The Fuel Tax in an Era of Declining Consumption

With the passage of a major transportation funding in November of 2013, Pennsylvania became the latest state to recognize the need to reform the state's fuel tax in an era of higher mileage vehicles and the growing popularity of electric vehicles.

The Pennsylvania legislation shifts gas tax collections to wholesalers by raising the Oil Company Franchise Tax rate and lifting an artificial cap on the tax while phasing out the per gallon excise tax. The formula is complicated but will result in a net increase in the state gasoline tax of 9.5 cents per gallon starting Jan. 1; another 9.7 cents for 2015; and at least 8 cents for 2017. It is not clear how that will affect pump prices, but if wholesalers pass on the entire 2014 increase, a motorist who drives 12,000 miles in a vehicle that gets 24 miles per gallon would pay $47.50 more next year.

In May, Virginia enacted a new transportation funding package that included the conversion of the per gallon excise tax to a 3.5% sales tax at the wholesale level. This was included in a five-year, $6 billion transportation funding plan.

Minnesota Senate Considered a Gross Receipts Tax During the 2013 Session

A **gross receipts tax** or **gross excise tax** is a tax on the total gross revenues of a company, regardless of their source. A gross receipts tax is similar to a sales tax, but it is levied on the seller of goods or service consumers. This is compared to other taxes listed as separate line items on billings, are not directly included in the listed price of the item.

A 1% gross receipts tax would generate ~$85M in FY 2015 over a full year based on the February, 2013 Forecast.

Minnesota Constitution
Article 14, Section 10:
Taxation of Motor Fuel The legislature may levy an excise tax on any means or substance used for propelling vehicles on the public highways of this state or on the business of selling it. The proceeds shall be paid into the highway user tax distribution fund.

States with Sales Tax on Fuel
Virginia, California, Florida, Georgia, Hawaii, Illinois, Indiana, Michigan, New York, Tennessee, Vermont, West Virginia, Puerto Rico, Maryland

States with other taxes on fuel distributors or suppliers
Connecticut, Georgia, Hawaii, Nebraska, New Jersey, New Mexico, New York, Pennsylvania, Puerto Rico

Why Consider a Gross Receipts Tax?
- Minnesota's state fuel tax was not increased at all between 1988 and 2008.
- The federal fuel tax has not been increased since 1993.

- Fuel efficiency of vehicles continues to increase and the federal government has set ambitious new goals for fuel efficiency in the coming years.
- A per-gallon fuel tax will only provide additional revenue as consumption increases. The price of fuel does not play a role in the revenue generated to fix roads and bridges
- With consumption of fuel projected to decrease in the future, revenue from a per gallon fuel tax will decrease. Minnesota already faces a funding shortfall. Decreasing revenue from the primary revenue source for roads and bridges will lead to faster deterioration of the infrastructure and increased congestion.
- Many states and the federal government are recognizing the inherit unsustainability of the per-gallon fuel tax and are looking at strategies to maintain funding including sales taxes on fuel.
- Just as revenue from the general sales tax will increase with higher prices and increased economic activity, a sales tax on fuel will provide a revenue source that keeps up with inflation rather than losing purchasing power to inflation over time.
- Construction inflation has consistently been higher in Minnesota than the consumer price index, making it more expensive to maintain and improve roads and bridges every year. Since 2004, construction inflation has increased over 70%.
- A gross receipts tax levied on the sale of fuel at the wholesale level will provide a small source of revenue that will track with the rising price of fuel at the wholesale level, allowing the overall fuel tax to somewhat keep up with construction inflation.
- No dramatic administrative changes are needed. The Department of Revenue can easily calculate the tax based on the average wholesale price over a 6 month or 12 month time period and adjust the fuel tax as needed on an annual basis.