

Department of Legislative Services  
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 399 (Senator King, *et al.*)  
Budget and Taxation

Maryland Green Fuel Initiative - Motor Fuel Taxes - Biodiesel

This bill decreases the motor fuel tax imposed on biodiesel by 10 cents per gallon.

The bill takes effect July 1, 2011.

Fiscal Summary

**State Effect:** General fund revenues decrease by \$168,300 in FY 2012 due to the tax reduction on biodiesel. Transportation Trust Fund (TTF) revenues decrease by \$656,900 in FY 2012; with the State share totaling \$590,000. Future year revenues reflect estimated biodiesel consumption.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	(\$168,300)	(\$197,000)	(\$260,600)	(\$279,600)	(\$331,000)
SF Revenue	(\$656,900)	(\$823,800)	(\$1,089,600)	(\$1,169,200)	(\$1,384,200)
Expenditure	0	0	0	0	0
Net Effect	(\$825,200)	(\$1,020,800)	(\$1,350,200)	(\$1,448,800)	(\$1,715,200)

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

**Local Effect:** Local highway user revenues decrease by \$66,800 in FY 2012 and by \$157,800 in FY 2016. Local expenditures are not affected.

**Small Business Effect:** Minimal.

Analysis

**Current Law:** Biodiesel is currently classified as a special fuel and is taxed 24.25 cents per gallon. 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.

The State provides a tax credit for the use of bio-heating oil for use in space or water heating. To qualify, the bio-heating oil must contain at least 5% biodiesel. The amount of the credit is equal to 3 cents per gallon purchased, not to exceed \$500 or the tax liability in that year.

**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 1**. 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.

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**Exhibit 1**  
**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¢

Source: American Petroleum Institute

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Ethanol produced from corn accounted for 98% of all biofuels consumed in the United States in 2009 with most of the remaining amount consisting of biodiesel. The federal Energy Information Administration (EIA) estimates that in 2009 a total of 339.0 million gallons of biodiesel were consumed nationally. The Comptroller's Office advises that since biodiesel is taxed at the same rate as diesel, it cannot provide an estimate of the amount of biodiesel consumed in the State.

In recent years, the federal government has enacted several programs to encourage the consumption of biofuels. Federal legislation enacted in 2005 and 2007 established a renewable fuel standard program which requires transportation fuel sold in the United States to contain a minimum volume of renewable fuel. These standards increase from 9 billion gallons of renewable fuel use in 2008 to 36 billion gallons by 2022. In addition, tax credits are available for the production of biofuels including an ethanol tax credit of 45 cents per gallon for the blending of ethanol with gasoline and a tax credit generally equal to \$1.00 per gallon of biodiesel produced. Considerable debate exists over the efficacy of the tax credits in reducing greenhouse gas emissions and helping reduce dependence on fossil fuels as well concerns over its costs (biofuel tax credits reduced federal receipts by \$6 billion in federal fiscal 2009) and potential negative impacts such as increasing global food prices.

**State Fiscal Effect:** General fund revenues decrease by \$168,300 in fiscal 2012 due to the motor fuel tax reduction on biodiesel; TTF revenues decrease by \$656,900 in fiscal 2012.

This estimate is based on the amount of biodiesel consumed nationally in 2009, apportioned to Maryland based on the amount of ethanol fuel consumed in the State relative to national ethanol consumption. Based on ethanol fuel consumption by sector in the State in 2009, it is estimated that 10% of biodiesel in the State is consumed by a governmental unit not subject to the motor fuel tax. The estimated amount of taxable biodiesel consumed in the State in 2009 was projected forward based on EIA's *Annual Energy Outlook 2010* forecast of biofuels.

**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 decrease by \$66,800 in fiscal 2012, \$93,900 in fiscal 2013, \$124,200 in fiscal 2014, \$133,300 in fiscal 2015, and \$157,800 in fiscal 2016.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 844 (Delegate A. Miller, *et al.*) - Ways and Means.

**Information Source(s):** Comptroller's Office, Congressional Budget Office, Maryland Department of Transportation, U.S. Energy Information Administration, Department of Legislative Services

**Fiscal Note History:** First Reader - February 22, 2011  
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