

**Department of Legislative Services**  
 Maryland General Assembly  
 2022 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 337 (Senator Hough, *et al.*)  
 Budget and Taxation

**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 2023. **The bill takes effect June 1, 2022.**

**Fiscal Summary**

**State Effect:** Transportation Trust Fund (TTF) revenues decrease by \$37.5 million in FY 2023 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; however, the Maryland Department of Transportation (MDOT) estimates the department will be required to reduce its capital program by an estimated \$855.0 million in FY 2023 through 2027 as discussed below.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
SF Revenue	(\$37.5)	(\$56.6)	(\$75.4)	(\$94.7)	(\$117.0)
Expenditure	0	0	0	0	0
Net Effect	(\$37.5)	(\$56.6)	(\$75.4)	(\$94.7)	(\$117.0)

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

**Local Effect:** None.

**Small Business Effect:** Minimal.

## Analysis

**Current Law:** 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 the TTF and is retained by MDOT. As of July 1, 2021, the per gallon motor fuel tax rate is equal to 36.1 cents (gasoline and clean-burning fuel), 36.85 cents (special fuel/diesel), and 7.0 cents (aviation and turbine fuel).

### *Legislation Establishing CPI Index Adjustment*

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; and
- imposing a 1% sales and use tax equivalent rate on all motor fuel, except for aviation and turbine fuel, beginning in fiscal 2014 and increasing in several steps to 5% beginning in fiscal 2017.

**State Fiscal Effect:** The bill repeals the indexing of specified motor fuel tax rates beginning in fiscal 2023. **Exhibit 1** shows the estimated reduction in motor fuel tax revenues as a result of the bill.

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**Exhibit 1**  
**Projected Impact on TTF Revenues**  
**Fiscal 2023-2027**

<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
(\$37.5)	(\$56.6)	(\$75.4)	(\$94.7)	(\$117.0)

Source: Maryland Department of Transportation; Department of Legislative Services

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TTF revenues are used to fund the State capital program. MDOT advises that based on its estimated revenue decrease resulting from the bill, MDOT will be required to reduce its capital program by \$855.0 million in fiscal 2023 through 2027 to maintain its debt service coverage ratio.

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**Additional Information**

**Prior Introductions:** HB 957 of 2018 received an unfavorable report from the House Ways and Means Committee. HB 911 of 2017 and HB 116 of 2016 received a hearing in the House Ways and Means Committee, but no further action was taken. 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.

**Designated Cross File:** HB 144 (Delegate Morgan, *et al.*) - Ways and Means.

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

**Fiscal Note History:** First Reader - February 7, 2022  
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