

Memorandum

To: Honorable Fiona Ma, CPA, Chairwoman
Honorable Diane L. Harkey, Vice Chair
Honorable George Runner, First District
Honorable Jerome E. Horton, Third District
Honorable Betty T. Yee, State Controller

Date: February 1, 2017

From: Mark Durham, Chief
Research and Statistics Section

Subject: **FUEL TAX SWAP
FEBRUARY 2017 – 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. 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. 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 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 2017-18 budget proposal.

Forecast of MVF consumption and prices projects that the General Fund portion of sales and use tax revenues for 2017-18 would be \$2.024 billion, if they had not been replaced by excise tax. Additionally, current law contains “revenue-neutrality” language requiring a one year look back to determine the difference between the 2015-16 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, the revenue-neutral excise tax rate for 2017-18 is \$0.297 per gallon.

Staff recommends that the Board set the excise tax rate on MVF for the period July 1, 2017 through June 30, 2018 at \$0.297 per gallon, an increase of \$0.019 from the current rate of \$0.278.

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 2016-17, 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.

Forecasts for both the price and consumption of diesel fuel project that the revenue gain would be approximately \$121 million. Therefore, staff calculated that an excise tax rate of \$0.16 per gallon would offset the additional sales tax rate on diesel.

Staff recommends that the Board set the excise tax rate on diesel fuel for the period July 1, 2017 through June 30, 2018 at \$0.16 per gallon, no change from the current rate of \$0.16.

MD:jm

- cc: Ms. Genevieve Jopanda
- Ms. Natasha Ralston Ratcliff
- Mr. Russell Lowery
- Mr. Sean Wallentine
- Ms. Kari Hammond
- Ms. Yvette Stowers
- Mr. David Gau
- Ms. Brenda Fleming
- Ms. Susanne Buehler
- Ms. Michele Pielsticker
- Ms. Joann Richmond
- Ms. Debbie Kalfsbeek
- Mr. Richard Parrott

Recommendation by:



Mark Durham, Chief
Research and Statistics Section

Approved:



David J. Gau
Executive Director

Approved:



Joann Richmond, Chief
Board Proceedings Division

BOARD APPROVED

at the 2-22-17 Board Meeting