

Memorandum

To: Honorable Jerome E. Horton, Chairman
Senator George Runner (Ret.), Vice Chair
Honorable Fiona Ma, CPA, Second District
Honorable Diane L. Harkey, Fourth District
Honorable Betty T. Yee, State Controller

Date: February 3, 2016

From: Mark Durham, Manager
Research and Statistics Section

Subject: **FUEL TAX SWAP
FEBRUARY 2016 – BOARD MEETING**

Motor Vehicle Fuel. Current law (Revenue and Taxation Code sections 6357.7 and 7360, commonly referred to as the “fuel tax swap”) requires the Board of Equalization (Board) to determine the excise tax rate for motor vehicle fuel (MVF) on an annual basis. The fuel tax swap eliminates the General Fund portion of the sales and use tax on MVF and raises the excise tax rate with the intent of raising the identical amount of revenue. Legislation set the excise rate on MVF at \$0.353 per gallon in 2010-11, and required the Board to adopt a “revenue-neutral” excise tax rate for each ensuing fiscal year by the first of March.

The calculation requires a forecast of both consumption and price of MVF. Staff has adopted the quarterly MVF consumption forecast prepared by the Department of Finance (DOF) for its January 2016-17 budget proposal.

Forecast of MVF consumption and prices projects that the General Fund portion of sales and use tax revenues for 2016-17 would be \$2.049 billion, if they had not been replaced by excise tax. Additionally, current law contains “revenue-neutrality” language requiring a one year look back to determine the difference between the 2014-15 eliminated sales tax on MVF and the new excise tax revenues that resulted from the excise rate that was adopted that year. When both calculations are combined, the revenue-neutral excise tax rate for 2016-17 is \$0.278 per gallon.

Staff recommends that the Board set the excise tax rate on MVF for the period July 1, 2016 through June 30, 2017 at \$0.278 per gallon, a decrease of \$0.022 from the current rate of \$0.300.

Diesel Fuel. Current law (Revenue and Taxation Code 6051.8, 6201.8 and 60050, commonly referred to as the “fuel tax swap”) increases the sales and use tax imposed on diesel fuel by 1.75 percentage points in 2016-17, and requires the Board to adjust the \$0.18 per gallon excise tax on diesel such that the total amount of revenue raised (by estimation) is unchanged.

Forecasts for both the price and consumption of diesel fuel project that the revenue gain would be approximately \$117 million. Therefore, staff calculated that an excise tax rate of \$0.16 per gallon would offset the additional sales tax rate on diesel.

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Staff recommends that the Board set the excise tax rate on diesel fuel for the period July 1, 2016 through June 30, 2017 at \$0.16 per gallon, an increase of \$0.03 from the current rate of \$0.13.

MD:bb;jm

cc: Ms. Shellie Hughes
Ms. Kari Hammond
Mr. Sean Wallentine
Mr. Jim Kuhl
Mr. Russell Lowery
Ms. Yvette Stowers
Ms. Cynthia Bridges
Mr. Jeff McGuire
Ms. Michele Pielsticker
Ms. Lynn Bartolo
Ms. Joann Richmond
Ms. Debbie Kalfsbeek
Ms. Susanne Buehler

Recommendation by:



Mark Durham, Manager
Research and Statistics Section

Approved:



David J. Gau
Chief Deputy Director

Approved:



Joann Richmond, Chief
Board Proceedings Division

BOARD APPROVED

at the 2/23/16 Board Meeting