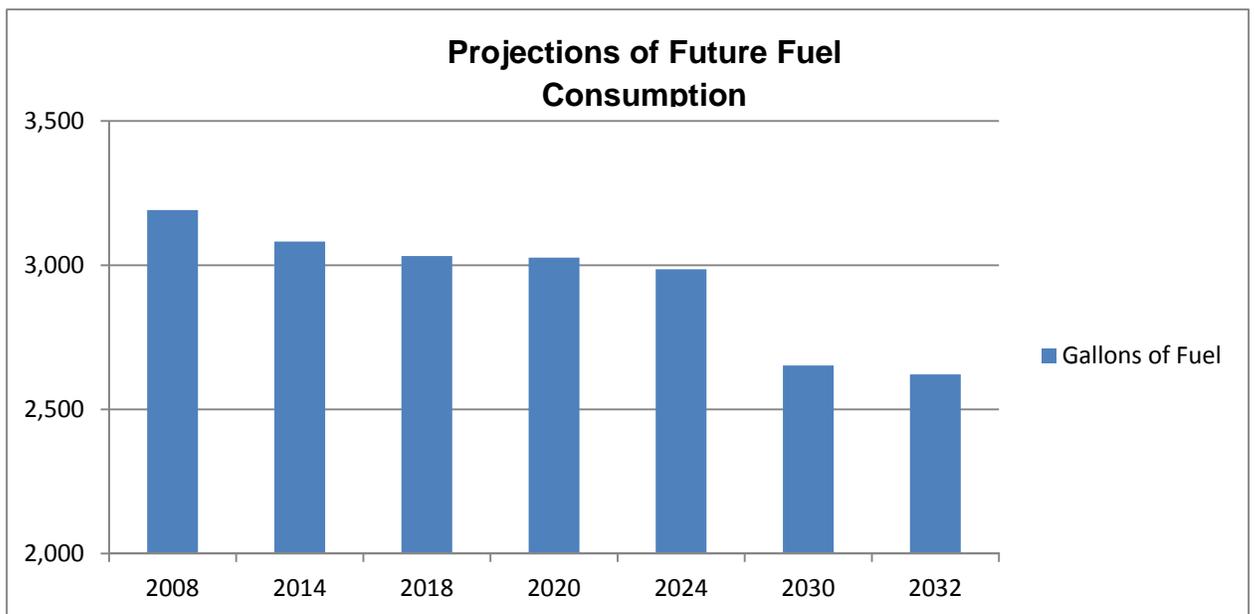
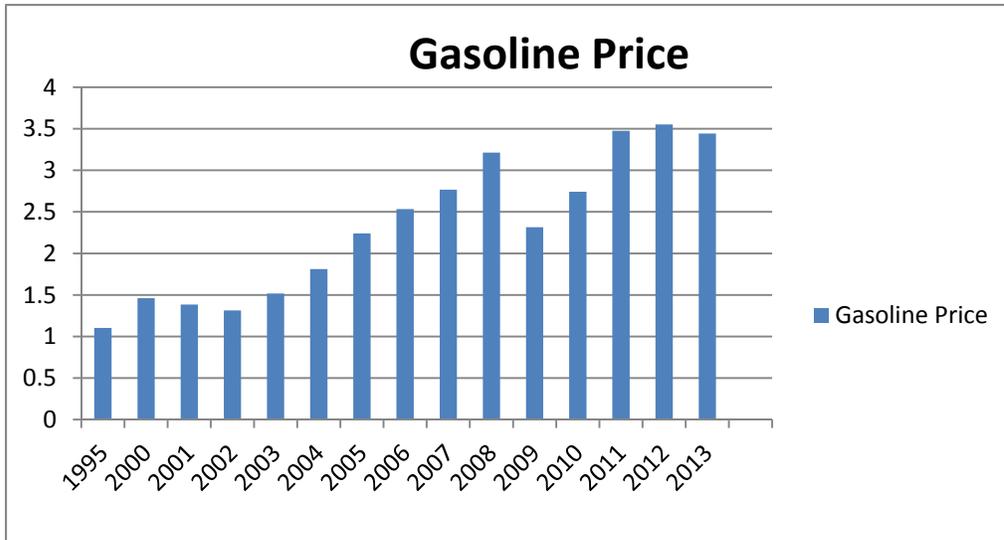




Significant declines in projected fuel consumption in Minnesota will have a major impact on revenue from a fuel tax increase. However, a sales tax on fuel - which is projected to increase in price - will mitigate the impact of fewer gallons of fuel sold.

History of Gasoline Prices



While the sales tax on fuel is still dependent on fuel consumption, it provides a good bridge strategy to improve revenue stability over the next 10 to 20 years. A mileage-based user fee is not currently used in any state and is not anticipated to be supported at the federal level in the near-future. A recently completed pilot project conducted by MnDOT showed some technology-related problems as well as a lack of strong support from volunteers involved in the mileage-based user fee pilot project. Privacy concerns and administrative costs are also major issues.

Fuel Tax Comparison

	10-Cent Fuel Tax Increase	10-cent Increase & Index to CPI	
2016	\$305M		
2017	\$303.6M	\$330M	
2018	\$303.2M	\$331.7M	
2019	\$303M	\$332M	
2020	\$302.6M	\$332M	

In 2016, a 10-cent increase in the fuel tax would generate approximately \$305 million using MnDOT’s projection of 3,049 gallons of fuel sold in the state. As the chart indicates, a 10-increase in the fuel tax by itself provides less revenue each year as the amount of fuel sold in the state decreases. Indexing the fuel tax for inflation adds \$25-30 million per year, the equivalent of less than 1 penny per year of the fuel tax.

A gross receipts tax is similar to a sales tax, but it is levied on the seller of goods or services. **Minnesota’s current per gallon fuel tax is collected and remitted at the wholesale level from the state’s 423 fuel distributors.** In some cases the tax is collected by special fuel dealers or bulk purchasers. There are 168 licensed special fuel dealers in the state.

The Dept of Revenue would determine the tax rate per gallon for the upcoming year. The rate would be calculated as the greater of 6.5% of \$2.50 per gallon or 6.5% of the average wholesale gasoline price by refiners for the prior fiscal year, as published by the federal Energy Information Administration (EIA), rounded to the nearest tenth of a cent. Revenue from this tax would be deposited in the Highway User Tax Distribution Fund. A variety of changes would also be made so **that the motor fuels gross receipts tax would be treated the same as the existing motor gasoline excise tax in relation to the statutory references, credits and refunds, etc. The new gross receipts tax will result in a rate change to the current tax, which will not result in significant costs to the Department.**

Minnesota Constitution Article 14, Section 10:

Taxation of Motor Fuel The legislature may levy an excise tax on any means or substance used for propelling vehicles on the public highways of this state or on the business of selling it. The proceeds shall be paid into the highway user tax distribution fund.

19 States with Sales Tax on Fuel

Virginia, California, Florida, Georgia, Hawaii, New Jersey, Indiana, Michigan, New York, Tennessee, Vermont, West Virginia, Puerto Rico, Maryland, Utah, Nebraska, Kentucky, Connecticut, Pennsylvania

TFAC

In order to address the shortfall in revenue in the Highway User Tax Distribution Fund, The Transportation Finance Advisory Committee recommended an increase in per gallon fuel tax of 40 cents over 20 years and an increase in the motor vehicle registration tax (license tab fees) of 10%.

