

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: August 24, 2012

From : Bill Benson, Jr.
Acting Chief, Research and Statistics Section

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

SEPTEMBER 12-14 BOARD MEETING - CONSENT AGENDA

Section 6480.1 of the Revenue and Taxation Code requires the Board of Equalization to determine annually by November 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 April 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 April 1, 2013 through March 31, 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 November 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 April 1.

However, Assembly Bill 105, effective March 24, 2011, amended the additional sales and use tax rate on diesel fuel from 1.87 to 2.17 percent, for fiscal year 2012-13. Therefore, the sales and use tax rate on diesel fuel will include this additional rate of 2.17 percent, for the period **April 1, 2013 through June 30, 2013**. The tax rate on diesel fuel will decrease effective July 1, 2013, from the current increased rate of 2.17 percent to the rate of 1.94 percent. This change in the sales and use tax rate on diesel fuel will require the Board to readjust the prepayment rate on diesel fuel in April of 2013. The readjusted prepayment rate on diesel fuel will be effective from **July 1, 2013 through March 31, 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 April 1, 2013 through June 30, 2013 yields a figure of \$0.27 per gallon for diesel fuel, an increase of 0.5 cents more than the current rate of \$0.265 per gallon; and \$0.165 per gallon for jet fuel, for the period April 1, 2013 through March 31, 2014, a decrease of 1.5 cents more than 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 April 1, 2013 through March 31, 2014 at \$0.07 per gallon.

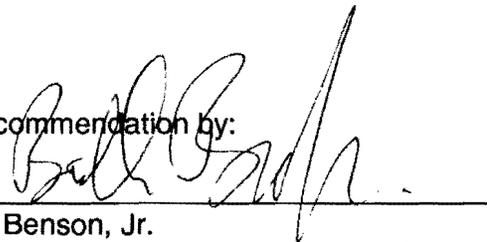
It is recommended that the Board set the rate of prepayment of sales tax on diesel fuel distributions for the period **April 1, 2013 through June 30, 2013** at \$0.27 per gallon.

It is recommended that the Board set the rate of prepayment of sales tax on jet fuel distributions for the period April 1, 2013 through March 31, 2014 at \$0.165 per gallon.

BBJr:jm

- cc: Ms. Cynthia Bridges
- Mr. Jeff McGuire
- Ms. Susanne Buehler
- Ms. Joanne Richmond
- Mr. Robert Ingenito
- Mr. Brad Miller
- Ms. Trista Gonzalez
- Compliance and Technology Section

Recommendation by:



Bill Benson, Jr.
Acting Chief
Research and Statistics Section

Approved:



Cynthia Bridges
Executive Director

Approved:



Joanne Richmond, Chief
Board Proceedings Division

BOARD APPROVED

at the 9-13-12 Board Meeting