

Joint Committee on Taxation
May 8, 1996
JCX-19-96

**TEMPORARY REPEAL OF 4.3-CENTS-PER-GALLON GENERAL
FUND TRANSPORTATION MOTOR FUELS EXCISE TAX**

**Scheduled for Markup by the
Committee on Ways and Means
On May 9, 1996**

Present Law

Separate Federal excise taxes are imposed on specified transportation motor fuels. Taxable fuels include gasoline, diesel fuel and special motor fuels used for highway transportation, gasoline and diesel fuel used in motorboats, diesel fuel used in trains, fuels used in inland waterway shipping, and aviation fuel (gasoline and jet fuel). Motor fuels used by all of these transportation sectors are subject to a permanent 4.3-cents-per gallon excise tax, enacted by the Omnibus Budget Reconciliation Act of 1993 (the "1993 Act"). Revenues from the 4.3-cents-per-gallon excise tax are retained in the General Fund of the Treasury.

Transportation sectors that benefit from Federal public works and environmental programs are subject to additional tax rates (beyond the 4.3-cents-per-gallon General Fund rate) to finance Federal trust funds established as a financing source for those programs. Motor fuels excise taxes other than the 4.3-cents-per-gallon transportation motor fuels excise tax generally are temporary (i.e., have scheduled expiration dates). As a result of the financing needs of these public works and environmental programs, the aggregate tax rate varies for each transportation sector and fuel. For example, diesel fuel used in automobiles and trucks is subject to a total tax rate of 24.3 cents per gallon, while gasoline used in these vehicles is subject to an 18.3-cents-per-gallon tax rate. Diesel fuel used in trains is subject to an aggregate General Fund tax rate of 5.55 cents per gallon but not to any trust fund rate (because there is no Federal rail construction trust fund).

In addition to the taxes imposed directly on transportation motor fuels, excise taxes formerly were imposed on crude oil (and imported refined petroleum products) to finance the Hazardous Substance Superfund program (before January 1, 1996) and the Oil Spill Liability Trust Fund program (before January 1, 1995). A further excise tax on motor fuels, the Leaking Underground Storage Tank Trust Fund tax, expired after December 31, 1995.

Between 1956 and 1990, motor fuels excise taxes generally were imposed only for Federal trust fund financing. The first deviation from this practice occurred when the Omnibus

Budget Reconciliation Act of 1990 imposed a temporary (through September 30, 1995) 2.5-cents-per-gallon General Fund excise tax on highway and rail transportation motor fuels. In addition to imposing the 4.3-cents-per-gallon General Fund transportation motor fuels excise tax, described above, the 1993 Act also extended the 1990 General Fund excise tax rate and provided that revenues from the tax on highway motor fuels be deposited in the Highway Trust Fund during the period October 1, 1995 through September 30, 1999. The 1990 General Fund excise tax on diesel fuel used in trains was extended at a reduced rate of 1.25 cents per gallon during the same period.

Description of Proposal

Repeal of 4.3-cents-per-gallon transportation motor fuels excise tax

The proposal would repeal the 4.3-cents-per-gallon General Fund transportation motor fuels excise tax imposed in 1993 during the period beginning seven days after enactment and ending on December 31, 1996. Statutorily, this would be accomplished by reducing the aggregate tax rate that otherwise would be imposed by 4.3 cents per gallon, or adjusting the amount of an exemption (e.g., in the case of commercial aviation jet fuel). The proposal would not affect any of the motor fuels excise taxes that are dedicated funding sources for Federal environmental or public works trust fund programs.

Table 1, below, summarizes the excise tax rates imposed on transportation motor fuels under present law and the proposal, by trust fund and General Fund components.

Because the 4.3-cents-per-gallon transportation motor fuels excise tax (along with other applicable excise taxes on the same fuels) is imposed on certain motor fuels before the fuels reach the consumer level, the proposal includes rules comparable to present-law "floor stocks refund" provisions that allow refunds to producers (including importers) and other dealers for fuel held for sale on the effective date of the tax reduction when the excise tax already has been paid. These refunds must be claimed by persons liable for payment of the tax ("position holders"), based on amounts of tax-paid fuel they own on the tax-repeal date and on documented claims from dealers that purchased tax-paid fuel from them and hold the fuel for sale on the tax-repeal date. As under the present-law floor stocks refund provisions, no refunds are allowable for fuel held at retail sale locations. These refunds are intended to be allowable either as refund claims filed with the Internal Revenue Service or as credits against required deposits and payments of other excise taxes owed by the claimants.

The proposal further would impose floor stocks taxes, identical to those imposed in 1993, on taxable fuels held on January 1, 1997, when the tax-repeal period expires.

Sense of the Congress on benefit to ultimate consumers

The proposal includes a statement that it is the Sense of Congress that the full benefit of repeal of the 4.3-cents-per-gallon transportation motor fuels excise tax be flowed through to

consumers, and that position holders claiming refunds immediately credit their customers' accounts to reflect floor stocks refunds allowable under the proposal.

Study

The proposal would direct the General Accounting Office to study the impact of repeal of the 4.3-cents-per-gallon transportation motor fuels excise tax and to report its findings to Congress.

Effective Date

The proposal would be effective on the date of enactment for taxable fuels removed, entered, sold or used more than six days after that date and before January 1, 1997.

**Table 1.--Comparison of Federal Motor Fuels Excise Tax Rates on Various Transportation Sectors
(Present and Proposed Law)
(rates shown in cents per gallon)**

<u>Transportation Sector</u>	<u>Present Law</u>			<u>Proposed Law</u>		
	<u>Trust Fund</u>	<u>General Fund</u>	<u>Total Tax</u>	<u>Trust Fund</u>	<u>General Fund</u>	<u>Total Tax</u>
<u>Highway Transportation</u> ¹						
In general (trucks, automobiles)						
Gasoline	14.0	4.3	18.3	14.0	no tax	14.0
Diesel fuel	20.0	4.3	24.3	20.0	no tax	20.0
Special motor fuels ²	14.0	4.3	18.3	14.0	no tax	14.0
Intercity bus						
Gasoline	no tax	no tax	no tax	no tax	no tax	no tax
Diesel fuel	3.0	4.3	7.3	3.0	no tax	3.0
<u>Rail Transportation</u>	no tax	5.55	5.55	no tax	1.25	1.25
<u>Water Transportation</u>						
Inland waterway						
Recreational boats	20.0	4.3	24.3	20.0	no tax	20.0
Gasoline						
Diesel fuel	14.0	4.3	18.3	14.0	no tax	14.0
	no tax	24.4	24.4	no tax	20.1	20.1
<u>Air Transportation</u>						
Commercial aviation						
Noncommercial aviation	no tax ³	4.3	4.3	no tax ³	no tax	no tax
Gasoline						
Jet fuel	14.0 ⁴	4.3	18.3	14.0 ⁴	no tax	14.0
	no tax ⁵	4.3	4.3	no tax ⁵	no tax	no tax

¹ Reduced highway motor fuels excise tax rates apply to mixtures of taxable fuels with ethanol and methanol produced from renewable sources (i.e., "gasohol") and to certain "neat" (at least 85 percent pure) methanol fuels produced from natural gas.

² Examples of special motor fuels are propane, liquefied natural gas ("LNG"), other liquids used as a fuel in highway transportation, and compressed natural gas ("CNG"). CNG, a gaseous fuel rather than a liquid fuel, is subject only to a General Fund tax of 48.54 cents per thousand cubic feet (the equivalent of the 4.3-cents-per-gallon rate on propane).

³ Before January 1, 1996, commercial aviation trust fund taxes consisted of a 10-percent domestic passenger tax, a \$6 dollar international passenger departure tax, and a 6.25-percent domestic air cargo tax.

⁴ Before January 1, 1996, an additional 1-cent-per-gallon tax was imposed on noncommercial aviation gasoline.

⁵ Before January 1, 1996, a 17.5-cents-per-gallon tax was imposed.