-26 (represents 3/4 of the fiscal year) and \$680.0 million in subsequent fiscal years.

³¹ Movable bridges have components that can move to allow outsized water traffic to pass. Drawbridges (technically called bascule bridges) are the most familiar type. Others include vertical-lift bridges (which raise vertically like an elevator) and swing bridges (which pivot horizontally). There are 25 publicly owned movable bridges in Michigan, 12 owned and operated by MDOT (11 drawbridges and one vertical-life bridge), and 13 by local units of government (10 drawbridges and three swing bridges).

The following table summarizes the revenue effects of the bills for fiscal years 2025-26 and 2026-27.

Summary: Revenue Effects of HBs 4180/4182 and HB 4183 (As Passed the Senate)		
ESTIMATES		
<i>Millions of Dollars</i>		
	FY 2025-26*	FY 2026-27
Revenue Changes		
HB 4180 and HB 4182 - Exempts Motor Fuels from Sales/Use tax		
School Aid Fund (held harmless by General Fund deposit under HB 4180)	\$0.0	\$0.0
Constitutional Revenue Sharing	(69.6)	(92.8)
Comprehensive Transportation Fund #	(32.4)	(43.1)
General Fund (includes impact of SAF hold harmless - \$680M for full year)	<u>(593.8)</u>	<u>(791.8)</u>
TOTAL	(\$695.8)	(\$927.7)
HB 4183 - Increases Motor Fuel Tax		
Michigan Transportation Fund (MTF) #	<u>\$698.7</u>	<u>\$1,086.7</u>
TOTAL	\$698.7	\$1,086.7
* Represents 3/4 of a fiscal year; 8 months for Motor Fuel Tax.		
# The reduction in CTF revenue is due to the loss of the fuel tax component of the "auto-related sales tax" earmark. This loss would be offset by an increase in CTF revenue from the increase in MTF revenue. The CTF's 10% share of MTF revenue under 1951 PA 51 would total \$69.9 million. As a result, the net impact of these changes on CTF revenue is a net increase of \$37.5 million in FY 2025-26. The full-year impact in FY 2026-27 would be a net increase of \$65.6 million—the \$43.1 million loss of "auto-related sales tax" would be offset by a \$108.7 million increase from the CTF's 10% share of increased MTF revenue.		

House Bill 4183 would increase the motor fuel tax rate by 20 cents per gallon beginning January 1, 2026, which would generate approximately \$698.7 million for the Michigan Transportation Fund (MTF) in fiscal year 2025-26. This represents 2/3 of the fiscal year. On a full-fiscal-year basis, the 20-cent increase would generate approximately \$1.05 billion. This is expected to grow to approximately \$1.09 billion in FY 2026-27. In subsequent fiscal years, the fuel tax rate would continue to be adjusted for inflation, and overall revenues would depend on gallons sold.

The increase in MTF revenue would be distributed in accordance with the provisions of 1951 PA 51 to the Comprehensive Transportation Fund (CTF), county road commissions, cities and villages, and the State Trunkline Fund (STF).

When taken together with the estimated \$420.0 million of revenue from the wholesale tax on marijuana under House Bill 4951³² and the expanded corporate income tax (CIT) earmark (the

³² See <https://www.legislature.mi.gov/Bills/Bill?ObjectName=2025-HB-4951>

amount that exceeds the \$600.0 million replacement of the income tax earmark for transportation purposes) of \$88.0 million in FY 2025-26, growing to \$440.0 million in FY 2029-30, under House Bill 4961,³³ the bills would generate approximately \$1.10 billion in new road funding in FY 2025-26 (motor fuel tax and marijuana wholesale tax reflect a partial fiscal year due to the January 1, 2026, effective date), growing to over \$2.0 billion by FY 2029-30 once the expanded CIT earmark is fully phased in.

A detailed HFA description of the impacts on transportation funds and programs is in process.

House Bill 4951 would generate approximately \$420.0 million annually based on current estimates of wholesale sales. In FY 2025-26, the bill would allocate \$3.0 million of the wholesale tax revenue to the Comprehensive Road Funding Fund for implementation and administration costs, with the remainder deposited in the newly created Neighborhood Roads Fund to be used for road funding purposes. In subsequent fiscal years, the allocation to the Comprehensive Road Funding Fund for implementation and administration costs would be reduced to \$500,000, with an annual inflation adjustment beginning in FY 2027-28, with the balance deposited in the Neighborhood Roads Fund.

House Bill 4961 would make various changes to the Income Tax Act for individuals, resident estates or trusts, and taxpayers subject to the corporate income tax. The bill would also change current earmarks from the individual income tax and the CIT for transportation purposes. The changes are summarized below.

Decoupling from the One Big Beautiful Bill Act (OBBBA)

The bill would decouple from the following five federal tax changes made in the OBBBA:

- Immediate Deduction of Research and Experimental Expenses (IRC 174A)
- Special Depreciation of Certain Production Property (IRC 168(n))
- Bonus Depreciation allowing for deduction of 100% of the cost of equipment in first year (IRC 168(k))
- Business Interest Deduction Increase (IRC 163(j))
- Increased Limit on Depreciable Business Assets Deduction (IRC 179)

Taken together, these provisions were expected to reduce revenues (almost exclusively GF/GP) by approximately \$540.0 million in FY 2025-26, \$443.0 million in FY 2026-27, \$434.0 million in FY 2027-28, \$349.0 million in FY 2028-29, and \$275.0 million in FY 2029-30 according to the Department of Treasury.

The bill would preempt any state revenue loss from these federal tax changes under the OBBBA by reverting to the pre-OBBBA tax base through decoupling.

Individual income tax

The bill would authorize an individual taxpayer to deduct qualified tips and qualified overtime compensation from adjusted gross income when calculating their state income tax liability for tax years 2026 through 2028. The deductions for qualified tips and qualified overtime compensation were included in the OBBBA to reduce or eliminate the federal tax liability on

³³ See <https://www.legislature.mi.gov/Bills/Bill?ObjectName=2025-HB-4961>

these forms of income subject to certain limitations.³⁴ However, because the deductions were considered “below the line,” under current law they would not affect an individual taxpayer’s Michigan tax base. The bill would permit the deductions against adjusted gross income for state tax liability purposes.

Table 1 provides revenue loss estimates for the deduction for qualified overtime compensation according to the Department of Treasury:

Table 1: Estimated Revenue Loss - Deduction for Qualified Overtime Compensation (millions)

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>
GF/GP	(\$97.9)	(\$110.9)	(\$97.6)
SAF	(14.6)	(16.6)	(14.6)
TOTAL	(\$112.5)	(\$127.4)	(\$112.2)

Table 2 provides revenue loss estimates for the deduction for qualified tips according to the Department of Treasury:

Table 2: Estimated Revenue Loss - Deduction for Qualified Tips (millions)

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>
GF/GP	(\$39.2)	(\$44.2)	(\$44.1)
SAF	(5.9)	(6.6)	(6.6)
TOTAL	(\$45.1)	(\$50.8)	(\$50.7)

Retirement tax treatment of taxable Social Security for Tier 3

The bill would allow Tier 3 individuals (taxpayers born after 1952) to exempt taxable Social Security benefits if they choose to take the \$20,000 (single)/\$40,000 (joint) standard deduction on *all* income after reaching the age of 67. Under current law, Tier 3 individuals who elect the standard deduction against *all* income will have that deduction reduced by the taxable Social Security benefits included in adjusted gross income and the personal exemption amount. By allowing Tier 3 individuals to exempt taxable Social Security benefits, it is expected that the bill would reduce revenues by between \$20.0 million and \$30.0 million annually. To the extent that the reduction is realized through gross income tax collections (withholding, estimated payments, and annual payments), the School Aid Fund would absorb about 23.8% of the impact, with the rest coming from the general fund. If the reduction is a result of higher refunds, the impact would be borne by the general fund.

Earmarks for transportation

The bill would change how FY 2024-25 CIT revenues are distributed by eliminating the \$500.0 million deposit into the Strategic Outreach and Attraction Reserve (SOAR) Fund and instead include a new deposit of \$250.0 million to the Healthy Michigan Fund. This would also result in an increase of FY 2024-25 general fund revenues from the CIT of \$250.0 million.

³⁴ For more details, see <https://www.irs.gov/newsroom/one-big-beautiful-bill-act-tax-deductions-for-working-americans-and-seniors>

Beginning in FY 2025-26, the bill would remove the distribution of revenue from the individual income tax to the Michigan Transportation Fund (MTF) of \$600.0 million. In its place, the bill would include an earmark of CIT revenue for the Neighborhood Roads Fund that would begin at \$688.0 million in FY 2025-26 and grow by \$88.0 million annually until it reaches a total of \$1.04 billion in FY 2029-30, if CIT revenues were great enough to permit the maximum distribution. There would be a corresponding reduction in GF/GP revenues equal to \$88.0 million in FY 2025-26, \$176.0 million in FY 2026-27, \$264.0 million in FY 2027-28, \$352.0 million in FY 2028-29, and \$440.0 million in each subsequent year.

Senate Bill 578 would create the Neighborhood Roads Fund and would establish a model for the appropriation and distribution of revenue earmarked to the fund as proposed in House Bills 4951 and 4961.

The specific fund recipients, as described in the summary above, are primarily local units of government, including county road commissions, cities and villages, and local public transit agencies (eligible authorities and eligible governmental agencies). The State Trunkline Fund also would receive a distribution equal to 20% of the balance after distributions to the Local Bridge Advisory Board, the Local Rail Grade Separation Fund, and the Comprehensive Transportation Fund. Specific estimated distributions will be in a future HFA analysis.

The bill's provisions regarding the Movable Bridge Fund would not affect state or local costs or revenues generally. The bill would authorize the transfer of funds from a state restricted fund, the Movable Bridge Fund, to support local road agency bridge inspections.

Since the Movable Bridge Fund's establishment in 2016, more money has been credited to the fund than needed to reimburse eligible bridge owners for operating costs of movable bridges. The bill would allow for transfer of funds not needed for movable bridge operations to support local road agency bridge inspections. The fund has built up a fund balance, and funds are available for transfer as authorized under the bill.

The benefit of allowing the transfer of Movable Bridge Fund revenue for local bridge inspections would accrue primarily to those local road agencies that have a relatively large number of bridges and that incur significant costs related to required bridge inspections.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.