HB 821

Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 821 (Delegate Hixson)
Ways and Means

Transportation - Tax Revenues

This bill increases funding to the Transportation Trust Fund (TTF) by: (1) increasing the motor fuel tax rates by 10 cents per gallon, except aviation gasoline and turbine fuel, which are increased by 3 cents per gallon; and (2) imposing a sales and use tax to the sale of motor fuel.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: TTF revenues would increase by $773.9 million in FY 2008; with the State share totaling $541.8 million. Future year revenues reflect increased fuel consumption. General fund expenditures could increase by $0.7 million in FY 2008 due to personnel costs and one-time computer programming expenses. On an annualized basis, general fund expenditures could increase by $0.15 million.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	$773.9	$768.1	$771.3	$780.1	$798.4
GF Expenditure	.7	.1	.1	.2	.2
Net Effect	$773.2	$767.9	$771.2	$780.0	$798.2

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

Local Effect: Local highway user revenues would increase by $232.2 million in FY 2008 and by $239.5 million by FY 2012. Local expenditures would not be affected.

Small Business Effect: Meaningful.

Analysis

Bill Summary: Major provisions of the bill are as follows:

- the motor fuel tax rate for gasoline is increased from 23.5 cents per gallon to 33.5 cents per gallon; for special fuel (diesel) from 24.25 cents per gallon to 34.25 cents per gallon; and for clean burning fuel from 23.5 cents per gasoline-equivalent gallon to 33.5 cents per gasoline-equivalent gallon. The motor fuel tax rate for aviation gasoline and turbine fuel is increased from 7 cents per gallon to 10 cents per gallon;

- the sales and use tax is applied to the sale of motor fuel (except motor fuel that is already exempt from the motor fuel tax);

- sellers of motor fuel must prepay the sales and use tax at a rate of 11 cents per gallon for fiscal 2008, which will be adjusted annually (rounded to the nearest half-cent) by the Comptroller's Office based on the average retail price of fuel for the prior calendar year (or more frequently if significant changes in the price of fuel);

- the sales and use tax would also be reflected in the motor carrier tax rate, and would be adjusted quarterly based on the average selling price for the preceding quarter; and

- the additional revenues from the increased motor fuel and motor carrier rates , as well as the sales and use tax would be dedicated to the Gasoline and Motor Vehicle Revenue Account (GMVRA) of the TTF, 30% of which is shared with local governments.

Current Law: The State motor fuel tax rate per gallon or gasoline-equivalent gallon is: (1) 23.5 cents for gasoline; (2) 24.25 cents for special fuel (diesel); (3) 7 cents for aviation gasoline and turbine fuel; and (4) 23.5 cents for clean burning fuel.

Background: Some states, including Maryland, impose only a motor fuel excise tax, while other states impose both an excise tax and a sales tax. A sales tax is expressed as a percentage of the selling price but for various purposes, it is often translated into cents per gallon based on a periodically-updated average retail fuel price. The motor fuel tax rates for gasoline in neighboring jurisdictions are shown in **Exhibit 1**. The Maryland sales and use tax rate is 5%; it is not imposed on the sale of motor fuel.

Exhibit 1
Motor Fuel Tax Rates in Surrounding States

	Gasoline	Diesel
Delaware	23.0 cents	22.00 cents
District of Columbia	22.5 cents	22.50 cents
Pennsylvania	31.2 cents	38.10 cents
Virginia*	17.5 cents	16.00 cents
West Virginia	27.0 cents	27.00 cents
Maryland	23.5 cents	24.25 cents

*Does not include 2% local option taxes.

State Revenues: TTF revenues could increase by $773.9 million in fiscal 2008 as a result of the two components of the bill: the increase in the motor fuel and motor carrier tax rates and the addition of a sales tax on motor fuel and motor carriers. All revenues generated under the bill are dedicated to the GMVRA, which is shared with local governments. **Exhibit 2** below illustrates the fiscal effect of the bill. The estimate is based in the following:

- current forecasts for motor fuel consumption;
- the increased price of gasoline will result in a decrease of taxable sales by slightly more than 1% due to price elasticity for fiscal 2008 through 2012;
- current average gasoline and diesel fuel price data from the federal Energy Information Agency (EIA);
- projected changes in price based on national forecasts from EIA and Economy.com; and
- nonprofit organizations will claim approximately $2.2 million in refunds annually.

Exhibit 2
HB 821 – Transportation Revenues
Estimated Revenue Impact
($ in Thousands)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Motor Fuel/Motor Carrier Rate Increase	$324,451	$327,925	$331,661	$337,683	$344,348
New Sales and Use Tax	449,489	440,148	439,685	442,428	454,029
Total TTF Increase	**$773,940**	**$768,073**	**$771,346**	**$780,111**	**$798,377**
MDOT Share	541,758	537,651	539,942	546,077	558,864
Local Share	$232,182	$230,422	$231,404	$234,033	$239,513

The price elasticity that is built into the estimate reflects factors such as consumers purchasing fuel in neighboring states with lower rates, shifting to lower-grade gasoline, or ultimately shifting to more fuel efficient vehicles and away from fuel-inefficient vehicles such as sport utility vehicles (SUVs). To the extent that actual elasticity is greater than assumed, then actual revenues could be lower than projected.

It should also be noted that the projected revenues from the sales tax on motor fuel are based on economic projections of motor fuel prices. Such prices, however, are extremely volatile. A 20% change in fuel prices would not be unusual in a given year, resulting in revenue changes of as much as $70 million (positive or negative) in the current or subsequent fiscal year.

State Expenditures: General fund expenditures at the Comptroller's Office would increase by $560,000 in fiscal 2008 due to one-time computer programming costs. Unlike the current sales tax, which has a relatively constant rate and is collected in arrears, this tax would be collected in advance based on a prepayment rate that is adjusted at least annually (and possibly more often depending on the volatility of gasoline prices). The necessary data processing system would be very different from the current tracking system for sales.

On an ongoing basis, the Comptroller's Office must annually (or more often) calculate the prepayment rate as an effective cents per gallon and notify fuel vendors of the change in that rate, incurring postage and printing costs. For the motor carrier tax, there would be a quarterly calculation and notification. The advance collection from the fuel wholesalers, with subsequent payment and reconciliation with the retailers, would require significant administrative efforts both by these parties, and by the Comptroller's Office, which would be responsible for auditing tax payments and reconciling differences in statements between the wholesalers and the retailers, requiring additional agency staff work. In addition, the bill provides that organizations that are currently exempt from the sales tax (such as religious organizations, governmental units, etc.) would be required to pay the sales tax at the pump and then apply for a refund, resulting in substantial administrative work by the agency.

As a result, general fund expenditures could increase by an additional $136,300 in fiscal 2008. This estimate reflects the cost of hiring two revenue specialists to perform the necessary administrative functions. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses

Salaries and Fringe Benefits	$95,991
Printing coupon books	29,597
Operating Expenses	10,716
Total FY 2008 Personnel Expenditures	**$136,304**

Future year expenditures reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Local Effect: Local governments receive a portion of TTF revenues in the form of local highway user revenues for the purpose of constructing and maintaining local roads. Pursuant to this legislation, local highway user revenues would increase by $232.2 million in fiscal 2008 and by $239.5 million in fiscal 2012, as shown in Exhibit 2. Local expenditures would not be affected.

Small Business Effect: Small businesses for which motor fuel constitutes a significant portion of their costs (transportation firms, delivery companies, taxicabs, etc.) could be meaningfully and negatively affected by a 10 cent per gallon increase and an additional 5% increase attributable to the sales and use tax.

There are approximately 2,200 service stations in Maryland, most of which are small businesses. These businesses would be required to collect and remit the sales tax, and reconcile these collections against the amount of their prepayments, which is likely to require significant administrative effort. Currently, the excise tax is paid by the wholesalers and is transparent to the retailer. Service stations that sell other items such as snacks, however, are currently required to collect and remit the sales tax.

Additional Comments: The Comptroller's Office indicates that the sales tax equivalent and motor fuel tax would comprise the Maryland motor carrier tax for interstate carriers and would in all likelihood be administered by the International Fuel Tax Association (IFTA), through an international agreement. All motor carriers traveling through Maryland are required by IFTA to pay the equivalent Maryland motor carrier tax based on the number of miles traveled in Maryland regardless of whether they purchase motor fuel in the State. All U.S. and Canadian motor carriers file mileage, routes, and fuel purchases with IFTA, where calculations are performed as to how much tax is owed to Maryland, based on that information and Maryland's tax rates.

The ITFA agreement, which has been signed by 48 states and Canadian provinces, details how motor carrier taxes are calculated, collected, and distributed to all parties. It is possible that any changes to Maryland's motor fuel/motor carrier tax, including adding a sales tax equivalent, would have to be checked for compliance

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Additional Information

Prior Introductions: None.

Cross File: None.

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

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