

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: **FUEL TAX SWAP
FEBRUARY 2013 – 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. Specifically, 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 cents per gallon in 2010-11, and requires the Board to adopt a “revenue-neutral” excise tax rate for each ensuing fiscal year by the first of March.

The calculation requires that staff develop 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 10, 2013-14 budget proposal. Consumption of MVF changes relatively slowly in the short-term, and DOF’s forecast appears to be reasonable. However, staff’s forecast of MVF prices incorporates data not available to DOF when its budget forecast was prepared. Specifically, the macroeconomic forecasting firm Global Insight’s outlook for gasoline prices indicates a very modest increase since the time that DOF prepared its forecast, and staff has incorporated this increase into its price forecast of MVF.

Staff’s forecast of MVF consumption and prices project that the General Fund portion of sales and use tax revenues for 2013-14 would be \$3.056 billion. Additionally, current law contains “revenue-neutrality” language requiring staff to look back two years and determine the difference between the 2011-12 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, staff calculates that the revenue-neutral excise tax rate for 2013-14 is \$0.395 per gallon.

Thus, staff recommends that the Board set the excise tax rate on MVF for the period July 1, 2013 through June 30, 2014 at \$0.395 per gallon, an increase of \$0.035 from the current rate of \$0.360.

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 on diesel fuel by 1.94 percentage points in 2013-14, and requires the Board to adjust the excise tax on diesel such that the total amount of revenue raised (by estimation) is unchanged.

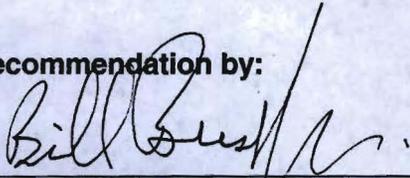
Staff has developed forecasts for both the price and consumption of diesel fuel which project that the revenue gain would be \$175 million. Staff calculates that an excise tax of \$0.10 per gallon would lead to an equivalent revenue loss.

Thus, staff recommends that the Board set the excise tax rate on diesel fuel for the period July 1, 2013 through June 30, 2014 at \$0.10 per gallon, unchanged from the current rate.

BB:vs:jm

cc: Mr. David Gau
Mr. Jeff McGuire
Ms. Michele Pielsticker
Ms. Joann Richmond
Mr. Lou Feletto
Ms. Susanne Buehler

Recommendation by:



Bill Benson, Acting Chief
Research and Statistics Section

Approved:



Ms. Cynthia Bridges
Executive Director

Approved:



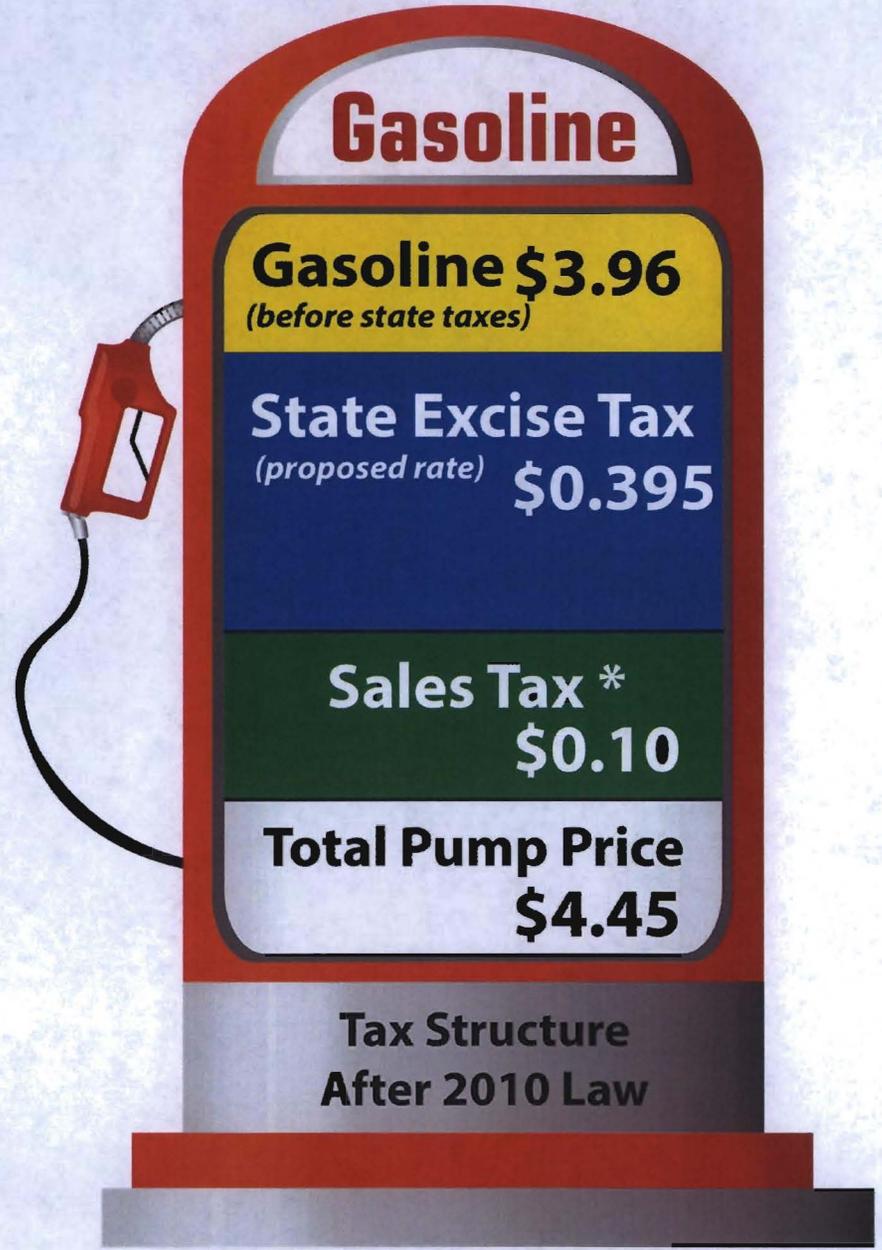
Joann Richmond, Chief
Board Proceedings Division

BOARD APPROVED

at the 2/26/13 Board Meeting



*Does not include voter approved local sales tax



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