



Time to Cap California's Rising Fuel Taxes

By George Runner

It certainly won't make the experience any less painful, but next time you fill up your gas tank, try figuring out how much you just paid in taxes. Do the math, and you'll soon discover that rising fuel prices are a whole lot better for the government than they are for you.

California consumers pay the highest prices for fuel anywhere in the continental United States. These prices include hidden taxes that help drive up fuel prices. Each and every time fuel prices rise, our taxes go up too.

According to the American Petroleum Institute, California's gasoline taxes and fees, averaging 67 cents per gallon, are tied with Connecticut's as the second highest in the nation. California's diesel taxes are the highest in the nation, averaging 75.9 cents per gallon.

Included in the price you pay for gasoline are a (1) federal excise tax of 18.4 cents per gallon, (2) state excise tax of 35.7 cents per gallon and (3) sales tax of 2.25% plus applicable local taxes. Notably, the sales tax is calculated on the total price of the fuel sale including excise taxes, resulting in double taxation—California consumers pay a tax on a tax.

According to Lew Uhler, founder and president of the National Tax Limitation Committee, "The double tax on gasoline – geared to price changes – creates a perverse windfall for the government big spenders precisely when rising gas prices hurt consumers most."

Rather than taxing you on your taxes, the government should send you a thank you note.

Here's why: even with declining fuel consumption, California consumers are paying more tax for less gas. This happens because sales tax is calculated per dollar spent rather than per gallon of fuel. As a result, government coffers receive an unanticipated windfall when fuel prices rise.

The State Board of Equalization's numbers show that even with lower levels of consumption, rising fuel prices have spurred fuel tax revenues to record levels. Due to rising fuel prices, the state collected \$61 million more in fuel tax revenues during the second quarter of 2011 than during the same period the year prior. In the meantime fuel consumption fell by 127 million gallons.

And that's only the part of the story.

In 2010 the Legislature enacted a law requiring the State Board of Equalization to lower the sales tax on fuel and raise the excise tax by a corresponding amount. As a result the excise tax for motor vehicle fuel

is currently 35.7 cents per gallon, but the BOE must readjust it annually to ensure “revenue neutrality.” The rate is currently set to increase to 36 cents effective July 1. Absent legislative action, high fuel prices will drive this tax even higher in 2013.

California lawmakers may lack the political courage to address other reasons why California fuel is so expensive (e.g. special fuel blend requirements), but they can and should address the problem of rising fuel taxes. Simply put, the government shouldn’t be doing anything that drives fuel prices even higher.

To this end, I am crafting a legislative proposal to limit sales tax to the first \$4.00 per gallon of gasoline and cap excise taxes at their current levels. Under my proposal, the state would still receive all of the fuel tax revenue the Governor was counting on in his January budget, which forecast average quarterly fuel prices of no greater than \$3.82 during the 2012-13 fiscal year.

Even so, capping fuel taxes could help keep hundreds of millions of dollars in the pockets of California consumers, bolstering consumer confidence and California’s economy. Given rising fuel prices, it should be a no-brainer to take this small step to help California consumers.

Elected in November 2010, George Runner represents more than nine million Californians as a member of the State Board of Equalization. For more information, visit www.boe.ca.gov/Runner.