

Memorandum

To : Mr. Ramon J. Hirsig
Executive Director

Date: August 26, 2010

From : Robert Ingenito
Chief, Research and Statistics Section

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

SEPTEMBER 15, 2010 - 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.

As noted in the previous Prepayment Memo, dated April 13, 2010, the recent 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, 2011 through March 31, 2012 yields a figure of \$0.055 per gallon. No change from the current rate of \$0.055.

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.

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 rates for the period April 1, 2011 through March 31, 2012 yields a figure of \$0.180 per gallon for diesel fuel, an increase of 2.0 cents more than the current rate of \$0.16 per gallon; and \$0.14 per gallon for jet fuel, an increase of 2.0 cents more than the current rate of \$0.12 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, 2011 through March 31, 2012 at \$0.055 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, 2011 through June 30, 2011 at \$0.180 per gallon.

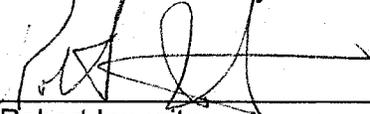
It is recommended that the Board set the rate of prepayment of sales tax on jet fuel distributions for the period April 1, 2011 through March 31, 2012 at \$0.140 per gallon.

The enactment of AB8x 6 (Ch. 11, Eighth Extraordinary Session of 2009-10) increased the sales and use tax rate on diesel fuel by 1.75 percentage points, effective July 1, 2011. This change in the tax rate will require the Board to readjust the prepayment rate on diesel fuel in April 2011. The readjusted rate on diesel fuel will be effective from July 1, 2011 through March 31, 2012.

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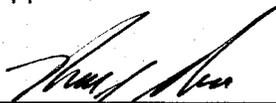
- cc: Ms. Randie Henry
- Ms. Margaret S. Shedd
- Mr. Jeff McGuire
- Mr. Diane Olson
- Ms. Susanne Buehler
- Mr. Bill Benson, Jr.
- Compliance and Technology Section

Recommendation by:



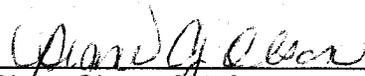
 Robert Ingenito
 Chief, Research and Statistics Section

Approved:



 Ramon J. Hirsig,
 Executive Director

Approved:



 Diane Olson, Chief
 Board Proceedings Division

BOARD APPROVED

at the 9/15/2010 Board Meeting