

**Department of Legislative Services**  
2012 Session

**FISCAL AND POLICY NOTE**

House Bill 522  
Ways and Means

(Delegate A. Miller, *et al.*)

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**Maryland Green Fuel Initiative - Motor Fuel Taxes - Biodiesel**

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

The bill takes effect July 1, 2012.

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**Fiscal Summary**

**State Effect:** Transportation Trust Fund (TTF) revenues decrease significantly beginning in FY 2013 due to the reduction of the motor fuel tax imposed on biodiesel fuel. Based on the amount of biodiesel consumed nationally, TTF revenues may decrease by \$2.4 million annually beginning in FY 2013. Expenditures are not affected.

**Local Effect:** Local highway user revenues may decrease by about \$240,000 annually beginning in FY 2013. Local expenditures are not affected.

**Small Business Effect:** Minimal.

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**Analysis**

**Current Law:** Biodiesel is currently classified as a special fuel and is taxed at 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; 7 cents for aviation gasoline and turbine fuel; and 23.5 cents for clean burning fuel.

The State provides a tax credit for the use of bio-heating oil 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:** The federal Energy Information Administration (EIA) estimates that in 2010 a total of 222.0 million gallons of biodiesel (B-100) 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, federal tax credits are available through the end of 2011 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 these tax credits in reducing greenhouse gas emissions and helping to reduce dependence on fossil fuels, as well as concerns over the 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:** The bill decreases the motor fuel tax rate imposed on biodiesel fuel by 10 cents per gallon beginning in fiscal 2013. As a result, TTF revenues may decrease by \$2.4 million annually beginning in fiscal 2013.

This estimate is based on the amount of B-100 consumed nationally in 2010, apportioned to Maryland based on the amount of ethanol fuel consumed in the State relative to national ethanol consumption. It is assumed that 20% of biodiesel consumed in the State is not subject to the motor fuel tax and one-half of the remaining B-100 biodiesel is blended into B-10 biodiesel and, thus, qualifies for the tax reduction.

Some users of biodiesel, including the State, have experienced performance issues when switching to higher concentrations of biodiesel. To the extent that less than 50% of B-100 biodiesel is blended into a biodiesel concentration of B-10 or greater, revenue losses will be less than estimated.

**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 \$240,000 annually beginning in fiscal 2013.

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### **Additional Information**

**Prior Introductions:** SB 399 / HB 844 of 2011 were both withdrawn.

**Cross File:** None.

**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 20, 2012  
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Analysis by: Robert J. Rehrmann

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