

NEW SUSTAINABLE

**ALASKA**

PLAN



*Pulling Together to Build Our Future*

**House Transportation Committee**

**January 28, 2016**

**Motor Fuel Tax**

**HB 249**

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# *Motor Fuel Tax Increase*

“An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the motor fuel tax; and providing for an effective date.”

# *Motor Fuel Tax History*

- Began in 1945
- Tax rates have increased over time, but structure unchanged
  - Last increase: highway 1970, marine 1977, aviation fuel 1994

## *Motor Fuel Tax History (Continued)*

- Tax was suspended from Sept. 1, 2008, to Aug. 31, 2009
- In 2015, HB 158 added \$0.0095 surcharge on motor fuels and some other refined fuels
  - Intended for spill prevention and response fund

# *Motor Fuel Tax Proposal*

- Increases all tax rates:

Type of fuel	Before (per gallon)	After (per gallon)
Highway	\$0.08	\$0.16
Marine	\$0.05	\$0.10
Jet fuel	\$0.032	\$0.10
Aviation gas	\$0.047	\$0.10
“Off-road use” credit	-\$0.06	-\$0.12

- Requires electronic filing
  - Provides exemption process

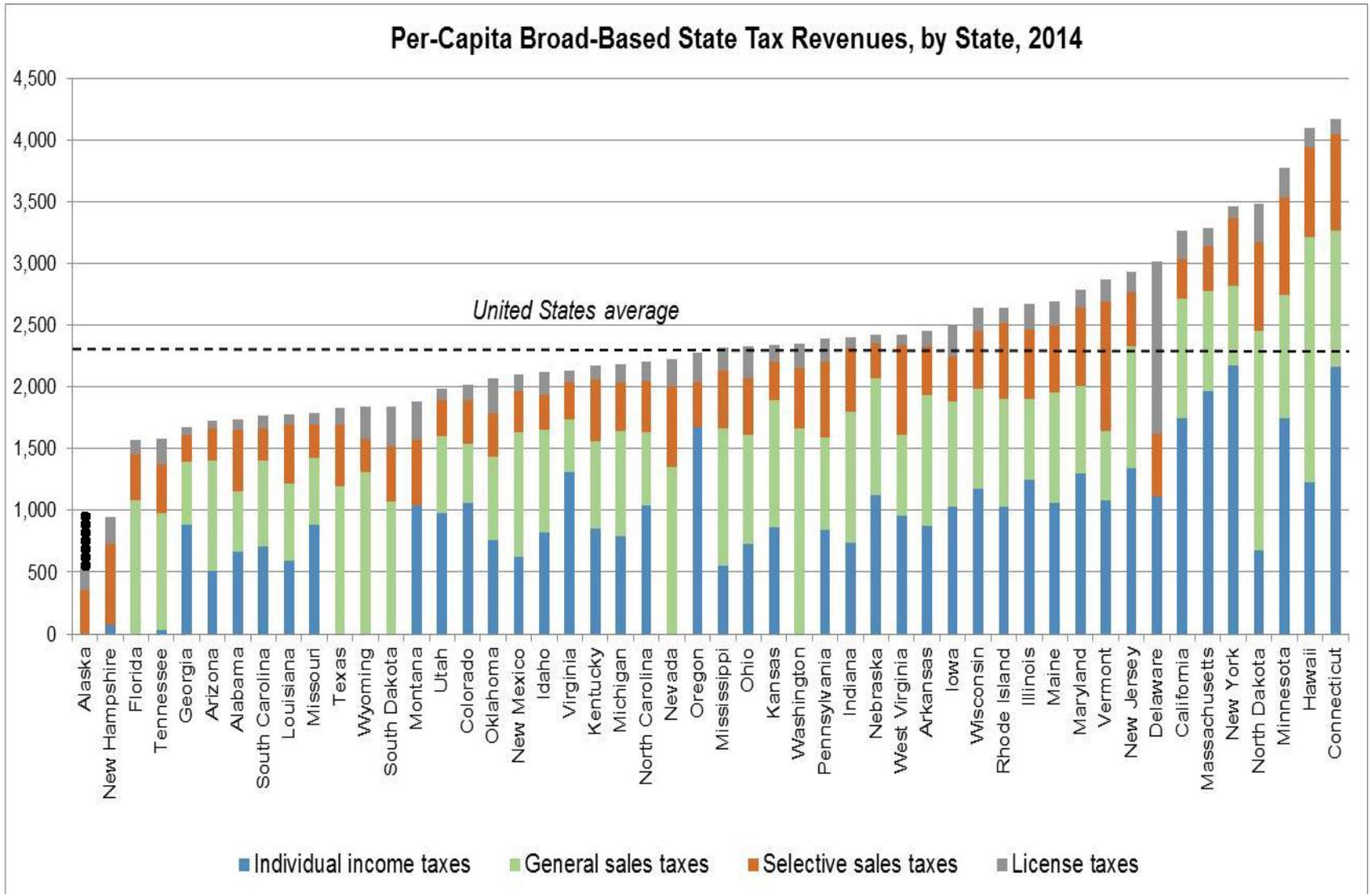


## *Relative Motor Fuel Tax Rate*

- Alaska's fuel taxes are among lowest in U.S.<sup>1</sup>
  - Highway fuel: lowest
  - Jet fuel: 35<sup>th</sup> out of 50
  - Aviation gas: 24<sup>th</sup> out of 50
- Under this bill, Alaska taxes would be:
  - Below national average (20.17 cents) for highway fuel
  - Above national average for jet/aviation fuel

<sup>1</sup> As of January 1, 2015. No comprehensive data for other states' marine fuel taxes. However, we believe that in most states the "marine" rate is the "highway" rate. Therefore, our "marine" rate is likely also one of the lowest in the country.

# The New Sustainable Alaska Plan



# *Impacts of Tax Proposal*

- Gas prices at the pump would rise
- More aviation taxes to fund certificated urban and rural airports
  - Requested by aviation advisory committee as preferable to landing fee increases

# *Revenue Impact*

- Dept. of Revenue estimates increasing the tax rate will more than double tax collections
- Additional revenue about \$49 million per year
  - \$0.2 million will be shared with municipal-owned airports
  - Remainder: general fund and special accounts for road, water transport, and aviation facilities

## *Revenue Impact (Continued)*

- Estimates based on fall 2015 revenue forecast
- Does not account for changes in fuel demand or stockpiling

# *Implementation Cost*

- Dept. of Revenue must update:
  - Tax Revenue Management System (TRMS)
  - Revenue Online (ROL) which allows a taxpayer to file a return and apply for a dealer license online
  - Tax return forms
- One-time implementation cost of \$50,000 to recreate tax forms and reprogram and test the tax system to accommodate the rate changes
- No additional costs to administer the tax program

# *Closing the Budget Gap*

<b>FY16 Budget</b>	<b>(Millions)</b> <b>\$ 5,200</b>
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## **FY17 Baseline Revenue (after proposed legislation)**

AK Permanent Fund Protection Act (annual draw)	\$ 3,300
Revenue from existing taxes and fees	\$ 850
Earnings on Savings	<u>\$ 135</u>
	<b>\$ 4,285</b>

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## **FY17 Spending Reductions**

Continue Cuts	\$ 140
Reform O&G Tax Credits	\$ 400
Net Priority Investments	<u>(\$ 40)</u>
	<b>\$ 500</b>

# *Closing the Budget Gap (Continued)*

<b><u>New Revenue Components (estimated)</u></b>	<b>(Millions)</b>
Mining (starting in FY 2018)	\$ 6
Fishing	\$ 18
Tourism	\$ 15
<b><i>Motor Fuel</i></b>	<b>\$ 49</b>
Alcohol	\$ 40
Tobacco	\$ 29
Oil and Gas	\$ 100
Income Tax (half in FY17; first full year is FY18)	<u>\$ 200</u>
	\$ 457
<b>Total with reductions and new revenue</b>	<b>\$ 5,242</b>

# *Sectional Analysis*

- Sec. 1.** Adds a \$25 or 1% tax penalty for failure to file electronically unless an exemption is received by the taxpayer
- Sec. 2.** Requires electronic submission of tax returns, license applications, and other documents submitted to the Department of Revenue. This changes the general tax statutes, AS 43.05, and will apply to all tax types administered by the department. Provides a process to request an exemption if a taxpayer does not have the technological capability to do so.
- Sec. 3.** Changes the per-gallon tax rates for dealers for all categories of motor fuel: highway fuel and gasohol from \$0.08 to \$0.16; marine fuel from \$0.05 to \$0.10; aviation gasoline from \$0.047 to \$0.10; and jet fuel from \$0.032 to \$0.10.
- Sec. 4.** Changes the per-gallon tax rates for users for all categories of motor fuel: highway fuel and gasohol from \$0.08 to \$0.16; marine fuel from \$0.05 to \$0.10; aviation gasoline from \$0.047 to \$0.10; and jet fuel from \$0.032 to \$0.10.

## *Sectional Analysis (Continued)*

- Sec. 5.** Changes the motor fuel refund rate for “off-road use”, when the tax has been paid, from \$0.06 to \$0.12.
- Sec. 6.** Conforming applicability language clarifying that the tax increases apply to motor fuel sold after the effective date and the electronic filing requirement applies to returns submitted after the effective date.
- Sec. 7.** Transitional language allowing for regulations to implement the changes.
- Sec. 8.** Immediate effective date for the transitional regulatory language in Sec. 7.
- Sec. 9.** Effective date of 7/1/16 for the rest of the bill including the tax rate changes.

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