

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

House Bill 928 (Delegate Stull, *et al.*)
 Ways and Means

Motor Fuel Tax - Clean-Burning Fuel - Tax Rate

This bill reduces the motor fuel tax rate for motor fuel that is at least 85% ethanol (“E85”) from 23.5 cents for each gasoline-equivalent gallon to 17.3 cents for each gallon and creates a new motor fuel tax rate for propane at 18.8 cents for each gallon.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: State motor fuel tax revenues would decrease by approximately \$6,200 annually due to the reduced rate for E85, and increase by approximately \$112,800 annually due to the imposition of the motor fuel tax to propane, resulting in net annual increase of \$111,600. Of this amount, approximately 97% or \$108,400 would be dedicated to the Transportation Trust Fund (TTF). Certain other programs that receive funding from motor fuel tax revenues would experience minimal increases.

| (in dollars) | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|--------------|-----------|-----------|-----------|-----------|-----------|
| SF Revenue | \$111,600 | \$117,200 | \$123,000 | \$129,200 | \$135,600 |
| Net Effect | \$111,600 | \$117,200 | \$123,000 | \$129,200 | \$135,600 |

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local highway revenues would increase by approximately \$32,500, reflecting the 30% local share of TTF revenue sharing.

Small Business Effect: Minimal.

Analysis

Current Law: E85 is currently defined as a clean-burning fuel and taxed at the rate of 23.5 cents per gallon. Propane is not subject to a motor fuel tax, although it is chemically equivalent to “liquified petroleum gas,” or LP gas, which is a clean-burning fuel taxed at 23.5 cents per gallon.

Background: E85, or ethanol, is often used by agricultural vehicles, the fuel for which is exempt from the motor fuel tax rate. Propane is often used for indoor vehicles, such as forklifts, and fuel for vehicles not used on public highways is not subject to the motor fuel tax. It is also often used by public buses which are also not subject to the motor fuel tax.

State Revenues: Slightly less than 100,000 gallons of E85 were sold in 2002. At the reduced rate, motor fuel tax revenues would decline by approximately \$6,200 annually.

Based on national sales data for propane, adjusting for the size of Maryland’s economy, and making assumptions about the share of purchases for nonhighway use (85%), and exempt purchases (50% of the remainder), it is estimated that approximately 600,000 gallons are taxable annually. Although chemically equivalent to LP gas, propane is not currently subject to any motor fuel tax. Imposing the motor fuel tax on this portion of propane sales would increase State revenues by \$112,800 annually. In total, State revenues would increase by approximately \$111,600 annually.

Additional Information

Prior Introductions: None.

Cross File: SB 653 (Senator Middleton) – Budget and Taxation.

Information Source(s): Comptroller’s Office, Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - March 10, 2003
ncs/jr

Analysis by: Matthew D. Riven

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

