

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 6, 2015

From: Mark Durham, Manager
Research and Statistics Section

Subject: **FUEL TAX SWAP
FEBRUARY 2015 – 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. In the beginning, the 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 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 9, 2015-16 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 outlook from Global Insight, a macroeconomic forecasting firm, indicates a much larger decrease in gasoline prices since the time that DOF prepared its forecast, and staff has incorporated this decrease into its price forecast of MVF.

Staff’s forecast of MVF consumption and prices projects that the General Fund portion of sales and use tax revenues for 2015-16 would be \$1.933 billion, if they had not been replaced by excise tax. Additionally, current law contains “revenue-neutrality” language requiring staff to look back one year and determine the difference between the 2013-14 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 estimates that the revenue-neutral excise tax rate for 2015-16 is \$0.285 per gallon.

Thus, staff recommends that the Board set the excise tax rate on MVF for the period July 1, 2015 through June 30, 2016 at \$0.285 per gallon, a decrease of \$0.075 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 imposed on diesel fuel by 1.75 percentage points in 2015-16, 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.

Staff has developed forecasts for both the price and consumption of diesel fuel which project that the revenue gain would be \$141 million, and therefore, calculated that an excise tax of \$0.13 per gallon would lead to an equivalent revenue loss that would offset the additional sales tax rate on diesel.

Thus, staff recommends that the Board set the excise tax rate on diesel fuel for the period July 1, 2015 through June 30, 2016 at \$0.13 per gallon, an increase of \$0.02 from the current rate of \$0.11.

MD:bb:jm

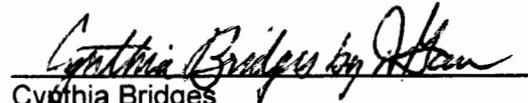
- cc: Mr. David Gau
- Mr. Jeff McGuire
- Ms. Michele Pielsticker
- Ms. Lynn Bartolo
- Ms. Joann Richmond
- Ms. Debbie Kalfsbeek
- Ms. Susanne Buehler

Recommendation by:



Mark Durham, Manager
Research and Statistics Section

Approved:



Cynthia Bridges
Executive Director

Approved: *w/ adjustment*



Joann Richmond, Chief
Board Proceedings Division

BOARD APPROVED

at the 2/24/15 Board Meeting

DOF Original Estimate based on November 2014 Prices

Original DOF Estimate							
Tax Swap Calculation							
2015-16 Governor's Budget (Dollar in Millions, except as noted)							
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
							\$ 3.06
Prior Law							
Total Sales Tax Eliminated		\$ 2,499	\$ 2,783	\$ 2,652	\$ 2,565	\$ 2,499	\$ 2,222
Gas Excise Tax Rate Calculation							
Estimated Gallons Purchased (billions)		14.766	14.597	14.489	14.596	14.742	14.742
Net Taxable Published by BOE							
New Excise Tax Rate Per Gallon	\$ -	\$ 0.173	\$ 0.177	\$ 0.180	\$ 0.215	\$ 0.180	\$ 0.125
Existing Base Rate (\$)	\$ 0.180	\$ 0.180	\$ 0.180	\$ 0.180	\$ 0.180	\$ 0.180	\$ 0.180
Total Excise Tax Rate (\$)	\$ 0.180	\$ 0.353	\$ 0.357	\$ 0.360	\$ 0.395	\$ 0.360	\$ 0.305
Incremental Increase Needed	\$ -	\$ 0.173	\$ 0.004	\$ 0.003	\$ 0.035	\$ (0.035)	\$ (0.055)
Revenue Neutrality for Gas Tax							
Sales Tax Revenues Eliminated		\$ 2,499	\$ 2,783	\$ 2,652	\$ 2,565	\$ 2,499	\$ 2,222
New Gas Excise Tax Revenues		\$ 2,555	\$ 2,584	\$ 2,608	\$ 3,138	\$ 2,654	\$ 1,836
Difference (\$)		\$ 56	\$ (200)	\$ (44)	\$ 574	\$ 155	\$ (386)
Cumulative Difference (\$)		\$ 56	\$ (144)	\$ (188)	\$ 386	\$ 540	\$ 155
Diesel Tax Rate Calculation							
Sales Tax Rate			1.87%	2.17%	1.94%	1.75%	1.75%
Estimated PTA Gallons (billions)			2.398	2.417	2.518	2.571	2.624
Additional PTA Revenue			165	193	177	155	162
Estimated Excise Tax Gallons (billions)			2.5455	2.5386	2.67	2.73	2.79
Excise Tax Reduction rate (\$)			0.050	0.080	0.080	0.07	0.055
Excise Tax Reduction			127.3	203.1	213.8	191.0	153.1
Excise Tax Rate	0.090		0.130	0.100	0.100	0.110	0.125
			0.04	0.01	0.01	0.020	0.035
Revenue Neutrality for Diesel Tax							
Sales Tax Revenues Increase			165	193	177	155	162
Diesel Excise Tax Revenues Eliminated			127.3	203.1	213.8	191.0	153.1
Difference (\$)			(37.6)	9.9	36.4	35.6	(8.7)
Cumulative Difference (\$)			(37.6)	(27.7)	8.7	44.3	35.6

12.5%

STATE BOARD OF EQUALIZATION

BOARD APPROVED *w/Adjustment*



At the February 24, 2015 Board Meeting

Joann Richmond
Joann Richmond, Chief
Board Proceedings Division

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