

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 362 (Senator Young)
Budget and Taxation

Sales and Use Tax - Motor Fuel - Local Transportation Tax

This bill authorizes counties and municipalities to impose a sales and use tax on motor fuel of up to 2% of the taxable price of the motor fuel. This local transportation tax (1) may not be imposed within a municipality by both a county and municipality and (2) must be used to finance local road and transit capital projects.

The bill alters the process under which the Maryland Department of Transportation (MDOT) evaluates and selects capital projects to be included under the construction program of the *Consolidated Transportation Program (CTP)* by requiring MDOT to give preference to projects which are funded by the local transportation tax established by the bill.

The bill takes effect June 1, 2013.

Fiscal Summary

State Effect: General fund expenditures may increase beginning in FY 2014 due to implementation costs at the Comptroller's Office. No effect on revenues.

Local Effect: Local revenues will increase in local jurisdictions that impose a motor fuel sales and use tax. If all local jurisdictions opt to impose the tax, total local revenues may increase by \$229.1 million in FY 2014 and by \$263.0 million in FY 2018.

Small Business Effect: Meaningful.

Analysis

Current Law/Background: The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at 9%. Motor fuel sales are exempt from the tax. Local governments in Maryland are not authorized to impose general sales taxes. Certain local governments are authorized to levy selected sales taxes on certain categories of sales, the most common of which are utility, hotel rental, and parking taxes.

Some states, including Maryland, impose only a motor fuel excise tax, while other states impose both an excise tax and a sales tax or equivalent 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 motor fuel tax rates are lower than the average rate imposed in other states – Maryland's gasoline tax rate is currently the twenty-eighth highest rate (diesel twenty-seventh highest). Maryland's motor fuel tax rate is not adjusted periodically for inflation.

Exhibit 1 Total State Motor Fuel Tax Rates in Neighboring Jurisdictions (Cents per Gallon)

	<u>Sales Tax</u>	<u>Variable Rate</u>	<u>Gasoline</u>	<u>Diesel</u>
Delaware		-	23.0¢	22.0¢
District of Columbia		-	23.5	23.5
North Carolina		Yes	37.8	37.8
Pennsylvania		Yes	32.3	39.2
Virginia	Yes*	-	19.9	20.2
West Virginia		Yes	34.7	34.7
Maryland		-	23.5¢	24.25¢
National Average		-	30.4¢	30.0¢

Note: The tax rates for other states may include additional state taxes and fees.

*Virginia imposes a 2.1% sales tax in Northern Virginia for transportation that is collected at the distributor level.

Source: American Petroleum Institute

Exhibit 2 shows the amount of local sales tax revenues generated in Northern Virginia jurisdictions in fiscal 2007 through 2011. It is assumed that the tax proposed by the bill

will be applied to the retail price of motor fuel instead of the wholesale price as in Virginia.

Exhibit 2
Northern Virginia Local Sales Tax Revenues
Fiscal 2007-2011

<u>Locality</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Arlington County	\$3,771,350	\$3,738,090	\$3,310,688	\$3,116,089	\$3,919,086
Fairfax County	22,277,757	24,853,138	21,161,193	20,238,696	22,908,710
Loudoun County	8,303,207	9,266,846	8,185,363	7,910,011	9,464,579
Alexandria City	2,498,120	2,793,990	2,361,611	2,638,904	3,260,035
Fairfax City	1,430,842	1,307,130	1,108,263	1,656,957	2,467,878
Falls Church City	403,624	433,480	330,402	558,849	1,002,005
Northern Virginia					
Transportation Commission	\$38,684,902	\$42,392,674	\$36,457,519	\$36,119,507	\$43,022,294
Prince William County	\$11,926,870	\$13,293,562	\$11,784,558	\$11,543,386	\$13,749,156
Stafford County	3,957,734	4,502,861	3,768,233	3,926,166	5,011,443
Fredericksburg City	1,586,685	1,610,258	1,379,537	1,322,784	1,873,488
Manassas City	1,646,455	1,712,072	1,413,530	1,727,327	2,024,665
Manassas Park City	860,730	949,672	948,388	703,088	689,392
Spotsylvania County	N/A	N/A	N/A	928,906	3,152,621
Potomac and Rappahannock					
Transportation Commission	\$19,978,476	\$22,068,425	\$19,294,247	\$20,151,658	\$26,500,765
Total	\$58,663,377	\$64,461,099	\$55,751,766	\$56,271,165	\$69,523,059

Source: Virginia Department of Revenue

The CTP is MDOT's six-year budget for the construction, development, and evaluation of transportation capital projects. It is revised annually to reflect updated information and changing priorities. It contains a list of current and anticipated major and minor capital projects for the fiscal year it is issued and for the next five fiscal years, including an expanded description of major capital projects; a detailed breakdown of the costs of a project, project expenditures to date, expected expenditures for the current fiscal year, projected annual expenditures for the next five years, and total project costs; and MDOT's estimates of the source (*i.e.*, federal funds, special funds, etc.) and amount of revenues required to fund projects in the CTP. The CTP also must contain updates on subjects such as bicycle and pedestrian transportation and technology spending.

State Expenditures: The Comptroller's Office advises that it will incur expenditures to administer the local transportation tax, including form changes, notification costs relating to mailing and postage, computer programming modifications, and the processing of additional refunds. As a result, special fund expenditures may increase by \$1.1 million in fiscal 2014, \$813,200 in fiscal 2015, \$851,400 in fiscal 2016, \$891,300 in fiscal 2017, and by \$933,100 in fiscal 2018.

Local Revenues: The bill authorizes counties and municipalities to impose a sales and use tax on motor fuel of up to 2% of the taxable price of motor fuel. This local transportation tax (1) may not be imposed within a municipality by both a county and municipality and (2) must be used to finance local road and transit capital projects. The impact on local revenues depends on the number of local jurisdictions that impose the tax. If all local jurisdictions impose the tax, revenues for local road and transit capital projects will increase by \$229.1 million in fiscal 2014, \$241.6 million in fiscal 2015, \$249.7 million in fiscal 2016, \$257.7 million in fiscal 2017, and by \$263.0 million in fiscal 2018.

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 (including 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 transportation infrastructure.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Economy.com, U.S. Energy Information Administration, Maryland Department of Transportation, Maryland Transportation Authority, Virginia Department of Revenue, Department of Legislative Services

Fiscal Note History: First Reader - February 19, 2013
mlm/jrb

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