

PRESENT LAW AND PROPOSALS
RELATING TO
EXTENSION OF HIGHWAY-RELATED EXCISE TAXES
AND REAUTHORIZATION OF HIGHWAY TRUST FUND EXPENDITURES

Scheduled for a Hearing
Before the
COMMITTEE ON WAYS AND MEANS
on July 22, 1986

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION
July 21, 1986

JCX-10-86

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INTRODUCTION

This document,¹ prepared in connection with the hearing before the House Committee on Ways and Means on July 22, 1986, provides a summary description of present law Highway Trust Fund excise taxes and expenditure purposes and the 5-year Highway Trust Fund reauthorization bill (H.R. 3129) as reported by the House Committee on Public Works and Transportation.² The Committee on Ways and Means is to consider an extension of the Highway Trust Fund and the related highway user taxes which finance the Trust Fund expenditures.

The first part is a summary description of present law Highway Trust Fund excise taxes, as well as the Administration's highway excise tax proposals and the highway-related excise tax provisions contained in the tax reform bill (H.R. 3838). The second part discusses the Highway Trust Fund expenditure purposes and reauthorization amounts in H.R. 3129 (as reported by the Committee on Public Works and Transportation) and in H.R. 4144 (the Administration reauthorization proposal).

¹ This document may be cited as follows: Joint Committee on Taxation, Present Law and Proposals Relating to Extension of Highway-Related Excise Taxes and Reauthorization of Highway Trust Fund Expenditures (JCX-10-86), July 21, 1986.

² "Surface Transportation and Uniform Relocation Assistance Act of 1986," H. Rept. 99-665, July 2, 1986.

I. HIGHWAY-RELATED EXCISE TAXES

Present Law

Excise taxes

Excise taxes are imposed on gasoline and diesel and other motor fuels, trucks and truck trailers, heavy tires, and heavy highway vehicles. Revenues from these highway-related excise taxes are deposited into the Highway Trust Fund. The taxes are currently scheduled to expire after September 30, 1988. Deposits of pre-October 1, 1988 excise tax liabilities will continue to go into the Trust Fund for an additional nine months (through June 30, 1989). The table below provides a present law tax rate schedule for Highway Trust Fund excise taxes.

Present Law Highway Trust Fund Excise Taxes (Through September 30, 1988)

Motor fuels

Gasoline and special motor fuels	9 cents per gallon
Diesel fuel	15 cents per gallon

Trucks and trailers

Trucks (over 33,000 lbs.) and trailers (over 26,000 lbs.)	12 percent of retail price
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Tires for highway vehicles

40 lbs. or less--no tax
40-70 lbs.--15 cents/lb. over 40 lbs.
70-90 lbs.--\$4.50, plus 30 cents/lb. over 70 lbs.
Over 90 lbs.--\$10.50, plus 50 cents/lb. over 90 lbs.

Use tax on heavy highway vehicles

Under 55,000 lbs.-- no tax
55,000-75,000 lbs. --\$100, plus \$22/1,000 lbs. over 55,000
Over 75,000 lbs.--\$550

Exemptions

Alcohol fuels.--An exemption of 6 cents per gallon is provided for gasohol blends (i.e., 10 percent pure alcohol) of diesel, gasoline, and special motor fuels. A 9-cents-per-gallon exemption is provided for neat methanol and ethanol fuels which contain at least 85 percent alcohol produced from a substance other than petroleum or natural gas. A 4 1/2 cents-per-gallon exemption is available for such alcohol blends produced from natural gas. These alcohol fuels tax exemptions are scheduled to expire after December 31, 1992.

Bus fuels and tires.--Private and public bus operators are exempt from the excise tax on tires. Intercity common carrier buses, school buses, and qualified local buses are exempt from the 9-cents-per-gallon taxes on gasoline and special motor fuels. School buses and qualified local transit buses are also exempt from the 15-cents-per-gallon diesel fuel tax. In addition, qualified intercity buses are eligible for a 12-cents-per-gallon refund (or credit) of the 15-cents-per-gallon diesel fuel tax. Nonqualified local and intercity buses (determined by passenger capacity and nature of routing),³ however, receive no exemption.

Other.--General exemptions are provided from the highway excise taxes for State and local governments and tax-exempt educational organizations, and for exported articles. There is also an exemption from the fuels taxes for fuel used on a farm for farming purposes, and for off-highway business use (other than boating and noncommercial aviation use).

(A partial exemption of 4 cents per gallon of the tax on fuel used by qualified taxicabs expired September 30, 1985.)

Gasoline excise tax collection

The gasoline excise tax is levied on the sale or use of gasoline by a producer or importer. The term, "producer" includes a registered wholesale distributor ("jobber") selling to retailers or other wholesalers. Also, the term, "wholesaler" includes certain chain retailers having 10 or more gasoline stations under common management. Such registered wholesalers may purchase the gasoline tax-free from the refiner or importer and collect the tax upon sale to a retailer or consumer.

No exemption is available for local or intercity buses engaged in transportation that is not scheduled and not along regular routing, unless the seating capacity is at least 20 adults (not including the driver).

Administration Proposal

Extension of highway excise taxes

The Administration's Highway Trust Fund (HTF) proposal is included in H.R. 4144 ("Federal-Aid Highway Act of 1986"). The proposal would extend the existing HTF excise taxes at current rates for four years (through September 30, 1992). The bill also would provide a four-year reauthorization of HTF expenditure programs (fiscal years 1987-1990).

Repeal of certain excise tax exemptions

The Administration proposal would repeal the current excise exemptions available for gasohol, methanol and ethanol fuels. In H.R. 4144, the repeal would be effective on January 1, 1987. (In the President's tax reform proposal, the repeal would be effective on January 1, 1986.)

The Administration proposal (in H.R. 4144) also would repeal the present law exemptions for fuel and tires for intercity and local transit buses. School buses would remain eligible for full refund or exemption from the 9-cents-per-gallon taxes on gasoline and special motor fuels, and would be eligible for a 12-cents-per-gallon refund or exemption of the 15-cents-per-gallon diesel fuel tax. School buses would continue to be exempt from the tax on tires.

Gasoline excise tax collection

In testimony before the Ways and Means Subcommittee on Oversight on July 15, 1986, the Administration proposes to change the imposition of the gasoline excise tax from the point of sale to a non-registered distributor or retailer to the refiner or importer.

Other Congressional Action

Alcohol fuels.--In the tax reform bill (H.R. 3838), currently in conference, the excise tax exemption for gasohol would be retained at 6 cents per gallon, and the exemption for neat methanol and ethanol fuels not derived from petroleum or natural gas would be reduced from 9 cents per gallon to 6 cents per gallon (effective on January 1, 1986 in the House bill and January 1, 1987 in the Senate amendment).

Taxicab fuels.--The House version of H.R. 3838 would extend the prior 4-cents-per-gallon motor fuels tax exemption for qualified taxicabs for three years, through September 30, 1988. The Senate amendment would allow the partial exemption to expire as of September 30, 1985.

II. HIGHWAY TRUST FUND AUTHORIZATIONS

Background

The Highway Trust Fund and the related highway excise taxes have been extended four times since 1970: a five-year extension in the Federal Aid Highway Act of 1970 (from September 30, 1972 through September 30, 1977), a two-year extension in the Federal-Aid Highway Act of 1976 (through September 30, 1979), a five-year extension in the Surface Transportation Assistance Act of 1978 (through September 30, 1984), and a four-year extension in the Surface Transportation Assistance Act of 1982 (through September 30, 1988).

The Highway Trust Fund authorizations in the 1982 Act were for fiscal years 1983-1986. Thus, the revenues deposited in the Trust Fund lag behind the authorization period by two years. This is due to the lead time required between the time a project is authorized or obligated and the time when money is needed to pay for it. Also, the "Byrd Amendment" requires that highway apportionments be reduced when unfunded authorizations exceed estimated receipts in the following 24-month period.

In the 1982 Act, the Highway Trust Fund statute was codified in the Internal Revenue Code (sec. 9503), effective January 1, 1983.

Trust Fund Expenditures Purposes

The 1982 Act established two Accounts within the Highway Trust Fund: the Highway Account and the Mass Transit Account. Amounts may be paid from the Highway Trust Fund through September 30, 1988, as provided in appropriation Acts, to meet obligations incurred in carrying out the purposes of the Trust Fund. Obligations may be incurred for the purposes specified in the Highway Revenue Act of 1956, the Surface Transportation Assistance Act of 1982, or any law thereafter, for a general purpose authorized under these Acts as in effect on December 31, 1982. Thus, any new general expenditure purpose from the Trust Fund requires a Code amendment.

Highway Account expenditures

The general highway-related programs authorized from the Trust Fund include the following:

- o Interstate highways and resurfacing and repair
- o Federal-aid highways, including primary and secondary systems, urban systems
- o Forest and public lands highways, scenic highways, parkways, Indian roads

- o Highway hazard elimination projects
- o Bridge replacement and rehabilitation
- o Emergency (disaster) relief
- o Rail crossings and demonstration projects
- o Traffic control and traffic signal demonstration projects
- o Intermodal urban demonstration projects
- o Carpool and vanpool grants
- o Pedestrian walkways and bike ways on rights of ways
- o Highway-related safety grants
- o Motor carrier safety grants
- o Highway safety research and development
- o National Highway Traffic Safety Administration for a share of traffic safety programs
- o Certain highway administrative costs

Mass Transit Account expenditures

The Mass Transit Account in the Trust Fund is financed from the revenue equivalent of one cent of the tax on highway motor fuels. Amounts in the Mass Transit Account are available for making capital expenditures authorized under section 21(a)(2) of the Urban Mass Transportation Act. An anti-deficit provision is provided so that unfunded transit authorizations may not exceed estimated account receipts for the following 12 months (compared to 24 months for the Highway Account).

Trust Fund Authorizations in Committee on Public Works and Transportation Bill (H.R. 3129)

The Committee on Public Works and Transportation has reported a 5-year reauthorization bill (H.R. 3129) for Highway Trust Fund expenditure programs, for fiscal years 1987-1991. The current trust fund authorization programs run through fiscal year 1986, as enacted in the 1982 Act. (Interstate authorizations are provided for one additional year under the bill and through 1989 under present law.)

Highway and highway safety program authorizations under H.R. 3129 for fiscal years 1987-1991 total \$70.4 billion, an average of \$14.1 billion per year. This compares with \$14.8

billion authorized for fiscal year 1986 (after the 4.3 percent budget cutback under "Gramm-Rudman-Hollings").

Mass transit authorizations from the Trust Fund under H.R. 3129 amount to \$1.1 billion for fiscal year 1987, and \$1.8 billion per year for fiscal years 1988-1991, or a total of \$8.25 billion.

H.R. 3129 would authorize \$5 million per year out of the Trust Fund for fiscal years 1987-1991 for billboard and sign removal costs. Previously, any such amounts were authorized out of the general fund.

Trust Fund Authorizations in Administration Proposal (H.R. 4144)

The Administration proposal (H.R. 4144) would extend the Highway Trust Fund authorizations for four years, fiscal years 1987-1990. The proposal would consolidate Interstate construction and repair with the primary-aid program; allow Interstate transfer/substitution funds for both highway and transit projects to be funded out of the Highway Account (currently, highway substitutions are paid out of the Highway Account and transit substitutions are paid out of the Mass Transit Account); and consolidate the mass transit construction and other major highway-aid programs (urban, secondary, and non-primary bridges) into a highway and mass transit block grant. Costs of sign removal and junkyard screening and removal would be paid out of the State's Interstate/Primary program funds.

The Administration proposal would authorize a total of \$14.0 billion per year for the four fiscal years, 1987-1990, of which \$3.3 billion would be for the new highway and mass transit block grant. This would total \$56.1 billion over the four years out of the Trust Fund.

