

# ALASKA STATE LEGISLATURE

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Senator Click Bishop

## **SB 115 – Motor Fuel Tax Frequently Asked Questions**

**1. What are the current motor fuel tax rates?**

- a) 8 cents per gallon on diesel and gasoline purchased for highway use
- b) 5 cents per gallon on diesel and gasoline purchased for marine use
- c) 4.7 cents per gallon on aviation gas
- d) 3.2 cents per gallon on jet fuel

**2. What is the proposed increase in SB 115 for all motor fuel tax rates?**

- a) 8 cents per gallon on diesel and gasoline purchased for highway use (for a total of 16 cents)
- b) 5 cents per gallon on diesel and gasoline purchased for marine use (for a total of 10 cents)
- c) No increase in aviation gas
- d) No increase in jet fuel

**3. Why is aviation gas and jet fuel exempt from the tax increase?**

Alaska currently has a more competitive position among the other states for these fuel types, ranking 40<sup>th</sup> for aviation fuel and 36<sup>th</sup> for jet fuel.

**4. Are there other taxes levied on motor fuel in Alaska?**

Yes. In addition to Alaska's base excise tax rate of 8 cents per gallon on highway fuel and 5 cents per gallon on marine fuel, local sales taxes and the state's refined fuel surcharge of .95 cents per gallon also apply.

**5. How does Alaska compare to other states before and after the proposed motor fuel tax increase?**

Alaska's motor fuel tax rate of 8 cents per gallon was typical compared to other states when it was enacted 50 years ago in 1970. Since then, however, every other state has gradually increased its fuel tax rates while Alaska remained frozen in time. For a long time, Alaska has had the lowest motor fuel tax rates in the nation. After adjusting for inflation, an 8 cent fuel tax rate in 1970 is the equivalent in purchasing power to 52 cents today. In other words, Alaska's fuel tax has lost 82 percent of its purchasing power since 1970.

SB 115 proposes to increase the tax rates on highway and marine motor fuels to 16 cents and 10 cents per gallon respectively. With this increase, Alaska would still have the lowest marine fuel tax in the nation while our ranking for the highway fuel tax would move from 50<sup>th</sup> to 48<sup>th</sup>.

**6. What is the national average state motor fuel tax?**

According to a January 1, 2020 report by the American Petroleum Institute, the national average for state motor fuel tax is 25.01 cents for gasoline and 25.86 cents for diesel. When taking into consideration other state and local taxes/fees, the national average is 36.13 cents for gasoline and 37.9 cents for diesel. Alaska's average for state and local motor fuel taxes is 14.35 cents for gasoline and 14.48 cents for diesel. This includes the state's bas excise tax of 8 cents, the state's refined fuel surcharge of .95 cents and the average sales tax for all cities and boroughs of 5.4 cents for gasoline and 5.53 cents for diesel. (Note: the above tax rates do not include any federal excise taxes levied)

**7. What is the refined fuel surcharge?**

Enacted in 2015, the refined fuel surcharge is a fee of .95 cents per gallon on refined fuel when first sold, transferred or used in Alaska. This revenue is deposited into the oil and hazardous substance release prevention and response fund and used by the Department of Environmental Conservation's Division of Spill Prevention and Response. In FY19, the refined fuel surcharge generated \$6.3 million in revenue.

**8. How much revenue is anticipated by increasing the motor fuel tax?**

SB 115 would generate approximately \$35.1 million in additional state revenue per year (\$29.6 million in highway fuel and \$5.5 million in marine fuel).

**9. Where does the motor fuel tax revenue go?**

The Department of Revenue's Tax Division deposits tax revenue from each fuel type into a specific account in the General Fund. The Legislature may appropriate that money for a use related to the specific fuel type. AS 43.40.010 directs taxes levied on fuel for a) watercraft, b) road vehicles, and c) off-road vehicles be deposited into three separate accounts in the General Fund. The revenue from each account is designated for:

- a) water and harbor facilities;
- b) the maintenance of highways and construction of highway projects;
- c) trails and shelter construction and maintenance.

For aviation fuel, FAA regulations require revenue generated through aviation fuel taxes must be invested back into airports and may not be used for other purposes. AS 43.40.010(e) requires the Department of Revenue to share 60% of the revenue generated from aviation taxes with municipalities for municipally owned or operated airports.

**10. Who is exempt from paying motor fuel taxes?**

Fuel sold to heat private homes or commercial buildings; for use by federal, state and local government agencies, and charitable institutions; for sale or transfer between qualified dealers; for use in foreign flights (jet fuel), and exports; and for fuel sold as bunker fuel (residual fuel oil or #6 fuel oil).

**11. Who is eligible for a refund?**

A person who purchases motor fuel for off-road use (other than fuel used for aviation or watercraft) is eligible to receive a partial refund of 6 cents per gallon. Refund claims must be submitted within one year of the date of purchase. Valid refund claims are paid from the highway fuel tax account in the General Fund.

**12. How is the motor fuel tax collected?**

The tax is collected by the Department of Revenue primarily from wholesalers and distributors that possess a qualified dealer license issued by the department. Taxpayers are required to file their tax electronically each month.

**13. When would the tax increase take effect?**

July 1, 2020