

## **APPENDIX N**

### **Impact of Fuel Taxes on Fuel Purchases of Out-of-State Diesel Fuel**

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# Impact of Fuel Taxes on Fuel Purchases of Out-of-State Diesel Fuel

## I. Introduction

In considering the ability of California businesses to compete with out-of-state diesel end users, it is important to consider how diesel fuel taxes (especially state excise taxes), can play a role in a transportation company's decisions on where to purchase fuel, even if retail prices between California and surrounding states are the same.

In general, up to four different taxes may be levied on a gallon of diesel fuel<sup>1</sup>. These taxes, and their on-road rates for California and neighboring states, are shown in Appendix O-1. As can be seen, all retail diesel fuel is charged a federal excise tax of 24.4 cents per gallon. In addition, most states also have a state excise tax, which can vary from 18 to 27 cents per gallon. In California, a sales tax (from 7.25 - 8.75 percent) is levied on the total price (including the excise taxes) of the gallon of fuel<sup>2</sup>. Additional taxes to pay for environmental spills and underground storage tank monitoring may also be charged. These taxes are known as pump taxes, and are the taxes that are reflected in the retail price of diesel fuel paid at the pump. In Oregon, however, instead of a state excise tax, Oregon uses a weight mileage tax<sup>3</sup>, based on vehicle weight and the number of miles the operator drives within the state of Oregon (estimated in this example to be about 55 cents). This tax is not reflected in the pump price of diesel fuel, but is remitted to the state of Oregon separately.

**Appendix O-1:  
State & Federal Diesel Taxes in California and Nearby States  
(Cents per Gallon)**

	California	Arizona	Idaho	Nevada	Oregon	Utah
Federal Excise Tax	24.4	24.4	24.4	24.4	24.4	24.4
State Excise Tax	18	26	25	27	0	24.5
Sales Tax <sup>1</sup>	12	--	--	--	--	--
Other <sup>2,3</sup>	1.2	1	--	0.75	--	--
Total Pump Taxes	55.6	51.4	49.4	52.2	24.4	48.9
Mileage Tax <sup>4</sup>	--	--**	--**	--	55*	--
<b>Total State Taxes</b>	<b>55.6</b>	<b>51.4</b>	<b>49.4</b>	<b>52.2</b>	<b>79.4</b>	<b>48.9</b>

1. California local sales tax variable throughout state from 7.25% - 8.75%

2. Arizona UST tax of 1 ¢/gallon

3. Nevada tax includes .75 ¢/gallon Clean Up Fee (non-refundable)

4. Tax based on weight-mile tiered tax.

\* Oregon tax of 12 ¢/mile based on 80,000-lb load. Actual tax levied varies with weight. Estimated to be equivalent to about 55 cents per gallon.

\*\* Arizona and Idaho have repealed the mileage-based tax in their states.

Using the scenario whereby retail prices are the same between California and neighboring states, it is to a transportation company's economic benefit to purchase diesel fuel outside of California and consume that same fuel in California. This is due to differences in the excise taxes between

neighboring states and California, and the way excise taxes are prorated to account for travel within the individual states.

For example, if a diesel truck operator purchases fuel in Nevada, the state excise tax of 27 cents per gallon would be collected at the time of fueling. If that truck is then driven into California and the remaining fuel is consumed there, the truck operator would receive an excise tax credit of 27 cents per gallon from the state of Nevada for the fuel not consumed in Nevada. The truck operator would then pay the state of California 18 cents per gallon for the fuel consumed within California. Assuming the retail prices between California and Nevada are the same, the truck operator would save 9 cents per gallon on the fuel purchase, which could amount to thousands of dollars annually per truck in fuel cost savings. As can be seen in Appendix O-1, this same situation exists between California and Arizona as well. Because of this difference in excise taxes, diesel vehicle operators have an incentive to purchase fuel out-of-state and take advantage of these tax differences.

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<sup>1</sup> Oil Price Information Service, Fuel Regs & Specs, 2002 Edition

<sup>2</sup> California State Board of Equalization, California Diesel Fuel Tax Law, Fuel Tax Agreements

<sup>3</sup> Oregon Department of Transportation, Motor Carrier Transportation Division, Mileage Tax Rates