

**Department of Legislative Services**  
 Maryland General Assembly  
 2004 Session

**FISCAL AND POLICY NOTE**

House Bill 700 (Delegate Hixson, *et al.*)  
 Ways and Means

**Motor Fuel Tax - Rates**

This bill increases the motor fuel tax rates by 10 cents per gallon, except aviation gasoline and turbine fuel, which are increased by 3 cents per gallon.

The bill takes effect July 1, 2004.

**Fiscal Summary**

**State Effect:** Total State revenues would increase by \$312.6 million in FY 2005, including \$303.6 million to the Transportation Trust Fund (TTF), \$1.9 million in special fund revenues dedicated to certain natural resources programs, and \$7.2 million in general funds dedicated to Chesapeake Bay programs. Future year revenues reflect projected growth in motor fuel sales.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	\$7.2	\$7.3	\$7.3	\$7.4	\$7.5
SF Revenue	305.4	308.5	311.6	314.7	317.8
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$312.6	\$315.7	\$318.9	\$322.1	\$325.3

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

**Local Effect:** Local highway user revenue sharing from the TTF would increase by approximately \$91.1 million in FY 2005.

**Small Business Effect:** Meaningful.

## Analysis

**Bill Summary:** The bill increases the motor fuel tax rate for gasoline from 23.5 cents per gallon to 33.5 cents per gallon; for special fuel (diesel) from 24.25 cents per gallon to 34.25 cents per gallon; and for clean burning fuel from 23.5 cents per gasoline-equivalent gallon to 33.5 cents per gasoline-equivalent gallon. The motor fuel tax rate for aviation gasoline and turbine fuel is increased from 7 cents per gallon to 10 cents per gallon.

**Current Law:** See discussion above.

**Background:** The motor fuel tax rates for gasoline in neighboring jurisdictions are as follows: Delaware (23 cents per gallon), the District of Columbia (20 cents per gallon), Pennsylvania (12 cents per gallon plus an oil franchise tax for an effective rate of 27.3 cents per gallon), Virginia (18.1 cents per gallon plus a local option tax), and West Virginia (25.35 cents per gallon plus sales tax). Motor fuel tax rates for all states are shown in **Appendix 1**.

**State Revenues:** The projected impact on State revenues, based on the current statutory distribution of motor fuel tax revenue, is illustrated in **Exhibit 1**.

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### Exhibit 1 Distribution of Additional Revenues from HB 700

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Special Fund Distributions					
Transportation Trust Fund					
MDOT Share	\$212.5	\$214.6	\$216.8	\$218.9	\$221.1
Local - Highway User Share	91.1	92.0	92.9	93.8	94.8
TTF Subtotal	303.6	306.6	309.6	312.7	315.9
DNR Programs	1.9	1.9	1.9	1.9	1.9
Chesapeake Bay Programs (GF)	<u>7.2</u>	<u>7.3</u>	<u>7.3</u>	<u>7.4</u>	<u>7.5</u>
<b>Total</b>	<b>\$312.6</b>	<b>\$315.7</b>	<b>\$318.9</b>	<b>\$322.1</b>	<b>\$325.3</b>

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The estimate above does not adjust for any short-term decline in total gasoline sales associated with price elasticity (*i.e.*, assuming that the price increase causes consumption

to decline as consumers purchase fuel out-of-state, drive less, or eventually switch to more fuel efficient vehicles or move closer to work). Such elasticity is estimated to be a long-term effect; however, to the extent it takes place in the near-term, the additional revenues from the tax increase could be reduced. For instance, the Comptroller's Office estimate incorporates an elasticity factor, resulting in a fiscal 2005 estimate that is approximately \$10 million lower than Legislative Services'.

**State Expenditures:** An increase in TTF revenues would result in increased Maryland Department of Transportation operating expenditures and/or an increase in the agency's bonding capacity.

**Small Business Effect:** Small businesses for which fuel costs constitute a significant portion of their costs (transportation firms, delivery companies, taxicabs, etc.) could be meaningfully and negatively affected by a 10 cent per gallon increase.

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### **Additional Information**

**Prior Introductions:** HB 1163 and SB 758 of 2003, substantially similar bills, were not reported from the House Ways and Means Committee and Senate Budget and Taxation Committee, respectively.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 4, 2004  
ncs/jr

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**Appendix 1**  
**States Ranked by Gas Tax Rates**  
**(As of January 1, 1004)**

1. New York		(V + Variable sales tax)	28. Louisiana,		
Wisconsin	31.50¢	(V)	Minnesota, Texas,	20.00¢	
3. Rhode Island	31.00¢		Vermont, <b>District</b>		
4. Washington	28.00¢		<b>of Columbia</b>		
5. Montana	27.75¢		33. Michigan	19.875¢	(6% sales tax)
6. <b>Pennsylvania</b>	27.30¢	(V)	34. Illinois	19.30¢	(6.25% sales tax) (L)
7. Maine	26.05¢	(V)	35. California	19.20¢	(7% sales tax) (L)
8. Nebraska	25.70¢	(V)	36. Arizona	19.00¢	
9. <b>West Virginia</b>	25.35¢	(Variable sales tax)	37. Mississippi	18.40¢	(L in some counties)
10. Connecticut,		(V)	38. Alabama	18.30¢	(L)
Idaho, Kansas	25.00¢		39. <b>Virginia</b>	18.10¢	(2% sales tax on
13. North Carolina	24.55¢	(V)			gas sold in No. VA
14. Utah	24.50¢				Trans. District)
15. Oregon, South		(L – South Dakota only)	40. Indiana	18.008¢	(6% sales tax)
Dakota, Ohio	24.00¢		41. New Mexico	18.00¢	
18. Nevada	23.805¢	(L)	42. Missouri, Oklahoma	17.00¢	
19. <b>Maryland,</b>			44. South Carolina	16.75¢	
Massachusetts	23.50¢		45. Florida	16.625¢	(6% sales tax) (V) (L)
21. <b>Delaware</b>	23.00¢		46. Kentucky	16.40¢	(V)
22. New Hampshire	22.60¢		47. Hawaii	16.12¢	(4% sales tax) (L)
23. Colorado	22.00¢		48. New Jersey	14.50¢	
24. Arkansas	21.70¢		49. Wyoming	14.00¢	
25. Tennessee	21.40¢	(L)	50. Alaska	8.00¢	
26. Iowa	21.30¢	(V)	51. Georgia	7.50¢	(4% sales tax)
27. North Dakota	21.00¢				

Notes: States are ranked according to the total gas tax burden applied equally throughout the state; the gas tax rate shown for each state includes the excise tax rate and all known additional taxes and fees, including inspection fees, leaky underground storage tank fees, environmental fees, etc. where applicable.

Except in the case of New York and West Virginia, sales taxes have not been included in the gas tax ranking (though sales tax rates are indicated where applicable). Thus, the total tax burden in states that apply sales taxes to gas sales may be higher than its ranking would indicate. Sales taxes are included in the New York and West Virginia rankings because they are pre-paid sales taxes (paid at first point of sale and then passed on through subsequent sales until sold at retail outlets) and thus function essentially as another element of the gas tax; these taxes are customarily included in New York's and West Virginia's gas tax burdens when the states are ranked.

**KEY:**

(V) = Gas tax rate is variable, or some element of the taxes/fees that comprise the gas tax is variable.

(L) = Local jurisdictions are allowed to apply taxes to the sale of gasoline.

Source: The American Petroleum Institute, the Federation of Tax Administrators, and the American Road and Transportation Builders Association.