

## TRAC Subcommittee on SC's Fuel Tax Structure

### Staff Draft "Option/Example to Consider"

#### BACKGROUND

- SC's "motor fuel user fee" for both gasoline and diesel is currently 16 cents/gallon. When combined with 0.75 cents/ gallon in inspection and environmental fees, SC's total gas tax is 16.75 cents/gallon.
- This has been the tax rate for the last 23 years (since 1987).
- SC's tax is the lowest among the 12 southeastern states and is the 3rd lowest in the entire nation. As information, NC's current fuel tax rate is 30.3 cents/gallon and Georgia's is approximately 24 cents/gallon "at the pump".
- SC's tax is collected (and remitted to the DOR) at the "terminal rack" level and passed along to the final consumer "at the pump".
- The tax is a "fixed rate tax", or "flat" excise tax that remains unchanged regardless of changes in the price of oil.
- That means that motor fuel revenue is 100% tied to consumption, and as that trend may continue flat or downward (due to a combination of more fuel efficient vehicles (including those that don't run on fossil fuels at all) and higher crude oil prices), the only real potential growth in revenue (from the current tax structure) comes primarily from a growth in population (or factors directly related to population, such as licensed drivers), which historically grows at just over 1% per year (population).
- As evidence of this fact, over the last 13 years (FY97-FY09), motor fuel revenue has grown at a rate of 2% per year; that is less than the growth in the rate of population + inflation (approx. 4% per year) over that period and is less than the growth in the price of a barrel of oil (9% per year).
- ***NOTE: In 1987 (the last time the motor fuel user fee was adjusted in SC), it cost \$26,000 to "resurface" 1 mile of a two lane roadway. Today that cost is \$180,000. That's a 600% increase in cost, or roughly 9% per year.***

- Taking a more near term snapshot, over the last 5 years (FY05-FY09), motor fuel revenue has grown at a rate of 0.58% per year.
- And last year (FY09), motor fuel revenue fell by 3.6%.
- Both NC and GA base their motor fuel tax rates on a combination, or a “hybrid” of: 1) a fixed rate/flat “per gallon” excise tax and a 2) variable rate based on some price component (similar to a sales tax) of fuel (either wholesale or retail). The two rates are summed to a final “cents per gallon” figure, providing a total tax rate for a period as described below.
- These rates are recomputed every 6 months based on a retrospective look at fuel prices over the previous period and are implemented prospectively during the following 6 months.
- Neither tax structure places additional cost or burden on the states’ retailers and/or gas station operators by requiring them to collect, remit, or re-compute the tax. Instead, the tax is collected and remitted as it is here, at the terminal rack level (In NC; in GA it is at the distributor level).

“Option/Example to Consider” related to the current 16 cent/gallon Motor Fuel Fee

- Change the current fixed rate tax structure to a hybrid combination based on a flat excise tax and a variable rate based on a wholesale price component, preferably based on US Department of Energy data or other reliable data sources.
- Ensure that the price component is an excise tax, rather than a sales tax, to ensure the money continues to be dedicated to roads and is not unintentionally diverted to the General Fund for other uses.
- So as to ensure no burden or cost to retailers and distributors in implementing this new structure, continue the tax collection and remittance point at the terminal rack level.
- Adjust the price component at least annually, preferably semi-annually (every 6 months) to capture a tax rate that more accurately reflects fuel prices in a timely manner.

- Ensure a “floor”, or minimum tax rate regarding the variable rate so that road funding is stabilized to the extent possible.
- Consider a “ceiling”, or maximum tax rate, that cannot be exceeded. An appropriate ceiling to consider would be NC’s “floor” (that is, the total tax rate could not exceed 29.9 cents/gallon as that is NC’s current “floor”).
- Ensure in any recommendation on a fuel structure change that the recommendation accounts for the current distribution of portions of the gas tax revenue as required under current law, so that those distributions are not unintentionally and adversely affected (this is a technical/mathematical exercise that can easily be incorporated into any final recommendation as necessary).
- Ensure in the transition to the hybrid tax structure, that the DOR has adequate resources to properly and timely implement the new structure.
- NOTE: If “revenue neutrality” were to become an issue, the above “option for consideration” is “revenue neutral” when the current 16 cent/gallon excise tax is reduced by 9-cents (to 7 cents/gallon) and it is combined with a price component of 4.65% (x the current weighted average wholesale price ( $\$1.935 \times 4.65\% = 9\text{-cents/gallon}$ )).

## Georgia

48-9-3. Levy of excise tax; rate; taxation of motor fuels not commonly sold or measured by gallon; rate; prohibition of tax on motor fuel by political subdivisions; exception; exempted sales by licensed distributors; exemption of motor fuel used for non-highway purposes; exemption of motor fuel for public mass transit buses

(a)(1) An excise tax is imposed at the rate of 7 1/2 cent(s) per gallon on distributors who sell or use motor fuel within this state. It is the intention of the General Assembly that the legal incidence of the tax be imposed upon the distributor.

§ 48-9-14. Second motor fuel tax; rate; exemptions; applicability of Article 1 of Chapter 8 of this title

(a) In addition to the motor fuel tax imposed by Code Section 48-9-3, there is imposed a second motor fuel tax.

(b)(1) The motor fuel tax imposed by this Code section is levied at the rate of 3 percent of the retail sale price less the tax imposed by Code Section 48-9-3 upon the sale, use, or consumption, as defined in Code Section 48-8-2, of motor fuel in this state. This tax shall be subject only to the exemptions provided in Code Section 48-9-3.

(B) At the time the tax imposed by Code Section 48-9-3 attaches to a sale or transfer of motor fuels, a prepaid state tax shall be collected. The same person remitting the tax imposed under Code Section 48-9-3, but on a separate schedule, shall remit the prepaid state tax to the state. The tax shall be separately invoiced throughout the chain of distribution until it reaches the dealer who makes the retail sale. The commissioner shall issue the rate of prepaid state tax on a semiannual basis, rounded to the nearest \$.001 per gallon for use in the following semiannual period. The rate shall be calculated at 4 percent of the state-wide average retail price by motor fuel type as compiled by the Energy Information Agency of the United States Department of Energy, the Oil Pricing Information Service, or a similar reliable published index less taxes imposed under Code Section 48-9-3, this subsection, and all local sales and use taxes. In the event that the retail price changes by 25 percent or more within a semiannual period, the commissioner shall issue a revised prepaid state tax rate for the remainder of that period.

## North Carolina

### Article 36 Motor Fuel Taxes

§ 105-449.62. Nature of tax.

This Article imposes a tax on motor fuel to provide revenue for the State's transportation needs and for the other purposes listed in Part 7 of this Article. The tax is collected from the supplier or importer of the fuel because this method is the most efficient way to collect the tax. The tax is designed, however, to be paid ultimately by the person who consumes the fuel. The tax becomes a part of the cost of the fuel and is consequently paid by those who subsequently purchase and consume the fuel. (1997-60, s. 1.)

§ 105-449.80. Tax rate.

(a) Rate. – The motor fuel excise tax rate is a flat rate of seventeen and one-half cents (17 1/2¢) a gallon plus a variable wholesale component. The variable wholesale component is either three and one-half cents (3 1/2¢) a gallon or seven percent (7%) of the average wholesale price of motor fuel for the applicable base period, whichever is greater.

The two base periods are six-month periods; one ends on September 30 and one ends on March 31. The Secretary must set the tax rate twice a year based on the wholesale price for each base period. A tax rate set by the Secretary using information for the base period that ends on September 30 applies to the six-month period that begins the following January 1. A tax rate set by the Secretary using information for the base period that ends on March 31 applies to the six-month period that begins the following July 1.

(b) Wholesale Price. – The Secretary must determine the average wholesale price of motor fuel for each base period. To do this, the Secretary must use information on refiner and gas plant operator sales prices of finished motor gasoline and No. 2 diesel fuel for resale, published by the United States Department of Energy in the "Monthly Energy Review", or equivalent data.

The Secretary must compute the average sales price of finished motor gasoline for the base period, compute the average sales price for No. 2 diesel fuel for the base period, and then compute a weighted average of the results of the first two computations based on the proportion of tax collected on each under this Article for the base period. The Secretary must then convert the weighted average price to a cents-per-gallon rate and round the rate to the nearest one-tenth of a cent (1/10¢). If the converted cents-per-gallon rate is exactly between two-tenths of a cent (2/10¢) the Secretary must round the rate up to the higher of the two.

(c) Notification. – The Secretary must notify affected taxpayers of the tax rate to be in effect for each six-month period beginning January 1 and July 1. (1995, c. 390, s. 3.)

## REVENUE NEUTRAL OPTIONS - WHOLESALE

### Equivalent User Fee Per Gallon Based on Possible Flat User Fees and Wholesale Price Component Combinations

Weighted Average Price Per Gallon	\$1.935			
Gasoline Gallons Sold June-November 2009	1,717,436,262	\$ 1.924	\$ 1.620	weighted based on gallons per type to total gallons
Diesel Gallons Sold June-November 2009	321,961,526	\$ 1.998	\$ 0.315	
	2,039,397,788		\$ 1.935	

Flat User Fee Per Gallon	Wholesale Price Component						
	0%	1%	2%	3%	4%	<b>4.65%</b>	5%
\$0.00	\$0.000	\$0.019	\$0.039	\$0.058	\$0.077	\$0.090	\$0.097
\$0.01	\$0.010	\$0.029	\$0.049	\$0.068	\$0.087	\$0.100	\$0.107
\$0.02	\$0.020	\$0.039	\$0.059	\$0.078	\$0.097	\$0.110	\$0.117
\$0.03	\$0.030	\$0.049	\$0.069	\$0.088	\$0.107	\$0.120	\$0.127
\$0.04	\$0.040	\$0.059	\$0.079	\$0.098	\$0.117	\$0.130	\$0.137
\$0.05	\$0.050	\$0.069	\$0.089	\$0.108	\$0.127	\$0.140	\$0.147
\$0.06	\$0.060	\$0.079	\$0.099	\$0.118	\$0.137	\$0.150	\$0.157
<b>\$0.07</b>	\$0.070	\$0.089	\$0.109	\$0.128	\$0.147	<b>\$0.160</b>	<b>\$0.167</b>
\$0.08	\$0.080	\$0.099	\$0.119	\$0.138	\$0.157	<b>\$0.170</b>	<b>\$0.177</b>
\$0.09	\$0.090	\$0.109	\$0.129	\$0.148	<b>\$0.167</b>	<b>\$0.180</b>	<b>\$0.187</b>
\$0.10	\$0.100	\$0.119	\$0.139	\$0.158	<b>\$0.177</b>	<b>\$0.190</b>	<b>\$0.197</b>
\$0.11	\$0.110	\$0.129	\$0.149	<b>\$0.168</b>	<b>\$0.187</b>	<b>\$0.200</b>	<b>\$0.207</b>
\$0.12	\$0.120	\$0.139	\$0.159	<b>\$0.178</b>	<b>\$0.197</b>	<b>\$0.210</b>	<b>\$0.217</b>
\$0.13	\$0.130	\$0.149	<b>\$0.169</b>	<b>\$0.188</b>	<b>\$0.207</b>	<b>\$0.220</b>	<b>\$0.227</b>
\$0.14	\$0.140	\$0.159	<b>\$0.179</b>	<b>\$0.198</b>	<b>\$0.217</b>	<b>\$0.230</b>	<b>\$0.237</b>
\$0.15	\$0.150	<b>\$0.169</b>	<b>\$0.189</b>	<b>\$0.208</b>	<b>\$0.227</b>	<b>\$0.240</b>	<b>\$0.247</b>
\$0.16	<b>\$0.160</b>	<b>\$0.179</b>	<b>\$0.199</b>	<b>\$0.218</b>	<b>\$0.237</b>	<b>\$0.250</b>	\$0.257

### Gasoline Prices by Formulation, Grade, Sales Type

(Cents per Gallon Excluding Taxes)

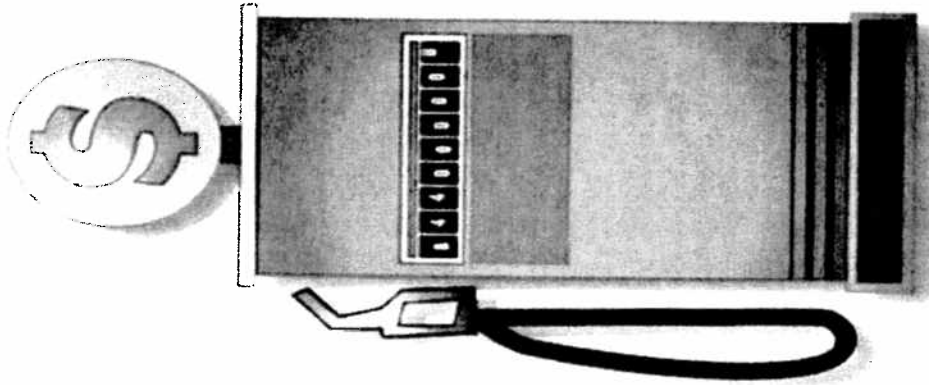
South Carolina - Rack	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	6 Month Average
<b>Gasoline, Average</b>	<b>178.4</b>	<b>195.4</b>	<b>181.6</b>	<b>196.5</b>	<b>202.7</b>	<b>199.5</b>	<b>192.4</b>
Regular Gasoline	176.7	193.8	179.9	194.9	201.2	198.0	190.8
Midgrade Gasoline	183.8	200.7	187.7	201.9	208.8	205.0	198.0
Premium Gasoline	196.9	213.3	199.6	213.9	219.2	215.6	209.8
<b>Conventional, Average</b>	<b>178.4</b>	<b>195.4</b>	<b>181.6</b>	<b>196.5</b>	<b>202.7</b>	<b>199.5</b>	<b>192.4</b>
Conventional Regular	176.7	193.8	179.9	194.9	201.2	198.0	190.8
Conventional Midgrade	183.8	200.7	187.7	201.9	208.8	205.0	198.0
Conventional Premium	196.9	213.3	199.6	213.9	219.2	215.6	209.8
<b>Oxygenated, Average</b>							

## No. 2 Distillate Prices by Sales Type

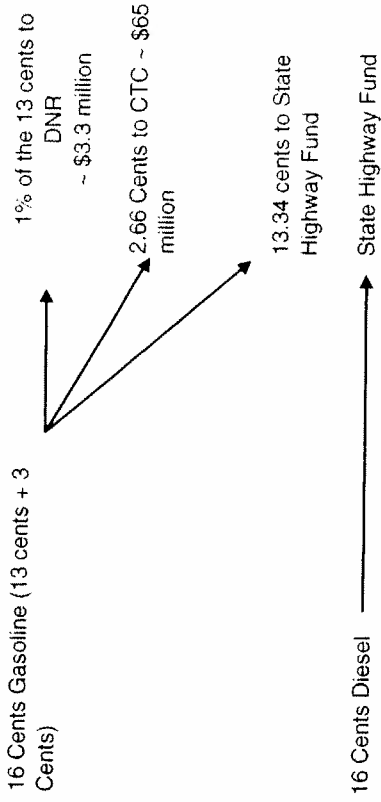
(Cents per Gallon Excluding Taxes)

<b>2 Distillate</b>	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	6 Month Average
<b>Sales to End Users, Average</b>	213.3	207.3	220.8	231.2	235.3		221.6
Residential	239.0	235.1	247.6	262.5	264.5	270.1	253.1
Commercial/Institutional	209.9	199.6	214.6	220.4	220.1		212.9
Industrial	214.6	206.4	216.6	220.6	221.6		216.0
Through Retail Outlets	212.5	208.7	214.4	226.2	222.6	234.9	219.9
Other End Users	208.8	197.2	211.6	217.2	215.5		210.1
<b>Sales for Resale</b>	<b>194.6</b>	<b>183.8</b>	<b>200.7</b>	<b>204.8</b>	<b>203.7</b>	<b>211.0</b>	<b>199.8</b>
<b>No. 2 Diesel Fuel</b>							
<b>Sales to End Users, Average</b>	211.3	203.5	213.9	221.9	219.5		214.0
Commercial/Institutional	209.7	199.0	213.6	218.9	217.0		211.6
Industrial	214.9	206.7	216.2	219.9	220.6		215.7
Through Retail Outlets	212.5	208.7	214.4	226.2	222.6		216.9
Other End Users	208.8	197.0	211.4	217.2	215.5		210.0
<b>Sales for Resale</b>	<b>197.0</b>	<b>185.6</b>	<b>202.7</b>	<b>206.2</b>	<b>204.8</b>		<b>199.3</b>
<b>No. 2 Diesel Fuel, Ultra Low-Sulfur</b>							
<b>Sales to End Users, Average</b>	210.3	202.1	212.7	221.0	219.0		213.0
Commercial/Institutional	209.4	198.3	212.7	217.7	216.8		211.0
Industrial	205.6	197.1	209.4	214.3	215.2		208.3
Through Retail Outlets	211.7	207.9	213.8	225.6	222.5		216.3
Other End Users	209.4	194.2	209.9	215.4	213.6		208.5
<b>Sales for Resale</b>	<b>197.3</b>	<b>185.8</b>	<b>203.1</b>	<b>206.2</b>	<b>204.8</b>		<b>199.4</b>
<b>No. 2 Diesel Fuel, Low-Sulfur</b>							
<b>Sales to End Users, Average</b>	213.7	207.0	217.3	225.8	223.1		217.4
Commercial/Institutional	210.1	199.6	214.8	221.9	220.7		213.4
Industrial	218.4	210.7	220.5	226.0	226.4		220.4
Through Retail Outlets	215.3	211.7	216.8	228.3	222.8		219.0
Other End Users	212.3	206.7	221.6	226.8	229.2		219.3
<b>Sales for Resale</b>	<b>195.0</b>	<b>182.9</b>	<b>199.4</b>	<b>206.1</b>	<b>204.7</b>		<b>197.6</b>
<b>No. 2 Diesel Fuel, High-Sulfur</b>							
<b>Sales to End Users, Average</b>	214.3	207.3	NA	220.8	215.2		
Commercial/Institutional	211.7	205.2	NA	224.0	NA		
Industrial	230.9	224.2	228.8	226.8	226.8		
Other End Users	NA	NA	NA	NA	NA		
<b>Sales for Resale</b>	<b>195.2</b>	<b>185.4</b>	<b>201.3</b>	<b>207.4</b>	<b>205.1</b>		

MOTOR FUEL USER FEE  
REVENUE NEUTRAL CALCULATION INCLUDING WHOLESALE PRICE COMPONENT

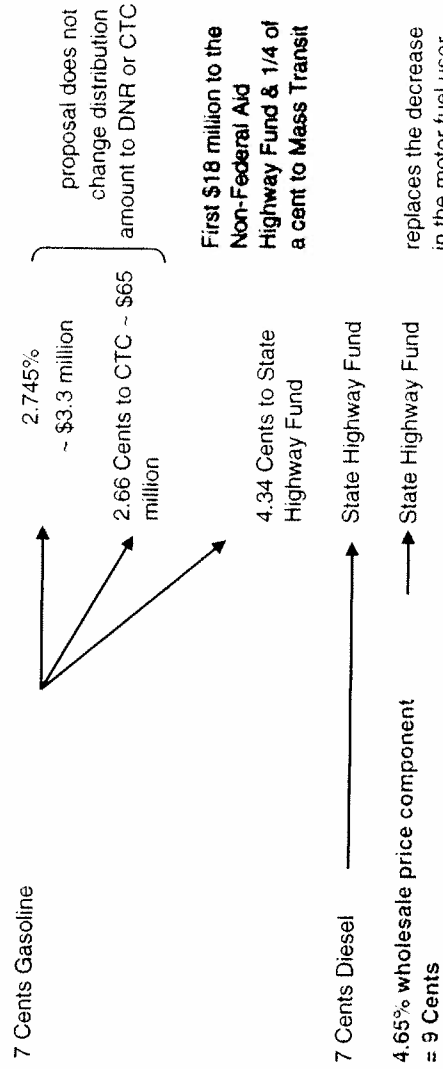


**Current Distribution of the 16 Cents Motor Fuel**



**First \$18 million to the Non-Federal Aid Highway Fund & 1/4 of a cent to Mass Transit**

**Future Distribution of 7 Cents Motor Fuel User Fee and 4.65% Wholesale Price Component**



proposal does not change distribution amount to DNR or CTC

**First \$18 million to the Non-Federal Aid Highway Fund & 1/4 of a cent to Mass Transit**

replaces the decrease in the motor fuel user fee; calculated on the weighted average of wholesale price of gasoline & diesel