

Department of Legislative Services
2011 Session

FISCAL AND POLICY NOTE

House Bill 1059
Ways and Means

(Delegate Kaiser, *et al.*)

Motor Fuel Tax - Rate Increase and Distribution of Revenues

This bill increases the State motor fuel tax rate for all fuels except aviation gasoline and turbine fuel by 20 cents per gallon. After an initial increase of 10 cents per gallon, the remaining rate increase is phased in semi-annually by 2 cents per gallon over two years. In fiscal 2012 and 2013, the bill requires a transfer of motor fuel tax revenues to the general fund in an amount equal to the revenue generated from the 10 cents per gallon tax increase.

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: General fund revenues increase by \$311.7 million in FY 2012. Transportation Trust Fund (TTF) revenues increase by \$24.0 million in FY 2012; with the State share totaling \$21.6 million. Future year revenues reflect phase in of the tax increase, distributions required by the bill, and current fuel consumption and price forecasts. Potential minimal increase in expenditures in FY 2012, 2013, and 2014 at the Comptroller's Office due to administrative costs.

(\$ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	\$311.7	\$338.4	\$113.8	\$121.2	\$122.3
SF Revenue	\$24.0	\$124.3	\$475.9	\$506.9	\$511.2
Expenditure	0	0	0	0	0
Net Effect	\$335.7	\$462.7	\$589.7	\$628.1	\$633.5

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

Local Effect: Local highway user revenues increase by \$2.4 million in FY 2012 and by \$58.3 million in FY 2016. Local expenditures are not affected.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The bill phases in a 20 cents per gallon increase in the State motor fuel tax rate for all fuels except aviation gasoline and turbine fuel as shown in **Exhibit 1**. In fiscal 2012 and 2013, the bill requires a transfer of motor fuel tax revenues to the general fund in an amount equal to the revenue generated from the 10 cents per gallon tax increase. The bill also imposes a floor tax on any person possessing tax-paid motor fuel for sale at the start of business on the date of any increase in the motor fuel tax under the bill. Individuals are required to compile and file an inventory of the motor fuel tax held at the close of business on the preceding date and remit within 30 days any additional motor fuel tax that is due.

Exhibit 1 Proposed Motor Fuel Tax Rates under HB 1059 (Cents per Gallon)

	Current <u>Law</u>	<u>7/1/2011</u>	<u>1/1/2012</u>	<u>7/1/2012</u>	<u>1/1/2013</u>	<u>7/1/2013</u>	<u>1/1/2014</u>
Gasoline & Clean-burning	23.5	33.5	35.5	37.5	39.5	41.5	43.5
Special Fuel (Diesel)	24.25	34.25	36.25	38.25	40.25	42.25	44.25

Current Law: The State motor fuel tax rate per gallon or gasoline-equivalent gallon is 23.5 cents for gasoline; 24.25 cents for special fuel (diesel); 7 cents for aviation gasoline and turbine fuel; and 23.5 cents for clean burning fuel. The motor fuel tax rate is not indexed or automatically adjusted. Motor fuel tax revenues are projected to total \$737.6 million in fiscal 2012.

Background: Some states, including Maryland, impose only a motor fuel excise tax, while other states impose both an excise tax and a sales tax. The total state motor fuel tax rates for gasoline in neighboring jurisdictions are shown in **Exhibit 2**. These rates are in addition to a federal motor fuel tax of 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel fuel. Maryland's gasoline tax rate is 6.2 cents per gallon or about one-fifth less than the average rate imposed by all states.

Exhibit 2
Total State Motor Fuel Tax Rates in Surrounding Jurisdictions
(Cents per Gallon)

	<u>Gasoline</u>	<u>Diesel</u>
Delaware	23.0¢	22.0¢
District of Columbia	23.5	23.5
North Carolina	32.8	32.8
Pennsylvania	32.3	39.2
Virginia	19.7	19.8
West Virginia	32.2	32.1
Maryland	23.5¢	24.25¢
National Average	29.7¢	28.7¢

Note: The tax rates for other states may include other state taxes and fees.
Source: American Petroleum Institute

State Fiscal Effect: The bill phases in a 20 cents per gallon increase in motor fuel taxes and requires that, in fiscal 2012 and 2013, an amount equal to 10 cents per gallon collected from motor fuel taxes be distributed to the general fund. As a result, general fund revenues increase by \$311.7 million in fiscal 2012. TTF revenues increase by \$24.0 million. **Exhibit 3** illustrates the fiscal effect of the increase in motor fuel tax rates under the bill.

Exhibit 3
Estimated Revenue Impact of HB 1059
(\$ in Millions)

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
General Fund	\$311.7	\$338.4	\$113.8	\$121.2	\$122.3
TTF Total	24.0	124.3	475.9	506.9	511.2
MDOT	21.6	110.1	421.6	449.1	452.9
LHUR (total)	2.4	14.2	54.2	57.8	58.3
Baltimore City	2.3	11.5	44.2	47.1	47.5
Counties	0.2	2.2	8.3	8.8	8.9
Municipalities	0.03	0.5	1.8	1.9	1.9

Note: LHUR = local highway user revenues

The bill requires persons who hold tax-paid motor fuel on the date of an increase in the motor fuel tax to remit any additional tax due on that fuel. As a result, special fund expenditures may increase minimally in fiscal 2012 and 2013 to administer and send tax increase notifications.

Local Fiscal Effect: Local governments receive a portion of TTF revenues as local highway user revenues for the purpose of constructing and maintaining local roads. Pursuant to this legislation, local highway user revenues increase by \$2.4 million in fiscal 2012 and by \$58.3 million in fiscal 2016, as shown in Exhibit 3. Local expenditures are not affected.

Small Business Effect: Small businesses for which motor fuel constitutes a significant portion of their costs (transportation firms, delivery companies, taxicabs, etc.) will have increased tax burdens as a result of the bill. The incidence of the tax will be shared by customers (which include other businesses) through higher product prices and owners of the small businesses. Small businesses may potentially benefit to the extent that additional funding improves the State's infrastructure.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 28, 2011
mlm/hlb

Analysis by: Robert J. Rehrmann

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