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Secretary of Transportation
South Carolina Department of Transportation

October 29, 2009

Commissioners, South Carolina Tax Realignment Commission
Attention: Mr. Craig Parks
Senate Finance Committee
Post Office Box 142
Columbia, South Carolina 29202-0142

Dear Commissioners:

Thank you for allowing me to present to the Commission yesterday. I commend you for your service and am encouraged by your group's efforts to thoroughly examine the tax structure in South Carolina.

As I mentioned in my comments, there is a distinct disconnect in highway funding in South Carolina. As cars become more energy efficient and alternative vehicles become more popular, highway revenues are declining and we have less money to perform necessary maintenance. I look forward to hearing what solutions the Commission has to offer and encourage you to contact me if I can be of any assistance as you prepare your report.

As promised, I am enclosing a summary of my presentation. I am also providing a history of motor fuel tax in South Carolina and the most recent tax rates across the nation. Thank you again for your time and service. I look forward to receiving your report.

Sincerely,

A handwritten signature in black ink that reads "H. B. Limehouse, Jr." with a long, sweeping underline.

H. B. Limehouse, Jr.
Secretary of Transportation

HBL/kml
Enclosures



SC Taxation Realignment Commission

October 28, 2009

- SCDOT's primary source of state revenue is a 16 cents motor fuel user fee.
- Across the Southeast region, 51% of state source highway funding is derived from sources other than fuel user fees. In South Carolina, close to 100% comes from the user fee on motor fuel.
- The motor user fee was last increased in 1987 and has never been adjusted for inflation. It is among the lowest in the nation.
- The only way to increase revenue is to put more cars on the road and burn more gallons of motor fuel. This puts a greater strain on the highways and requires more maintenance.
- Motor fuel revenues have been declining for the past two years. SC is down approximately 4%. This same trend is happening on the Federal level.
- National policy is in conflict with the highway funding structure. Congress is encouraging the use of alternative fuels and increasing emission standards. Since both the Federal government and the state government here in South Carolina pay for highways from fuel taxes, this green initiative ultimately hurts our revenue.
- SCDOT also pays sales tax on the goods that we purchase. The Agency is even responsible for the motor fuel user fee when we put gasoline and diesel in state vehicles.

Remove sales tax exemption on motor fuel

- At least 8 states, including Georgia and North Carolina, have a sales tax or similar ad valorem tax based on the price of motor fuel.
- According to the BEA's report, the removal of the exemption in SC would generate approximately \$500 M annually.

Sales tax AND motor fuel user fee combination

- Some states, like NC, charge an ad valorem tax AND a motor fuel user fee on gasoline.
- NC's tax is 17 cents, plus a 7% ad valorem tax. The sales tax is collected from suppliers, is based on the published wholesale price of fuel, and is adjusted every 6 months.
- NC's total tax cannot go below 30 cents.
- In a model like North Carolina's, SC would keep the 16 cents motor fuel user fee in place and add an additional 6% tax. Depending on the price of fuel, SCDOT estimates that this could generate \$775 M (or an additional \$348 M) for highways annually. A floor similar to NC's is essential to allow revenues to remain consistent for planning purposes.
- If the desire was to remain revenue neutral at the time of implementation, SC could reduce the motor fuel user fee from 16 cents to 10.5 cents and add a 3% tax.

State General Fund

- According to the Federal Highway Administration, 32 states currently place general fund revenues directly into the state highway fund.
- SCDOT receives approximately \$116,000 from the General Fund. This money is for mass transit and commercial motor vehicles rest areas.

User Fee on Automotive Parts

- Some states charge a user fee for automotive parts such as tires, batteries or motor oil.
- Rather than charge per item, Utah determined that 17% of their state sales tax was derived from the sale of vehicles and automotive parts.
- Their General Assembly then dedicated 8.3% of the state sales tax to their highway fund.

Sales Tax on Vehicles

- Many states dedicate the sales tax on vehicles to the highway fund.
- In SC, the sales tax on vehicles, which is capped at \$300, was expected to generate approximately \$94 M in FY 2008-2009.
- According to the BEA, if the \$300 cap was replaced with a 3% sales tax, an estimated \$123.5 M (or an additional \$29 M) would have been collected in FY 2008-2009.
- If the cap was replaced by a 5% sales tax, an estimated \$205.9 M (or an additional \$111 M) would have been collected.
- In NC, there is a 3% Highway Use Tax on vehicles in lieu of a state sales tax. There is no cap on personal vehicles. Revenue collected from the tax goes towards the North Carolina Highway Trust Fund, with a portion diverted to the General Fund. The portion diverted to the General Fund serves to hold education harmless, since they were the recipients of a portion of this funding prior to 1989.
- Virginia charges a 3% Motor Vehicle Sales and Use Tax on vehicles. There is no cap. These funds are dedicated to the General Fund but a portion of the General Fund in Virginia is dedicated to highways.
- West Virginia charges a 5% sales tax on vehicles with no cap. These funds are directed to the State Road Fund.

Fees on Rental Cars

- States like Virginia and Florida both charge a daily user fee on rental cars and use this money for highway maintenance.
- The burden of this tax is paid mainly by out of state visitors.

Alternative Fuel Vehicles

- Alternative fuel vehicles are becoming increasingly popular in the US.
- There are many types of alternative fuel autos, most of which do not use gasoline and therefore the drivers do not pay for using the roads.

S.C. FUEL TAX HISTORY RECAP
(ALL RATES ARE PER GALLON)

Act ___ of 1913	½ cent (Gen. Fund) <ul style="list-style-type: none">■ To Department of Agriculture and Commerce
Act 494 of 1922	2 cents (Hwy. Fund) + ¼ cent (Gen. Fund) <ul style="list-style-type: none">■ 1 cent to the General Fund■ 1 cent to the counties
Act 731 of 1924	3 cents (Hwy. Fund) + ¼ cent (Gen. Fund) <p style="text-align: center;">Until 12/31/24</p> <ul style="list-style-type: none">■ 1 cent to the counties■ 1 cent to the General Fund■ 1 cent to the Highway Department <p style="text-align: center;">After 12/31/24</p> <ul style="list-style-type: none">■ 3 cents to the Highway Department
Act 34 of 1925	5 cents (Hwy. Fund) + ¼ cent (Gen. Fund) <ul style="list-style-type: none">■ 2 cents to the counties■ 3 cents to the Highway Department
Act 102 of 1929	6 cents (Hwy. Fund) + ¼ cent (Gen. Fund) <ul style="list-style-type: none">■ 1 cent to the counties■ 5 cents to the Highway Department
Act 1053 of 1950 (section 96)	7 cents (Hwy. Fund) + ¼ cent (Gen. Fund) <ul style="list-style-type: none">■ 1 cent to the counties (Aid to Subs)■ 5 cents to the Highway Department■ 1 cent to the "C" fund*
Act 140 of 1959	7 cents (Hwy. Fund) + ¼ cent (Gen. Fund) <ul style="list-style-type: none">■ ¼ cent to General Fund for Agriculture increased to ½ cent to General Fund for Agriculture (Fuel Pump Inspection Program)
Act 1575 of 1972	8 cents (Hwy. Fund) + ¼ cent (Gen. Fund) <ul style="list-style-type: none">■ 1 cent to the counties (Aid to Subs)■ 5.67 cents to the Highway Department■ 1.33 cents to the "C" fund*
Act 141 of 1977	9 cents (Hwy. Fund) + ¼ cent (Gen. Fund) <ul style="list-style-type: none">■ 1 cent to the counties (Aid to Subs)■ 6.34 cents to the Highway Department■ 1.66 cents to the "C" fund*

Act 197 of 1979	10 cents (Hwy. Fund) + ¼ cent (Gen. Fund) ■ 1 cent to the counties (Aid to Subs) ■ 7.09 cents to the SCDHPT ■ 1.91 cents to the "C" fund*
Act 506 of 1980	11 cents (Hwy. Fund) + ¼ cent (Gen. Fund) ■ 1 cent to the counties (Aid to Subs) ■ 7.84 cents to the SCDHPT ■ 2.16 cents to the "C" fund*
Act 177 of 1981	13 cents (Hwy. Fund) + ¼ cent (Gen. Fund) ■ 1 cent to the counties (Aid to Subs) ■ 9.34 cents to the SCDHPT ■ 2.66 cents to the "C" fund*
Act 197 of 1987	16 cents (Hwy. Fund) + ¼ cent (Gen. Fund) ■ 1 cent to the counties (Aid to Subs) ■ 9.34 cents to the SCDHPT ■ 2.66 cents to the "C" fund* ■ 3 cents to the SHIMS fund ■ \$10 million transfer to Commerce
Act 473 of 1990	16 cents (Hwy. Fund) + ¼ cent (Gen. Fund) + ½ cent SUPERB Fund ■ ½ cent added for DHEC's SUPERB Fund to clean up leaking underground storage tanks that existed prior to the 1988 implementation of federal guidelines/penalties governing underground storage tanks.
Act 171 of 1991 (Part II Section 22)	15 cents (Hwy. Fund) + 1¼ cent (Gen. Fund) + ½ cent SUPERB Fund ■ 1 cent to the state's general fund (Aid to Subdivisions formula was revised and 1 cent fuel tax became part of state general revenue) ■ 9.34 cents to the SCDHPT ■ 2.66 cents to the "C" fund* ■ 3 cents to the SHIMS fund ■ Increase transfer to Commerce from \$10 million to \$15 million
Act 181 of 1993	15 cents (Hwy. Fund) + 1¼ cent (Gen. Fund) + ½ cent SUPERB Fund ■ 1 cent to the state's general fund ■ 12.34 cents to the SCDOT (less transfers to DNR and Commerce) ■ 2.66 cents to the "C" fund*

	<ul style="list-style-type: none"> ■ IFTA Program placed under DMV/DPS with funding from Highway Fund
Act 164 of 1993 (Part II Section 15)	<p>15 cents (Hwy. Fund) + 1¼ cent (Gen. Fund) + ½ cent SUPERB Fund</p> <ul style="list-style-type: none"> ■ Increase the distribution to DNR from one-half percent of the revenue from 13 cents of the gasoline tax to one percent of the revenue from 13 cents of the gasoline tax.
(Part II Section 23)	<ul style="list-style-type: none"> ■ \$9.5 million transferred from Highway Fund to C-Fund (annual requirement)
(Part II Section 49)	<ul style="list-style-type: none"> ■ Increased transfer to Commerce from \$15 million to \$18 million
Act 497 of 1994 (Part II Section 34)	<p>15 cents (Hwy. Fund) + 1¼ cent (Gen. Fund) + ½ cent SUPERB Fund</p> <ul style="list-style-type: none"> ■ Created Code Section 12-27-12 prohibiting the use of Highway Fund dollars for non-transportation purposes.
Act 136 of 1995	<p>15 cents (Hwy. Fund) + 1¼ cent (Gen. Fund) + ½ cent SUPERB Fund</p> <ul style="list-style-type: none"> ■ Effective May 1, 1996. Motor fuel tax point of payment transferred to terminal (wholesale) ■ This Act inadvertently deleted Code Section 12-27-12, which had been enacted the previous year to protect the Highway Fund from diversions to the General Fund.
Act 145 (Part II Section 49)	<p>15 cents (Hwy. Fund) + 1¼ cent (Gen. Fund) + ½ cent SUPERB Fund</p> <p>Interest from the Highway Fund, Economic Development Account and C-Fund to be placed into the Highway Fund (previously went to the General Fund)</p>
Act 458 of 1996 (Part II Section 5A)	<p>16 cents (Hwy. Fund) + ¼ cent (Gen. Fund) + ½ cent SUPERB Fund</p> <p>Beginning June 1997:</p> <ul style="list-style-type: none"> ■ .5 cent to the state's general fund (Previously one cent. This is the Act that transferred the one cent back to SCDOT over a two-year period) ■ 12.84 cents to the SCDOT (less transfers to DNR and Commerce) ■ 2.66 cents* to the "C" fund ■ \$9.5 million from Highway Fund to C-Fund <p>Beginning July 1, 1997:</p> <p>16 cents</p>

- 13.34 cents to the SCDOT
(less transfers to DNR and Commerce)
- 2.66 cents* to the "C" fund
- \$9.5 million from Highway Fund to C-Fund

Act 458 of 1996 (Part II Section 55)

16 cents (Hwy. Fund) + ½ cent (Gen. Fund) + ½ cent SUPERB Fund

- .25 cents must be used by SCDOT for Mass Transit

Act 176 of 2005

July 1, 2005:

16.25 cents + ½ cent SUPERB Fund

- ".25 cent Inspection Fee" transferred to Highway Fund, except 1/10th to Dept of Agriculture
- 13.59 cents to SCDOT
(less transfers to DNR and Dept. of Agriculture
– This Act deleted the transfer to Commerce with a two-year phase-in.)
- 2.66 cents* to the "C" fund
- \$9.5 million to C-Fund
- This Act did away with SCDOT contribution to the Statewide Cost Allocation Plan, a \$4 million transfer to the General Fund

Motor Fuel Excise Tax Rates

1-Jan-08

Note: The tax rates listed are fuel excise taxes collected by distributor/supplier/retailers in each state. Additional taxes may apply to motor carriers. Carrier taxes are coordinated by IFTA.

State	Gasoline			Diesel Fuel			Gasohol			Notes
	Excise Tax	Add'l Tax	Total Tax	Excise Tax	Add'l Tax	Total Tax	Excise Tax	Add'l Tax	Total Tax	
Alaska	8		8	8		8	8		8	
Arkansas	21.5		21.5	22.5		22.5	21.5		21.5	
Colorado	22		22	20.5		20.5	22		22	
Florida /2	4	11.6	15.6	16.8	12.2	29	4	11.6	15.6	Sales tax added to excise /2
Hawaii /1	17		17	17		17	17		17	Sales tax applicable
Illinois /1	19	1.1	20.1	21.5	1.1	22.6	19	1.1	20.1	Sales tax add., env. & LUST fee /3
Iowa	20.7		20.7	22.5		22.5	19		19	
Kentucky	19.6	1.4	21	16.6	1.4	18	19.6	1.4	21	Environmental fee /4 /3
Maine	27.6		27.6	28.8		28.8	27.6		27.6	/5
Massachusetts	21		21	21		21	21		21	
Minnesota	20		20	20		20	20		20	
Missouri	17	0.55	17.55	17	0.55	17.55	17	0.55	17.55	Inspection fee
Nebraska	23	0.9	23.9	23	0.3	23.3	23	0.9	23.9	Petroleum fee /5
New Hampshire	18	1.625	19.625	18	1.625	19.625	18	1.625	19.625	Oil discharge cleanup fee
New Mexico	17	1.875	18.875	21	1.875	22.875	17	1.875	18.875	Petroleum loading fee
North Carolina	29.9	0.25	30.15	29.9	0.25	30.15	29.9	0.25	30.15	/4 Inspection tax
Ohio	28		28	28		28	28		28	Plus 3 cents commercial
Oregon /1	24		24	24		24	24		24	
Rhode Island	30	1	31	30	1	31	30	1	31	LUST tax
South Dakota /1	22		22	22		22	20		20	
Texas	20		20	20		20	20		20	
Vermont	19	1	20	25	1	26	19	1	20	Petroleum cleanup fee
Washington /8	36		36	36		36	36		36	0.5% privilege tax
Wisconsin	30.9	2	32.9	30.9	2	32.9	30.9	2	32.9	/5 Petroleum Inspection fee
Dist. of Columbia	20		20	20		20	20		20	
Federal	18.3	0.1	18.4	24.3	0.1	24.4	13	0.1	13.1	/7 LUST tax

and TN, one cent; and VA 2%.

/2 Local taxes for gasoline and gasohol vary from 10.2 cents to 18.2 cents. Plus a 2.07 cent per gallon pollution tax.

/3 Carriers pay an additional surcharge equal to AZ-8 cents, IL-6.3 cents (g) 6.0 cents (d), IA-11 cents, KY-2% (g) 4.7% (d).

/4 Tax rate is based on the average wholesale price and is adjusted quarterly. The actual rates are: KY, 9%; and NC, 17.5¢ + 7%.

/5 Portion of the rate is adjustable based on maintenance costs, sales volume, cost of fuel to state government, or inflation.

/6 Large trucks pay an additional 3.5 cents.

/7 Tax rate is reduced by the percentage of ethanol used in blending (reported rate assumes the max. 10% ethanol).

/8 Tax rate scheduled to increase to 37.5 cents on July 1, 2008.