

Department of Legislative Services  
 Maryland General Assembly  
 2016 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 116 (Delegate O'Donnell, *et al.*)  
 Ways and Means

Motor Fuel Tax Rates - Consumer Price Index Adjustment - Repeal

This bill repeals the annual indexing to inflation of specified motor fuel tax rates. Under current law, motor fuel taxes are increased annually based on inflation, as measured by the Consumer Price Index (CPI). The bill repeals any future increases beginning in fiscal 2017.

The bill takes effect June 1, 2016.

Fiscal Summary

**State Effect:** Transportation Trust Fund (TTF) revenues decrease by \$7.0 million in FY 2017 due to repeal of the indexing of motor fuel tax rates. Future year estimates reflect projected fuel consumption and inflation. Expenditures are not directly affected.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
SF Revenue	(\$7.0)	(\$26.5)	(\$46.2)	(\$66.1)	(\$86.5)
Expenditure	0	0	0	0	0
Net Effect	(\$7.0)	(\$26.5)	(\$46.2)	(\$66.1)	(\$86.5)

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

**Local Effect:** None.

**Small Business Effect:** Minimal.

## Analysis

**Current Law:** Beginning July 1, 2013, motor fuel tax rates are indexed for all fuels, except for aviation or turbine fuel, to the annual change in the CPI. Motor fuel tax rates will increase annually if the Comptroller's Office determines that the CPI has increased over a specified 12-month period. The increase is equal to the percentage growth in the CPI multiplied by the motor fuel tax rates, rounded to the nearest one-tenth of 1 cent. Motor fuel tax rates will remain unchanged if there is no increase (or decrease) in the CPI.

In addition, the tax rates may not increase by more than 8% of the tax rates imposed in the previous year. A floor tax is imposed on any person possessing tax-paid motor fuel for sale at the start of business on the date that the tax rate is increased. Individuals are required to compile and file an inventory held at the close of business on the date preceding an increase and remit within 30 days any additional tax that is due.

The revenue generated as a result of the motor fuel tax rate indexing is distributed to TTF and is retained by the Maryland Department of Transportation (MDOT). As of January 1, 2016, the per gallon motor fuel tax rate is equal to 32.6 cents (gasoline and clean-burning fuel), 33.35 cents (special fuel/diesel), and 7 cents (aviation and turbine fuel).

**Background:** The Transportation Infrastructure Investment Act of 2013 (Chapter 429) was enacted to substantially increase the amount of revenues available for transportation projects, primarily by increasing motor fuel taxes.

Chapter 429 alters motor fuel taxes specifically by:

- indexing motor fuel tax rates, except for aviation and turbine fuel, to inflation beginning in fiscal 2014;
- imposing a 1% sales and use tax equivalent rate on all motor fuel, except for aviation and turbine fuel, beginning in fiscal 2014, increasing to 2% beginning on January 1, 2015, and to 3% beginning in fiscal 2016;
- unless federal remote sales tax legislation is enacted by December 1, 2015, the sales and use tax equivalent rate increases from 3% to 4% beginning January 1, 2016, and then increases to 5% beginning in fiscal 2017; and
- if federal remote sales tax legislation is enacted and takes effect by December 1, 2015, the sales and use tax equivalent rate remains at 3%, and the Comptroller is then required to distribute 4% of total State sales and use tax revenues to TTF.

Chapter 429 also (1) increases the vehicle registration fee surcharge; (2) requires the Governor to include in the operating or capital budget specified appropriations to the State Highway Administration; (3) places procedural restrictions on transfers from TTF and use of TTF monies; and (4) requires the Maryland Transit Authority to increase base fares by specified increases in the CPI.

**State Fiscal Effect:** The bill repeals the indexing of specified motor fuel tax rates beginning in fiscal 2017. Under the current economic forecast, the CPI is expected to increase by about 2% annually through fiscal 2021. **Exhibit 1** shows the estimated reduction in gasoline tax rates, motor fuel tax revenues, and gasoline taxes paid by a typical driver as a result of the bill.

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**Exhibit 1  
Net Impact of Bill  
Fiscal 2017-2021**

	<u><b>FY 2017</b></u>	<u><b>FY 2018</b></u>	<u><b>FY 2019</b></u>	<u><b>FY 2020</b></u>	<u><b>FY 2021</b></u>
Total Rate Decrease <sup>1</sup>	0.2¢	0.8¢	1.4¢	2.0¢	2.6¢
Typical Driver Savings	\$1	\$4	\$7	\$9	\$11
Revenues (\$ in Millions)	(\$7.0)	(\$26.5)	(\$46.2)	(\$66.1)	(\$86.5)

<sup>1</sup>Expressed in constant 2016 dollars and based on average annual light duty fleet economy and 12,000 annual miles.

Source: Department of Legislative Services

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MDOT is authorized to issue revenue bonds, called Consolidated Transportation Bonds, for its capital program. These bonds are not backed by the full faith and credit of the State. If TTF revenues decrease, MDOT's capacity to issue debt decreases due to the debt service requirements. As a result, capital program spending could decrease by a significant amount over the six-year period.

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**Additional Information**

**Prior Introductions:** SB 10 of 2015 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. HB 174 of 2015 received a hearing in the House Ways and Means Committee, but no further action was taken. The hearing for HB 774 of 2015 was canceled, and no further action was taken. SB 589 of 2015, similar

legislation that also proposed to repeal future increases in the sales and use tax equivalent rate, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 483, received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 8, 2016  
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