State of California

Board of Equalization
Legislative and Research Division

Memorandum

To : Honorable Jerome E. Horton, Chairman
Honorable Michelle Steel, Vice Chair
Honorable Betty T. Yee, First District
Senator George Runner (Ret), Second District
Honorable John Chiang, State Controller

Date: February 7, 2013

From : Bill Benson, Acting Chief
Research and Statistics Section

Subject: **PREPAYMENT OF SALES TAX ON MOTOR VEHICLE FUEL, DIESEL FUEL AND JET FUEL**

FEBRUARY 2013 BOARD MEETING - CONSENT AGENDA

As amended by AB 2679, Chapter 769, Statutes of 2012, Section 6480.1 of the Revenue and Taxation Code requires the Board of Equalization to determine annually by March 1 the rate at which sales tax on motor vehicle fuel is to be collected at the time such fuel is first distributed in the state during the twelve-month period beginning the following July 1. Adjusting this rate does not change the total sales tax on motor vehicle fuel, but rather keeps the percentage of tax subject to prepayment reasonably constant when prices of gasoline go up or down over time.

The enactment of AB8x 6 (Ch. 11, Eighth Extraordinary Session of 2009-10) revised the imposition of the sales and use tax and the excise tax on motor vehicle fuel. Among other things, AB8x 6 added Section 6357.7 to the Revenue and Taxation Code to create a state General Fund sales and use tax exemption beginning on July 1, 2010 for sales of motor vehicle fuel. Therefore, the state General Fund tax rate will not be used to calculate the prepayment rate on motor vehicle fuel.

The method by which the rate is to be calculated annually is specified in Section 6480.1. We have used prices compiled by the U.S. Department of Energy's Energy Information Administration. The calculation of the rate for the period July 1, 2013 through June 30, 2014 yields a figure of $0.07 per gallon, no change from the current rate of $0.07 per gallon.

Section 6480.1 (g) and (h) of the Revenue and Taxation Code requires the Board of Equalization to determine annually by March 1 the rates at which sales tax on diesel fuel and sales tax on jet fuel are to be collected at the time such fuel is first distributed in the state during the twelve- month period beginning the following July 1.

However, Assembly Bill 105, effective March 24, 2011, amended the additional sales and use tax rate on diesel fuel from 2.17 to 1.94 percent, for fiscal year 2013-14. Therefore, the sales and use tax rate on diesel fuel will include this additional rate of 1.94 percent, for the period July 1, 2013 through June 30, 2014.

The method by which the rate is to be calculated annually is specified in Section 6480.1 (g) and (h). We have used prices compiled by the U.S. Department of Energy's Energy Information Administration. The calculation of the rate for the period July 1, 2013 through June 30, 2014 yields a figure of $0.28 per gallon for diesel fuel, a decrease of 1 cent from the current rate of $0.29 per gallon; and $0.18 per gallon for jet fuel, for the period July 1, 2013 through June 30, 2014, no change from the current rate of $0.18 per gallon.

It is recommended that the Board set the rate of prepayment of sales tax on motor vehicle fuel distributions for the period July 1, 2013 through June 30, 2014 at $0.07 per gallon.

It is recommended that the Board set the rate of prepayment of sales tax on diesel fuel distributions for the period July 1, 2013 through June 30, 2014 at $0.28 per gallon.

It is recommended that the Board set the rate of prepayment of sales tax on jet fuel distributions for the period July 1, 2013 through June 30, 2014 at $0.18 per gallon.

BBJr:jm

cc: Ms. Cynthia Bridges
Mr. Jeff McGuire
Ms. Susanne Buehler
Ms. Joann Richmond
Ms. Michele Pielsticker
Mr. Brad Miller
Ms. Kirsten Stark
Compliance and Technology Section

Recommendation by:

Bill Benson, Acting Chief
Research and Statistics Section

Approved:

Cynthia Bridges
Executive Director

Approved:

Joann Richmond, Chief
Board Proceedings Division

BOARD APPROVED

at the 2/26/13 Board Meeting